



# Interim Results Global Investor Teleconference 23 February 2016

## Transcript



## Andrew Mackenzie, CEO, BHP Billiton

Okay. Well, welcome everyone to our 2016 interim results. I'm in Melbourne somewhere and Peter Beaven, our Chief Financial Officer, will join us from London. So as usual, let me point you to the disclaimer and remind you, as always, of its importance to today's presentation. We are in challenging times. Economic uncertainty, extreme volatility and geopolitical instability, on top of already well supplied markets, have hurt sentiments, they have weighed on our commodity prices and they have driven the shares in our sector to decade lows. And it's the speed and the quantum and the synchronised nature of those declines that have been more than we, or frankly anyone else in the industry, could have expected. However, we did foresee many, if not all of those trends some time ago and this has caused us to take a series of actions which have prepared us well for our current conditions.

Our powerful tier 1 assets and continually improving productivity have secured sector leading margins and operating cash flow, even at today's prices. We have a strong balance sheet and the highest credit rating in the sector and last year we completed the demerger of South32 and before then, since 2012, we divested assets of over \$7 billion and combined, this has created a vastly simpler company that is particularly well-suited to the current environment and we were the first to embark on a productivity push and we have delivered over \$10 billion in gains since 2012 and over the same period with more than halved our capital investments, mainly by productivity. We have maintained a consistent strategy for capital allocation throughout and we remain committed to cash returns to shareholders and have always stated that the strength of our balance sheet is paramount. And this strategy has not changed but economic circumstances have.

So today, we have taken the next step in how we apply our strategy. Our progressive dividend policy has served our shareholders well. Since 2001, we have returned \$77 billion to shareholders in dividends and buyback and that's more than four of our largest mining peers all combined. So to match the economic conditions that we face today and expect to face in the future, the board has now adopted a dividend pay out policy equivalent to a minimum of 50 per cent of Underlying attributable profit. And this new policy will protect the balance sheet by more closely linking shareholder returns to the underlying performance of the business as well as providing financial strength to generate value in the current conditions. And this level of cash distribution to shareholders will equal the average payout over the last 15 years. And the board remains committed to return cash to shareholders in the future.

The change in dividend policy will be coupled to our rigorous capital allocation hierarchy, which balances investment and returns to shareholders to maximise value creation. It will allow us to continue to invest at the bottom of the cycle while protecting the balance sheet and at the top it will drive large cash payments for shareholders. At a time when most in the industry face growing constraints, our combination of financial strength and optionality positions us well for an extended period of lower and more volatile commodity prices. Peter will shortly summarise our financial results but I wanted, first, to come back to Samarco. Everyone at BHP Billiton has been deeply affected by the tragic events that took place at Samarco's iron ore operations in Brazil. Seventeen people are confirmed dead, five from the community and 12 people working on dams at the time of the event. Two people also from the dams remain unaccounted for.

This is a truly heartbreaking event and so we have committed to do everything we can to underpin and help Samarco as it continues the response effort as it works to rebuild the communities and restore the environment and we have established dedicated resources to do this. Dean Dalla Valle, a very senior member of my management team, has now relocated to Brazil and is leading our response full time. He has a team of over 30 of our top experts who have been relocated to Brazil from our operations all over the world and good progress has, and is being made. All of the families affected have now been reaccommodated. Immediate financial relief has been provided and Samarco and the authorities continue to make food, water and emergency supplies available. We're continuing to engage with the community there and are encouraged by the trust the community has shown to Samarco despite this terrible event. And Samarco itself, has engaged world class consultants to develop the necessary humanitarian and environmental response plans. Along with Vale and Samarco we've all commissioned an external investigation into cause, and when we're ready we will publicly release its findings.

Discussions are also ongoing with the Brazilian government as well as the state government of Minas Gerais and Espirito Santo. And these discussions about how best to manage and fund the longer term rehabilitation of the affected communities and the environment. And in parallel, we continue to assess the financial impact on us on BHP Billiton and Peter will provide an update later. The health and safety of our people and the communities in which we operate must come first. So we continue to focus on safety and the management and control of fatal risks so as to eliminate serious illness and injury right across our business. And at our operated sites during the last half year we had no fatalities. We did, however, report a slight increase in the Total Recordable Injury Frequency to 4.4 per million hours worked. And while this is a low level by historic standards, for us any increase is unacceptable and we will not rest until we create a safe environment that is free from illness and injury. So I will now hand over to Peter who will surmise our results. So welcome, Peter.

MR PETER BEAVEN: Thank you, Andrew. In these turbulent market conditions we generated net operating cash flows of \$5.3 billion, and free cash flow in every one of our businesses. Our 40 per cent EBITDA margin is significantly higher than our closest peer at only 29 per cent. We maintained our strong balance sheet holding net debt broadly stable over the last 12 months, despite substantially weaker prices and significant dividend payments. From this position of strength, we've also implemented measures to further protect the Group's balance sheet and align our capital allocation framework with the cyclical nature of the industry. Our new dividend policy, based on a payout ratio, will support both the balance sheet and long term value creation. It enhances our ability to effectively allocate capital in a world characterised by volatility.

The policy provides flexibility at the bottom of the cycle, and returns more cash to shareholders at the top. The board has determined to pay an interim dividend of US16c per share which is covered by free cash flow. This comprises the minimum payout of US4c per share and an additional amount of US12c per share. While the dividend has fallen, this is a necessary step in response to changing markets. We're now expecting lower prices for an extended period of time. We're also protecting our cash flow through our reduction in capital expenditure, down 40 per cent to \$3.6 billion during the period.

We now expect to invest \$7 billion in the 2016 financial year and \$5 billion in 2017. Critically, all projects that deserve to get capital are included in our funding plan. With more productivity, we are generating substantial operating cash flow at today's prices, and our more flexible dividend policy and transparent capital allocation hierarchy will ensure that free cash flow is allocated to the most valuable outcome. Andrew will provide more details on this later.

Now, before I present our usual waterfall chart, it's worth noting that we achieved EBITDA of \$6 billion this period. A depreciation charge of \$4.7 billion included in EBIT masks the significant cash that our assets are generating. The left-hand side of this chart identifies uncontrollable factors, and their impact on earnings, and you can clearly see the impact of weak commodity prices, which reduced underlying EBIT by \$7.8 billion in the first half alone. That's over 90 per cent of EBIT in the prior period. Favourable exchange rate movements of \$1 billion offset a portion of this price impact. There are also some important controllable factors I'd like to draw your attention to. We've spoken before of the tireless efforts of our people to safely improve productivity, and having already unlocked annualised savings of more than \$10 billion over the last three years, our businesses have continued to improve productivity. We've lowered our unit costs even further in the current period, and there's still much more to come. After isolating the impact of expected grade declines at Escondida, we've secured additional productivity gains of approximately \$600 million in Underlying EBIT.

Olympic Dam unit costs are down 36 per cent. This reflects supply renegotiations, and a reduction in head count. Our Blackhawk drilling costs are down 30 per cent to \$2.6 million per well. At Queensland Coal, unit costs declined by 17 per cent, due to a reduction in labour costs, and a stronger US dollar. Western Australian Iron Ore is already nearing its full-year target of \$15 per tonne. What's not visible in this earnings waterfall are the targeted reductions we've also achieved in working capital, that supported free cash flow of \$1.2 billion for the half year. For example, at Escondida, lower-grade stockpiled inventory was drawn down to maximise cash flow. This contributed to a temporary rise in unit costs in this half. However, when combined with other working capital initiatives, facilitated a substantial increase in cash flow in the period. Importantly, our full-year grade-adjusted cost guidance for Escondida remains unchanged.

We have very strong momentum from productivity initiatives. They're expected to reduce the costs of cathode further, and deliver a strong recovery in concentrate volumes in the second half of this year. Now I'll talk to the three exceptional items included in our attributable profit for this half year. We recognised an impairment charge of \$4.9 billion after tax, in relation to our Onshore US business, following the bi-annual review of the company's assets values. This impairment reflects changes to price assumptions, discount rates, and development plans, which have more than offset substantial productivity improvements. We've significantly reduced activity. Our Eagle Ford recount is down to three, from a peak of 32. These assets contain some of the best shale acreage in the world, and they're long-term resources. We believe the value-maximising strategy is to be patient, focus on cash preservation in the near term, and be ready to respond when there is a recovery in oil and gas prices.

Our second exceptional item, \$390 million, has been provided for global taxation matters in relation to unresolved taxation disputes. And, finally, Samarco. We're all incredibly saddened by the tragic events at Samarco. Andrew has described the critical response efforts underway, and now we can also provide the financial impacts on BHP Billiton in this period. We've recorded an exceptional charge of \$1.2 billion before tax, or \$860 million after tax. The figure is comprised of three significant items. Firstly, a \$655 million charge – or loss, which is how it's described in our accounts. This represents our 50 per cent share of Samarco's \$1.3 billion provision for costs relating to the dam failure. Secondly, a \$525 million impairment to reduce the value of our investment to zero. Subsequent to recognising our share of Samarco's provisions, we've assessed the recoverability of our investment. The decision to write-off the carrying value does not reflect our views on the potential restart of the mine but, rather, the uncertainty at this point in time surrounding the nature and the timing of future cash flow that BHP Billiton would receive. And, lastly, the tax effect. A \$330 million reduction to our deferred tax liabilities to reflect the reduction in undistributed earnings.

Separate to the exceptional charge, we are also outlining a number of contingent liabilities in our interim financial accounts. These contingencies include environment and community rehabilitation costs and legal claims where a potential obligation cannot be reasonably determined at this time. It's currently too early to say what the final costs may be. Discussions with the authorities are ongoing and we are actively seeking to reach an agreement. Our dedicated team on the ground in Brazil remain committed to working closely with Samarco and Vale on response efforts as well as continuing to evaluate the financial impact.

Now to discuss our portfolio. In this increasingly volatile world, our already simplified portfolio of tier 1 assets sets us apart from our peers. Our tier 1 assets are defined by their underlying resource fundamentals. They have large, high quality reserves. They are long life and expandable which supports their low cost base both now and into the future. When combined with our best in class operating performance, these assets underpin free cash flow at all points in the cycle. Each of our four businesses; iron ore, copper, coal and petroleum; have proven their resilience by delivering free cash flows this half year in the face of tough market conditions and commodity prices, more than a third lower than 12 months ago.

We also have the ability to grow for less capital than before. For example, Escondida, the world's largest copper mine, with first quartile costs is already a strong free cash flow generator. With our water supply project completing next financial year, we'll have water availability with three concentrators to deliver 1.2 million tonnes of copper per annum for the next decade without new major capital. It's assets like this that have the right fundamentals in place which allow us to produce sustainable cash flow. To further illustrate this portfolio, even at spot prices from earlier this month would generate \$10 billion in operating cash flow at an excess of \$3 billion of free cash flow in this financial year.

Next year, we expect our ability to generate free cash flow to increase even more as we continue to unlock productivity gains and reduce our capital and exploration expenditure by a further \$2 billion. Simply put, the cash flow we can generate from our tier 1 assets not only protects us in a prolonged downturn but, importantly, also provides us with valuable flexibility to take advantage of opportunities that are more likely to appear at the bottom of the cycle.

Now I will finish with our balance sheet. We have the strongest balance sheet in the sector and it remains a competitive advantage. Our maturity profile is long dated with low refinancing risk. Our gearing ratio remains under 30 per cent. We have the highest credit rating in the sector and we ended the period with \$11 billion of cash on hand which, combined with our revolving credit facility, gives us \$17 billion in total liquidity. And despite falling commodity prices and significant dividend payments, our net debt remained broadly stable year on year. Our strong balance sheet allows us to insulate our tier 1 assets through this period of increasing volatility and capitalise

on opportunities. We've taken additional steps to ensure our balance sheet remains strong. We issued \$6.5 billion of hybrid bonds to pre-fund upcoming debt maturities, adding substantial flexibility into our maturity profile. We reduced our working capital by \$800 million, and our new flexible dividend policy will provide further protection. Our decisive actions, coupled with the sustainable cash flow from our tier 1 assets, places us in a commanding position to remain strong, grow shareholder value and return cash through the cycle. Back to you, Andrew.

MR MACKENZIE: Well, thanks, Peter. So as you've seen, BHP Billiton has produced, since the merger, extraordinary results, and we've had capital management policies to match. They've matched the economic conditions since then, and this period was characterised by steady growth in demand and persistent shortages of supply, which rightly encouraged investment in our tier 1 assets – significant investments – and as a result, we've grown production by six per cent on average each year and today have higher margins and lower unit costs. We've returned \$77 billion to shareholders through dividends and share buybacks, and that's double the level of cash returns made by any other miner. We've also maintained the sector's premier credit rating and generated the industry's highest average returns on capital. We've performed well over the last 15 years, but market conditions have changed.

As we forecast, China's economic growth is slowing as it matures, and although its headline GDP growth is consistent with our expectations, its composition has changed more quickly than most anticipated. We see signs of a faster transition from an investment and heavy industry led economy to one led by services, and the strength of the service sector creates employment, which allows acceleration of important structural reforms, including the state-owned enterprises, but in the near term, as industrial overcapacity is reduced, this will further constrain demand for commodities, and these near-term changes have been amplified by disruption to the oil market and broader global uncertainty. Both have affected sentiment and further increased the volatility of commodity prices, which we expect will continue in the short to medium term.

In the longer term we expect and plan for growth in commodities demand driven by population growth, these Chinese reforms and a rise in the living standards, particularly in emerging economies, and the bottom chart here illustrates the significant upside we see particularly in oil and copper longer term, because although these markets are currently well-supplied, we expect demand to continue to grow while well decline in oil and grade reductions in copper erode supply. If we're to handle short to medium term price volatility and capitalise on longer-term growth, especially in the emerging markets, now is the time to update our capital management policies. So the board has adopted a dividend payout ratio of a minimum 50 per cent of underlying attributable profit, and that's a level equivalent to the cash that we've returned by dividends and buybacks since the merger of BHP and Billiton. This decision has not been taken lightly, and the new policy does not in any way reduce our desire to pay material dividends into the future.

Today the board has determined an interim dividend of US16c per share. That's 4c per share in accordance with our new payout policy. Plus, the board has exercised its discretion to also pay an additional amount of US12c per share, and the combined dividend of US16c per share significantly exceeds the minimum 50 per cent payout ratio, and it also recognises the importance that shareholders place on cash returns. A payout ratio is the right dividend policy for the world today. Not only is it suited to the increasing volatility and cyclical nature that we face, it also secures competitive advantage through the delivery of balance sheet strength with increased optionality. And this change in dividend policy compliments a simplified portfolio, our focus on productivity, a reduction in capital expenditure and the variety and length of our debt book, it uniquely positions us for the challenges ahead.

As Peter has told you already, this financial year we expect to generate, at current spot prices, significant free cash flow and even more next year with further gains in productivity and further reductions in capital investment. And this free cash flow will cover the new dividend policy and provide greater scope to improve capital allocation and maximise returns. All projects that deserve capital are still included in our funding plans, excess free cash flow will be dedicated to value creation and shareholder returns. But let me be clear: that is value and returns, not volume. We will be accountable for every dollar we spend and strictly adhere to our capital allocation hierarchy, which has been enhanced to reflect the changing conditions that we now face.

First, we start with maintenance capital to drive safety and operational excellence, then comes the balance sheet to be protected at all stages of the cycle, then the new dividend policy closely linked to business performance and finally, excess-free cash flow will be used for additional returns to shareholders, buybacks or dividends, organic and

inorganic value creation projects are simply used to strengthen our balance sheet. This rigorous competition for capital makes sure there is an absolute focus to deliver value to shareholders.

So in the 2016 financial year, we now anticipate capital and exploration expenditure of \$7 billion and no more than five billion in the 2017 financial year. That's a total of three and a half billion below previous guidance. And with the exception of reduced spend on Shale and minor improvement projects, this decline broadly reflects increased capital productivity, which continues to improve. We now deliver the same for less. And, in future, we will have even more discretion as major projects are completed.

Capital efficient projects that leverage existing infrastructure and release latent capacity continue to present attractive near term opportunities, even at current prices. High quality, medium to longer-term projects that enjoy prolonged security of tenure will only be pursued, however, at a time when they add greater values than all other options and do not exacerbate the current supply demand imbalances. We will continue, selectively, to invest in high returning copper and conventional oil exploration in anticipation of the demand and price recovery in the longer term that I spoke of before.

Finally, in the current environment, our financial strength and optionality has never been more important. It allows us to acquire tier 1 assets in distress. Our new dividend policy will not dilute our cost discipline or our productivity focus. Our emphasis on productivity has not waned. And, as we build on the track record of annualised and sustainable productivity-led gains, which have already exceeded \$10 billion of reductions in annualised unit costs and have driven the large reductions in capital expenditure that I spoke of.

Since our focus on productivity began in 2012, we've reduced unit costs to below 2006 levels and see significant potential for more reductions. In the 2016 financial year alone, when adjusted for the impact of low grades at Escondida, we expect to realise further gains of 2.1 billion. And while we're rightly proud of the significant productivity-led gains that we've already banked, we are not satisfied and we continue to see further opportunities. And so, alongside our new dividend policy we have also announced today the next step to further de-layer, simplify and streamline our company. And this has been made possible by the demerger and the string of preceding divestments that have created this stunningly simple company and this step will further free our assets to focus on safety, volume and cost and increase the efficiency and global integration of our functional activities.

Going forward, to reemphasise growth, strategy will now be fully integrated by Peter, Peter Beaven, our minerals production operations will be organised into two regional units, Minerals Australia and Minerals Americas, and the company's petroleum operations will continue to be housed separately reflecting their distinct operating environment. Minerals Australia will be led by Mike Henry, who will have responsibility for iron ore and coal operations, the Olympic Dam copper mine, Nickel West and the Indomet Coal project and Mike will also be responsible for a new centre of excellence for maintenance, because we see that as a major driver of future safety and operating cost reduction.

Minerals Americas will be headed by Danny Malchuk, who will oversee our copper assets in Chile and the Antamina and Cerrejon joint ventures and the Resolution copper project and Danny will also lead a new centre of excellence for projects, in some ways, the counterpart to Mike's on maintenance, to drive further efficiency in our capital costs. As a result, Jimmy Wilson, currently President Iron Ore will leave the company later in the year. And as the role of President Petroleum will change in scope, it has been agreed that Tim Cutt will also leave the company. Steve Pastor, currently the president of our conventional petroleum operations will replace Tim. I sincerely thank Jimmy and Tim for their exceptional leadership and service over many, many years. On behalf of all of us at BHP Billiton, I wish them every success and thank them for all that they have done for the company.

These organisational changes will develop deeper capability and higher expertise within our assets and functions and we will require significantly fewer people to lead and run our company. We will become more agile and better placed to respond to the challenges and opportunities presented by a rapidly changing global marketplace. We will deliver new levels of safety, of productivity, of cost and risk management with an accelerated pace of best practice sharing and more rapid adoption of new technology. And all of this will be coupled to a more dynamic execution of our strategy for growth, so as to truly differentiate us, from our peers.

So in summary, while challenging market conditions are expected to persist for some time, our asset quality and operating excellence, our organisational efficiency and leadership, our financial strength and optionality and disciplined capital hierarchy, position us to lead our sectors. Our superior asset base generates sustainable free

cash flow, the strength of our balance sheet absorbs the impact of volatility and our new dividend policy links shareholder returns more closely with business performance. The adaptability and speed of response we have created sets BHP Billiton apart from its peers and positions us to deliver shareholder value through the cycle. Thank you. And I would now be pleased to take your questions.

CRAIG SAINSBURY: Thanks, Andrew. Two questions from me. Surprised there was not a single mention of strong single A credit rating at all through the presentation. First part of the question: are we backing away from that as a metric of how strong your balance sheet is? I just want to have a question in light of, I guess, the dividend cut, how committed is the company to maintaining that strong single A credit rating? And then, or is that, how would you look at your balance sheet or the other metrics going forward? The second question for me just on the changed dividend policy, it's good to come out with a change, obviously the progressive dividend policy was a little stale, I'm just curious as to why you would set the new policy off a payout ratio, I understand payout ratios in the history as being 50 per cent, but Peter eluded to this quite nicely that D&A is divorcing the profit from cash flow and yourself have put that 4 cent dividend, and another 12 cents from cash flow. Why not just have a dividend payout ratio – or dividend policy that reflects the cash flow that's being generated, rather than sticking to an NPAT figure that bears pretty much zero resemblance to the cash flow generation of the company at this point in time of the cycle.

MR MACKENZIE: Okay. I'd like Peter to answer the question on the balance sheet, and on the A rating, and he can maybe build on my, kind of, short answer to why not the payout on a cash-flow basis rather than an earnings basis. We looked at this, and, you know, I acknowledge everything you say, but the reality is convention is closer to earnings. It's a lot easier for people to think about that, in our experience, and so, you know, we stuck with earnings. But, you know, we are determined, obviously, to do as well as we can in both covering the dividend, but going beyond there and generating cash flow that will give us a number of options in excess of the payout ratio on an earnings basis. But, Peter, why don't you take that over, and then cover the fact that we didn't talk about an A rating in our presentation.

PETER BEAVEN: No, look, I think, you know, I'd just concur with what you said in regard to the payout versus a cash-flow derived ratio. I think it is something that earnings are very familiar to people. I think they're well analysed by folks such as yourself, Craig, and so on. And I think ultimately, although there are points in the cycle where you get a disconnect between depreciation and CAPEX, certainly over a period of time you'll tend to find that those things will be in line. And so as we've seen in the past, you know, we have, in fact, paid out historically around about 50 per cent of earnings. That seems to be about the right number for a company like BHP. We're a strong cash generator, and I think that you should expect that that ratio is about the right amount going forward. In the event that we do have dislocations, of course we have the ability, as we are doing today, of, in fact, adding additional amounts should that be the right value decision for the allocation of that spare capital, if you like.

On the first question, on the single A, we're not stepping away from that at all. We have always felt – and I think we've been absolutely vindicated – that having a strong balance sheet through the cycle is absolutely fundamental part of strategy for a company like – in a cyclical industry. If you don't have a balance sheet that's strong, clearly, when you get hit on the downside of a cycle then you can get yourself in some difficulties. What it also provides you, at the low point in the cycle, is optionality, to take advantage of opportunities that may not otherwise exist. So a strong balance sheet – fundamental part of what we do. There are a number of factors that we assess when we think about the strength of our balance sheet. Certainly, we think of our cash-flow-to-debt ratios. We think of gearing. We think of liquidity. We think of maturity profile. We think all of those are in good shape, and for convenience we have always referred to having a strong A rated balance sheet through the cycle – again, something that everybody is very familiar with. But I just want to also just pause just for a second and say, our view on our strong balance sheet is obviously based on our own views, our own assumptions, and our own models, so I think we're just – there's no inconsistency whatsoever from what's come in the past.

OPERATOR: Your next question comes from the line of Clarke Wilkins from Citi. Please ask your question.

CLARKE WILKINS, CITI: Just looking through the, sort of, new executive leadership team, and when you, sort of, look through the names there, there's effectively only three operating people, sort of, reporting into you out of the 11. Is that just reflective, I suppose, of the current organisational structures, or is that sort of skewed a bit too much the other way? And also maybe a question for Peter, just in regards to the cash. I think there's \$11 billion hidden in cash, you know, given the notional returns, effectively, you earn on that sort of cash balance at the moment. Is that, like, a war chest for potential M&A, or is – you know, can we see that cash balance reduced down, and what would be the sort of normal cash balance you would require through the cycle?

MR MACKENZIE: Okay, well, Peter will pick up on that, and I'll just address the organisational issue. Mike, Danny, and Steve have great operating pedigree, you know. They've done different roles – particularly Mike and Danny through their time in BHP Billiton – but more recently they've proved themselves as really very effective operators of renown, and so they will be very powerful players, and leaders in our company. Underneath them they have, you know, seven/eight of very strong Asset presidents, you know, who will in many ways get a lot of exposure to the top team, and to me, to counterbalance things in the way you described. So when you look at, say, what I would regard as maybe the top 15 to 20 of the company, the majority of them will actually be operators – operators who have, in many cases, tens, if not 20, 30 years of experience. So any impression that you've got, I would completely say the opposite actually. It's meant to increase the exposure of operations to the very top of the company, and get even more rapid reports, if you like, from the front line. And, as well, of course, the drive that Mike will do on operating productivity via the leverage of maintenance and manufacturing excellence – and we talk about that a lot, and the way that Danny will handle, from the point of view of capital, I think will only make that even clearer. So I hope that addresses that point. Maybe, Peter, if you want to talk about the cash flow.

PETER BEAVEN: Thanks, Andrew. Yeah. Obviously we're very happy with \$11 billion of cash flow. As I said earlier, I think it's part and parcel of having a strong balance sheet, and having strong liquidity. It does have a negative carry, but the negative carry at this point in time, based on what we've raised – our debt, obviously at this point in the interest rate cycles, is somewhat muted, so we understand that. But what it really provides us is an insurance for – again, for further volatility, and it's part of a suite of initiatives that we've undertaken – the dividend being another one – just to make sure that we have the right flexibility to deal with volatility, certainly to buffer the downs, but also to provide opportunities should they arise. Now, this is not a war chest, as such, but clearly, you know, we – as I say, we always want to buffer the down, and we always want to allow ourselves the opportunity to take advantage of any opportunities should they arise. So, I think, you know, is it more than normal? I'd say at this point in the cycle where there's higher volatility, lower prices, lower margins, so our operating gearing is higher, it is higher than we would normally run at, but, again, I think it's entirely appropriate for what we're trying to achieve here.

MR MACKENZIE: And the opportunities that we think may arise in these sorts of environments. Next question from the phone.

OPERATOR: Your next question comes from the line of Paul Young from Deutsche Bank. Please ask your question.

PAUL YOUNG, DEUTSCHE BANK: Hi, Andrew. Hi, Peter. Andrew, you've previously said that you can grow at five per cent per annum in copper-equivalent terms going forward. There's no reference to this, so for me this is an admission that you're ex-growth certainly near-term, and this leads me to my question on your \$5 billion CAPEX level for FY17. To me, this is not far away from your stay-in-business levels, when you include conventional oil CAPEX. So first question is why is the world's biggest mining company not investing more in your supposed plus 20 per cent IRR projects here in the downturn. And my second question relates to, you know, other opportunities,



or is the focus now on acquisitions? You've mentioned three times in your presentation that falling share prices provide opportunities, so I guess my question here is, are you saying it is cheaper to buy companies at the moment than build projects? Thank you.

MR MACKENZIE: Okay. There's a lot in that question, Paul. But let me start off by saying within that 5 billion, we still have the studies of some of the more significant growth projects that we expect that we'll do in the future. Spence Hypogene you know about. Mad Dog 2, which we do with BP, we're still ticking along, not always, you know, accepted that this will happen quickly in potash. We're continuing to explore for things particularly in oil, and to some extent in copper, which might lead to future investments. And we have also some studies particularly in our gas areas in the US as well. When prices recover, we can move very quickly to ratchet up our investment in shale, and in shale oil, for example, and that will give us many aspects of the growth that you're describing. We will – within the five, and within the seven this year – continue to pursue some of our debottleneck opportunities, which don't cost much, but give us quite a bit of growth, and therefore dilute our unit costs. And there's a few more, particularly in the coal side, where we'd wait for a bit more of a price recovery.

You're right. This is an environment where, in many respects, buy, rather than build, is more attractive, and I think doubly so; one, because buy is potentially cheap, and Peter referred to that a little bit, in saying it's not quite a war chest, but who knows what might come under distress in this sort of environment. But also we are a little bit thoughtful about continuing to invest in new projects, and to deliver new supplies into markets which are currently oversupplied, until we see some more evidence that things are coming back into balance. But, I think, for us, growth, of course, is ultimately about growth in free cash flow, growth in value, growth in margin, if you like – there's a range of things that we're doing – some of which would fit into more the traditional copper equivalent growth and would derive things there – and others which would be more to do with just improving the efficiency of our operation, or perhaps engaging in a degree of consolidation by buying properties that are in distress that are actively producing, and, therefore, wouldn't add, necessarily, to some of the supply imbalances that some of the others would. So we will be very thoughtful about that and, for sure, you know, we have the flexibility, if in order to get the growth, and the growth is attractive for shareholders, and the balance sheet is strong, and we've got our maintenance capital covered, and we've got our dividend covered, then we can potentially do more. But for now we're planning on a period of relatively low prices, where without the kind of opportunistic activities, the attraction of overinvesting is – and particularly in build, is not there yet.

OPERATOR: Your next question comes from the line of Lyndon Fagan from J.P. Morgan. Please ask your question.

LYNDON FAGAN, J.P. MORGAN: Thanks very much. Look, just back to the balance sheet. Andrew, I was wondering if you could provide a gearing or an absolute net debt target or even a range because I guess you have still got 26 billion of net debt and gearings at 30 per cent. So if we're trying to sort of work out how much the board is likely to top up the 50 per cent payout ratio of EPS, it would be nice to at least have a rough target of where you'd like net debt to be.

MR MACKENZIE: Well, I mean, I've got to ask Peter to answer the detail of the question but I am going to tell him that I don't want him to give you a net debt target. That is far too simple in how we think about managing the balance sheet. But with the CFO present he is the appropriate guy to handle the detail of the balance sheet question. So go ahead, Peter.

PETER BEAVEN: Yeah. Thanks, Andrew. Look, just, you know, if I could just take you back to the capital allocations framework. The first thing is that we have allocated around 2 billion to maintenance capital. It's about the mark that we need to spend. The strength of the balance sheet is really the next key step in trying to assess what likelihood or otherwise we would pay on a dividend. And that is defined not by a net debt target or a gearing ratio so much, it's really around that ratio, that core ratio of cash flow generation to net debt now. As I said earlier, through the cycle we're aiming at having an A in front of that rating. It is, you know, I think, something which is very

familiar to most folks and so I think you can, from that, derive hopefully certainly what is leftover for the next leg in the capital allocation framework which is, of course, the 50 per cent payout.

In the event that there is anything leftover from that, that goes to compete between further investments – and, again, we've got a suite which you're very familiar with. You know what those are. We are very transparent about what that looks like. And we guide on capital and obviously we ensure that when we guide on those projects and the capital, that most importantly we think that the returns on those are higher on a risk adjusted basis than certainly on a buyback. And so, finally, if there is any capital leftover that gets made available for additional dividends. So I'm not going to give you a nice neat formula, I'm afraid. But certainly that's the way we would think about it. And we will think about this along these lines every reporting period.

OPERATOR: Your next question comes from the Hayden Bairstow from Macquarie. Your line is open. Please ask your question.

HAYDEN BAIRSTOW, MACQUARIE: Hi guys. Yeah. Just a quick one on the petroleum business. So we're just noticing the sort of capex cuts that have been pushed through after you sort of did a gas write down earlier in the year and your comments on sort of lower prices for longer. Have you sort of further reviewed your oil price outlook? And, as a result are we going to see, both in oil but elsewhere, some potential sort of adjustments to the book values at the full year result? Has there sort of been a change in commodity price outlook given the comments that you've made and the result?

MR MACKENZIE: Well, we continue to keep these things under review, but I wouldn't go as far as to draw the conclusion you're saying there. I mean, we are very much withdrawing capital from the onshore while we wait for prices to recover. We only now have two rigs operating in the Permian and three rigs operating in the Eagle Ford, and we're not fracking because we believe it's important to retain the acreage but – and obviously we will get the production from those wells already drilled and fracked, but I think wait for some sort of a recovery before we would actually start fracking and then possibly develop at a faster pace. Although we're doing that in many ways with the fewer rigs these days than we ever thought were possible through the gain in productivity. But I've nothing really to add on the other part of your question. And just looking at Peter, anything on your side?

MR BEAVEN: No, I think we're comfortable with, you know, how we assess those key assumptions. You know, we look at them very carefully every six months as we go into these reporting periods and we're comfortable we've made the right calls at this point in time. It's a good business. It's going to take some patience, no doubt about that, but it's a great business.

OPERATOR: Your next question comes from the line of Glyn Lawcock from UBS. Please ask your question.

GLYN LAWCOCK, UBS: Hi, Andrew. Andrew, I want to push you a little bit if I can, thanks, on US onshore. You know, you've set this business up now post South32 with I think what would be, you know, tier 1 core assets, long life, low cost right. But if I still continue to look at US onshore, it doesn't fit that mould. Right. It's not tier 1. It's not low cost. It's not bottom of the cost curve. You know, it's well and good to say it's tight and if can be sat there, and you can come back when the oil prices rise. But there's a lot of capital tied up on your balance sheet that - you know, who knows when oil prices will rise. You know, we've all got it wrong so far. Does this business – and why does this business fit in the BHP portfolio now, as well? I'm just trying to get my head around why – why it fits. You know, it seems to be the odd one out. Obviously Nickel West is on it as well, but you've tried to get out of that and you can't. So I'm just trying to understand where US onshore fits in the portfolio.

MR MACKENZIE: Okay. Well, as Peter said in answer to Hayden's question, you know, we believe it is still a good business. Part of the reason that we've been able to be so flexible with capital is its capital flexibility. And that cuts both ways. You know, you're right, you know, we don't quite know where oil price is going and when it might recover. I mean, I think we are reasonably confident that when we get a year or two out, the markets do start to go back into balance, and some sort of up-side is not an unreasonable assumption then. But we don't have to make that assumption now about investment. We can wait for that to happen and we can very quickly restore investment. And that is a nice luxury for us to have in a commodities business. And the same goes for gas. I mean in a tier 1 sense within a business which is called onshore shale oil and shale gas we do have tier 1 businesses.

You could argue whether these businesses are tier 1 in the broader availability, if you like, of non-OPEC oil or non-OPEC gas. But I would say the flexibility, you know, means that you have to treat them a bit differently, and it is a particular appeal. But to be clear, I mean, we do think that the availability of shale opportunities to invest in elsewhere in the world, or even elsewhere in the United States, whether it's oil or gas, which would fit into the tier 1 bracket is just very few and far between, which is why our longer term strategy for oil is to get back to and grow our conventional business and grow the reserves on our conventional business in preference to those of our onshore business.

OPERATOR: Your next question comes from the line of Duncan Simmonds from Bank of America, Merrill Lynch. Please ask your question.

MR DUNCAN SIMMONDS: Hi, good morning, gents. I've got two questions. The first one is, on your new structure I wonder if you were prepared to give us some granularity on these savings available on the OPEX line there. That's the first one. And the second one is if we could just continue on US gas, at the EBITDA level it was barely break even at the half, and if I plug in today's prices you're losing around a hundred million dollars of EBITDA. Given that you're not spending CAPEX there, what sort of operational measures or structural changes are available in that business? Or do we just bumble along in line with the market in terms of gas prices? Thanks.

MR MACKENZIE: Well, we don't bumble along in BHP Billiton, Duncan. You know, we take things very seriously indeed. We continue to find ways that we can deal with some of the costs within our onshore gas business. As you're aware, we have a particular transportation take or pay clause within the Haynesville that we have to work our way through, and try and see if we can find others into that, or get gas developed through that. So, you know, we're working very hard even at these prices to get back to positive EBITDA territory, and I'm confident we will.

On the organisation structure, I talked in the press conference earlier about 130 to 200 million in costs savings. That's something that we would expect to add to considerably through the effectiveness of the new organisation.

OPERATOR: Your next question comes from the line of Brendan Fitzpatrick from Morgan Stanley. Please ask your question.

BRENDAN FITZPATRICK, MORGAN STANLEY: Thanks. Hello, Andrew. Hello, everyone. The first question touches on that prior one. The new strategy – the other side of the equation – the cost to implement and the timeline to execute?

MR MACKENZIE: Well we'll implement it pretty quickly. There are a number of implications for what I've suggested today further down into the organisation, but I'm very confident that we'll have completed its implementation within this calendar year.

BRENDAN FITZPATRICK, MORGAN STANLEY: And the costs associated with any of the changes being made?

MR MACKENZIE: I don't have details on that. I mean, the costs will be primarily related to redundancy costs and so on, and when we have a good estimate for that then we are obliged to provide for that in our accounts, and then we'll give you an update, but I would have thought they were, you know, on a values basis relative to the savings I just gave you, which will be forever – and these are just one-off costs – relatively small compared to the value that's created by the savings.

OPERATOR: Your next question comes from the line of Paul McTaggart from Credit Suisse. Please ask your question.

PAUL McTAGGART, CREDIT SUISSE: Hi. Don't want to bore you with, kind of minutiae, but we were given in the release costs for Escondida, which I think were \$1 to a pound, \$1.11 a pound on a grade-adjusted basis, which doesn't really help us when we're trying to reconcile our models. Can you perhaps tell us what that was on a clean basis, on an as-reported basis? And I just noticed also when I ask about iron ore obviously, costs have come down, but you've got a peer, a major peer that's doing better on costs and you're looking still for an average of 15 for the year. Do you still think you can do better on C1 costs? And I know you've done some benchmarking against this peer in the past. Do you feel you've closed the gap enough, or do you think there's still more to be done there?

MR MACKENZIE: Well I mean yes, there's more to be done. You know we continue to work all angles, and some of the things are in part of course going to be enabled by the new organisation that we spoke about in order to continue to drive things down. If you give me a moment I have actually got some notes here which I can check with you, but when I see you, perhaps maybe when I see you – is it tomorrow I see you? We'll come and I think it's probably better that I give you a lot more detail then.

PAUL McTAGGART, CREDIT SUISSE: Sure.

MR MACKENZIE: But we've certainly more to do. I mean, on the exact number for the copper costs I don't have that in my head, but I'm sure one of our IR team can get back to you with that.

OPERATOR: Your next question comes from the line of Myles Allsop from UBS. Please ask your question.

MYLES ALLSOP, UBS: Hi there. Hi, Andrew. Two quick questions. First of all, in terms of the Pilbara expansion to 290, you've been talking about, you know, not – focusing on value over volume, not interested in putting more volumes into, sort of, oversupplied markets. Should we assume that 290 is still, sort of, many years out until prices recover? And then also, with Samarco as well, could you just give us some help in terms of what we should expect in terms of the agreement? Will it be with the State and the Federal Government? Will there be, sort of, one agreement that you're looking to sign to resolve the whole liability, or could there be further litigation afterwards? Thank you.

MR MACKENZIE: Okay. Let me do the second one first, because I was thinking about that. The agreement under discussion right now is more of a framework, you know, which is the kinds of commitments, if you like, with some bounds that Samarco and then, through Samarco, ourselves and Vale would make, to make good what happened with the terrible disaster both in a humanitarian sense and in an environmental sense. You know, it's not going to be all-embracing, sometimes we hear the phrase "an umbrella agreement" but it will be a framework into which we can draw many of the claims, but it's not going to integrate all the claims. We would of course be hopeful that it will get its arms around, and there will be a commitment to try and do that, the lion's share of those claims, but it won't capture all of them. And when there is one, and this a moving target of course, there will be, you know, it's being worked at the moment, as I said I can't remember if it was a press conference or now but no, it was in the press conference and it's something that could emerge in the coming weeks. I mean, there's certainly a lot of willingness to come together. Then clearly we will be able to give a bit more detail then. But it won't be, if you like, all embracing, if that's kind of the gist of your question. Remind me your first question again, just a word or two, and it will come back to me.

MR ALLSOP, UBS: Just Pilbara 290.

MR MACKENZIE: Yes, 290. The move to 290 on the Pilbara doesn't require capital or if it did, it's very small amounts of capital. It requires us just to continue to run our facilities more efficiently. You know, our mines, our port and most importantly at the moment, rail. And these are things that we will continue to work on because it's, by and large, sort of free volume because they come from as no cost and they dilute our unit costs. So I wouldn't count that as something that would count as a major investment in growth. I think that's just a productivity creep that, in this case, is very much underway but we will provide obviously guidance as we go forward at each reporting period as to how successful we are in moving towards 290. But it's not something we would slow down because it doesn't require much investment.

OPERATOR: Your next question comes from the line of Peter O'Connor from Shaw and Partners. Please ask your question.

PETER O'CONNOR, SHAW AND PARTNERS: Good morning, Andrew. My suggestion, firstly, is to keep this call going for as long as possible because the share price has gone from flat to up to three per cent so let's drag this out. My questions are about the Australian business, both iron ore and met coal, and I wanted to follow on on the question about iron ore 290 and understand how that growth from the current rate to 290 fits within the context of your comments during the call about supplying oversupplied markets. I understand the cost benefit to you but how does that reconcile? And then on met coal, I want firstly to applaud you on your cost journey on met coal which has been very impressive over the last year, but understand where that business is going. It's a US\$9 billion asset base returning negative return. What can you do, where can you go because that's a big lump of capital which is just not generating enough for the company?

MR MACKENZIE: We will as you know, within the met coal business we have rationalised. We have closed Crinum and Norwich Park. And thank you for the plaudit to Mike Henry's team, you know, despite the very difficult conditions. You know, they have been able to keep all of the operations cash positive. We have seen some relief – not much – on the supply picture with a lot of the US players now in some form of bankruptcy proceedings and some evidence that in our markets – that in areas which was traditionally supplied from North America, that our customers are turning more to supplies out of places like the Bowen Basin. And you have also seen that we have made one or two moves to try and be even more creative around some of our mines in the way in which we might use contractors and so on. Obviously a source of some dispute but there's still more to go in efficiencies. Longer term, I would say there is a demand upside, particularly from India, which is one of the brighter lights on the economic horizon right now. So we will keep working, we will keep rationalising, almost down to the individual cut, and we will keep pushing on everything to get our productivity up. And we do expect that some modest recovery is

possible but probably a long way off. I think on the 290, my answer is the same, that this is a productivity drift, it's very much underway. It's mainly got brought about by just running plant and equipment at high levels of utilisation and availability. There can be a little bit of investment required - we have actually made some of that investment or it's underway at Jimblebar, in terms of an additional crusher. I think it would be inappropriate to stop it right now but no new capital – no new significant capital in the current conditions, that's clear.

OPERATOR: Your next question comes from the line of Menno Sanderse from Morgan Stanley. Please ask your question.

MENNO SANDERSE, MORGAN STANLEY: Yeah. Good evening, Andrew. Just two questions, please. First on the statements around prolonged downturn, more rapid transition, more volatility. This must certainly have some implications for the long term price that you're using and for the required return on the projects that you're selecting. Have you made those changes already or when do you think that you'll push those through? And, secondly, US\$1.6 billion dividends if you annualise the first half versus US\$5 billion of CapEx in 2017 and exploration, obviously - does the company think that's the right ratio, US\$5b investment, US\$1.6b dividends?

MR MACKENZIE: Okay. I'll maybe let Peter handle a little bit about the second question and maybe I'll make a few general comments in a moment. And, sorry, the first question was, again? Just say a word.

MENNO SANDERSE, MORGAN STANLEY: So the company is using terms like prolonged downturn, more rapid transition, more volatility.

MR MACKENZIE: Yeah, yeah. We update our price estimates every year. And sometimes when we feel things have moved we might do it a little bit more frequently, as we did recently to look at the valuation of our Petroleum business. But I would say that our long term prices haven't changed much, with the exception of oil<sup>1</sup>. And I talked about that earlier. It's trying to understand the transition period that is more difficult. And what we as a company, I think, are reasonably sure that we're in for a period of sustained lower prices with volatility, you know, potentially for some years. And we have to build a company that's able to handle that. But as we go through some of our commodities, and we'll see how that turns out, we do as we get out a year or two start to see markets coming back into balance, domestic gas, then oil, then copper. And longer term, potentially potash. And our planning is based a bit on that but in some cases we can wait to see more evidence of that happening before we kind of really up our level of investment. And that relates to your second question as to what's the optimum ratio.

It really depends on how we see the medium term outlook as to what we think will be the appropriate relationship there. And, indeed, the competition for other uses of cash, whether it's to further buttress the balance sheet if we thought that things were looking particularly gloomy, we clearly have to look after our maintenance capital, we have to look after the dividends and then we have all the things that Peter and I have been talking about that at this point in the cycle there could be inorganic opportunities that would not present themselves at any other time. And they would clearly get preference relative to organic investments that could wait because in many cases these are things which, as I said in my talk, have very prolonged security of tenure. And it's probably the value judgment, to wait for some kind of price recovery rather than to overinvest right now. I don't know if you want to add to that, Peter.

PETER BEAVEN: Yeah. I think what's very, very important about a payout ratio is that it will flex with the cycle. So what you should expect and what we would expect is that at the bottom of the cycle then you will have less free cash flow available in general - It's just the natural course of things. And we would need to obviously continue to

<sup>1</sup> As announced on 15 January 2016, BHP Billiton has reduced its medium and long-term gas price assumptions and its short to medium term oil price assumptions. Our long-term oil price assumptions continue to reflect the market's attractive supply and demand fundamentals.

look after the balance sheet and sustaining the maintenance capital within the first instance. But what's really important is that, yes, we continue to be very committed to cash payments, but that you continue to invest in, at this point in the cycle, the things that really make sense. Because oftentimes it's the investments that you make at the bottom of the cycle that actually turn out to be the most valuable. So that's the beauty, if you like, of the payout ratio. It's the value maximising dividend strategy given the circumstances that we have today.

Obviously, conversely, as you turn through the cycle and we generate more cash flow, then you would expect to see that ratio of dividend to investment to climb. And that's exactly how – this is the holy grail of resource companies, getting ourselves into the point where we are investing more on a countercyclical basis, returning more on the up cycle and so turning what has been a long history in our industry of essentially procyclical industry investing into something else. So I think your question is very good. But I think it goes to the heart of why the payout ratio is the right strategy for this company from this moment going forward.

One last thing I just wanted to mention, which is just maybe slightly off the specific topic here, and what I was talking about. We've spoken a lot about opportunities here, about inorganic versus organic. All fine with that conversation. But I want to be really, really clear on this, that we have got a very high hurdle for assets that make it into our portfolio. So those tier 1 assets are very rare and they're very closely held even at this point in the cycle. So our ability to actually generate opportunities, to acquire assets, tier 1 assets, for value of course, because even if you get the opportunity, you've still got to get the right price for it. So getting an opportunity for the right price, I think is going to be exceptionally difficult. So, we're always alive to that opportunity, but I want to make sure that everybody understands that that hasn't changed.

MR MACKENZIE: Okay. And can I just make another point which is from what I said in the presentation, which is that US\$5 billion might seem like a small amount of capital, but we're still pursuing almost everything we wanted to pursue, but we're able to do it for a lot less capital. And the only thing we've really, of significance, that we've foregone is our investment in shale. And, believe me, we continue to see ways in which we could make this number even less, whilst maintaining the activity set. Okay. Any questions from the audience? No? Okay. And any more questions on the phone?

OPERATOR: There are no further questions from the phone at this stage.

MR MACKENZIE: Okay. So, just a few closing comments. You know, first of all, there is no doubt that there's a shadow over this presentation which has Brazil written on it. And the team there are very much focused on the response efforts and rebuilding communities and restoring the environment impacted by the dam failure. We've spoken a lot about the prices that we're facing at the moment. Although we're making further adjustments today, I would argue we prepared early. We saw a lot of this coming. We simplified the portfolio. We drove productivity hard and capital flexibility. But we've now given ourselves greater flexibility, I think, which is going to be more suited to this period of prolonged low prices. We remain, despite – or almost because of our change to the dividend policy, committed to material cash returns to shareholders in accordance with an enhanced allocation of capital framework. When I think about this company, I strongly believe we are free cash flow positive in a very difficult period. We have an unrivalled portfolio, both of the commodities that we're in and the assets that we have, that can actually be competed away very easily, to which we add, I would argue, sector-leading operating capabilities that will be built upon by our new organisational way of working. And our dividend policy will now give us additional financial strength to invest in value-adding growth options. In the long term, we are confident, particularly in oil and copper, and we have the flexibility, I think, to respond to that, as well as managing things in the short term in the way that we set up our company over many years of which is the next step. So thank you for listening, and I look forward to talking to many of you again on an individual basis in the coming couple of weeks. Thank you very much.