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Transcript

BHP Billiton

Preliminary Results

Investor & Analyst Briefing
24 August 2011

1. Mr Marius Kloppers and Mr Alex Vanselow

OPERATOR: I am now handing over to the host of today's briefing, BHP Billiton's Chief Executive.

MR KLOPPERS: Ladies and gentlemen, welcome to today's presentation of BHP Billiton's preliminary results for our 2011 financial year. I am speaking to you here today from London and Alex Vanselow, our CFO, will be presenting from Sydney. I am also pleased to note that we are joined by members of the BHP Billiton management team. For this important presentation, we have Andrew Mackenzie here with me in London, Marcus Randolph is with Alex in Sydney, and Alberto Calderon and Mike Yeager are joining us on the telephone lines. Before we begin, I would like to point you to the disclaimer and just remind you of the importance of that disclaimer in relation to today's presentation.

With regards to today's format, I will start by providing a general overview of what has been another strong and perhaps busy year for BHP Billiton. I will then hand over to Alex who will go into the financial results in a little bit more detail. After which, I will discuss our unchanged strategy and commitment to grow shareholder value. Today, we announce record results for our financial year 2011. Underlying EBITDA increased by more than 50 per cent to US\$37.1 billion, and Underlying EBIT rose 62 per cent to US\$32 billion. Record attributable profit, excluding exceptional items, was US\$21.7 billion, a 74 per cent increase over the prior year. Record operating cash flow of over US\$30 billion facilitated record capital expenditure, entry into the U.S. onshore gas industry and accelerated US\$10 billion buy back program, as well as a 22 per cent rebasing of the final dividend.

To put those figures in perspective, Underlying EBIT achieved 10 years ago when we announced our first results following the BHP Billiton merger was 10 times larger today than that first result. Now I would like to discuss what has been another strong year for our operations. When addressing performance, I would like to start, as I always do, with safety. The health of our people and the safe operation of our business remains the number one priority for us and we recognised the correlation between operating performance on the one hand and safety on the other hand. And in that context, I am pleased to report another six per cent improvement in the group's total recordable injury frequency rate over this financial year. However, we still had two fatalities in the 2011 financial year and we had another fatality early in July. Absolutely no fatality is acceptable and I would like to offer my condolences to those impacted: family, friends and colleagues.

At an operating level, BHP Billiton had another very strong year as we continue to benefit from our longstanding commitment to invest throughout the economic cycle. We produced record production in four commodities, namely, iron ore, nickel matte, manganese and natural gas, and we had record production at 10 of our operations. I am particularly pleased with an 11th production record, our annual production record on our iron ore business. These results reflect our fairly unique decision to invest in growth in the depths of the recent global financial crisis.

And last month, we were able to confirm the successful ramp up of Western Australia Iron Ore to 155 million tonne per annum run rate. Annual production and sales records were also achieved at New South Wales energy coal, following the successful commissioning and ramp up of our MAC20 project using our Newcastle Coal Infrastructure Group port capacity. And in

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our base metals business, total copper production for the 2011 financial year increased as a substantial improvement in performance at both Olympic Dam and our Pampa Norte asset in Chile, more than offset the grade related decline at Escondida. Importantly, Escondida production is expected to increase beyond the 2012 financial year as mining activities progress towards higher grade ore as we complete the Escondida Ore Access Project.

And it would be remiss of me to not comment on the 129 per cent increase in resources at Escondida, comprising of 40 per cent increase at the Escondida resource itself, as well as initial reporting of the mineral resources for the Pampa Escondida and Pinta Verde prospects. While our current performance compares favourably with our peers, we, in addition, continue to lay the groundwork or foundations for sustainable, long term, value adding growth.

As part of our invest through the cycle strategy we approved 11 projects in the financial year for a total investment commitment of US\$12.9 billion; those investments which span iron ore, metallurgical coal, energy coal, diamonds, petroleum and copper, will further differentiate an already uniquely diversified asset portfolio. Notwithstanding these achievements like our peers in the industry we have faced our fair share of challenges over the last 12 months. Persistent and often severe wet weather significantly impacted our Queensland metallurgical coal mines, and, today, six months after the worst of the weather our operations continue to be affected by substantial in-pit water accumulation.

Similarly, the drilling moratorium in the Gulf of Mexico delayed the production of very valuable crude oil and condensate. I am, however, very proud that BHP Billiton was right out in front in bringing a new deep water production well into production after the drilling moratorium was lifted.

Industry wide cost pressures driven by stronger producer currencies, as well as Underlying inflation in raw material and labour costs, remain a concern and over the 12 month period we took the decision to revise capital budgets and schedules for our Kipper and Turrum petroleum projects and our Worsley Efficiency and Growth Aluminium project.

Alex will discuss the tight labour and equipment markets in more detail, however, I would like to make specific mention of the recent heads of agreement with Leighton Holdings, our acquisition of the HWE mining subsidiaries will accelerate our transition to an owner/operator structure in the Pilbara. It will remove a layer of complexity, deliver substantial operating cost savings and enable us to manage very substantial growth in this business in a safe and low risk manner. With that I would like to hand over to Alex who will present our financial results.

MR VANSELOW: Thank you, Marius. And welcome to everyone. It is my pleasure to deliver another set of record results, and again achieved through the consistent execution of our strategy. This past year has seen the continuation of recovering commodity prices against the backdrop of lagging but increasing cost pressures. Let me start with our record Underlying EBIT. For the 2011 financial year Underlying EBIT was US\$32 billion, up 62 per cent on the prior year.

As shown in the waterfall graph, stronger commodity prices net of price linked costs were the primary driver in increasing Underlying EBIT by \$US17.2 billion. Higher commodity prices had a positive effect across all CSGs, with iron ore and copper the two most significant contributors. The weakening of the US dollar versus commodity producing currencies led to a negative exchange rate impact of \$US2.5 billion and the strength of the Australian dollar accounted for approximately 80 per cent of this variance

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Now I would like to provide some more colour around the material variances, the key drivers, starting with volumes. Our tier one assets and unchanged strategy of investing through all points of the economic cycle led to production records across four commodities and 10 operations during the financial year. We delivered a US\$572 million positive volume impact to Underlying EBIT and the major contributors to that were; Western Australia Iron Ore, as Marius has mentioned, ramping up to 150 million tons of capacity. In Petroleum we have the Pyrenees field's first full year of production and also the acquisition of Fayetteville that more than off set the natural field decline and the impact of the moratorium in the Gulf of Mexico. In Metallurgical Coal, as Marius has also mentioned, the significant negative effects of the floods in Queensland.

Now, let's look a little bit more broadly at how our high quality portfolio and consistent investment enhances our performance versus our peers. Our strategies focus on large, low cost, expendable assets that deliver superior margins through the cycle, what we call the tier one assets. This allows BHP Billiton to produce at full capacity and to take the price of the day at all points of the economic cycle. Coupled with our consistent investment programme BHP Billiton production is less volatile and allows for greater value generation.

Now, let's examine the components of our cash cost variance. A consequence of the strong commodity prices that we enjoyed is an increase in the costs of many of the products that we consume. We have highlighted this lagged effect many times in the previous presentations and the entire industry is challenged by this continued costs pressure.

BHP Billiton, however, is a significant net beneficiary of this linkage and a key differentiating factor is our long energy position. We consume less than 25 per cent of the energy we produce. And if you will also note that over half of our variance in cash costs was structural in nature, with the labour category being the largest. This increase was due to two things. One, the higher labour rates and also the higher increased number of people increasing workforce, due to our growth projects. In the 2011 financial year we experienced a 4 per cent increase in our total cash costs, but cost control alongside with safety and volumes are the key focus area for our operating teams.

Also, the support of our global procurement group is critical in sourcing key inputs at competitive pricing. Let me highlight two specific examples of the increasing tightness being faced by the industry. We are again projecting shortages in the giant radial tyre market and lead times for mining trucks are back to early 2008 levels. Our long term partnership with manufacturers ensures we have a preferential position and certainty of access. We are confident that we are well supplied for our ongoing needs and our extensive growth program. Our global procurement system creates critical mass for our major raw materials and our largest purchase categories. The centralised system provides us and our vendors with a strong order book and flexibility in the deployment of supplies and equipment.

Now, let's turn our focus to our strategy and our uniquely diversified portfolio. Our superior level of diversification has our ferrous, non-ferrous and energy products each contributing significantly to EBIT. The ferrous group remains our greatest contributor, driven mostly by China demand for steel as it advances through the first phase of urbanisation. The benefit of our low cost portfolio is demonstrated in our strong margins that are shown in the chart on the right. Iron ore was the standout for the period amongst a group of superior margin businesses.

The absolute mix of the EBIT contribution will change over time as industrialisation advances in the developing world and as we continue to optimise our portfolio. This includes laying the

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foundation for change to capture opportunities as demand patterns evolve. This point is emphasised with our potash and shale gas investments and the development of Olympic Dam. These assets will further diversify our portfolio by commodity, geography and customer, and in doing so will further reduce the volatility of our future cash flows. This high quality diversified model leads to industry wide superior margins and returns.

The chart on the left uses the average EBIT margin taken from what we refer to as our “Jackson Pollock chart” – which I didn’t leave out; it’s in the attachments on the back of the package – and compares it to that of our peers. Our 2011 Underlying EBIT margin averaged 47 per cent alongside an underlined return on capital of 39 per cent as shown in the chart on the right. These two financial measures highlight the outstanding quality of our portfolio. This marks the seventh consecutive financial year in which BHP Billiton has recorded an Underlying EBIT margin of 40 per cent or more, and an underlying return on capital of 25 per cent or more. This is an outstanding achievement considering we continue to invest heavily in our future. If we exclude investments not yet productive, our return on capital deployed for the 2011 financial year is 50 per cent. This performance has again led to significant free cash flow generation, and let me step through our unchanged capital management priorities in the next slide.

The first point you should notice on this slide is the record net operating cash flow, an increase of 78 per cent on the prior year to US\$30 billion. Now, consider how we consistently match our cash outflows with cash generation to maintain an appropriate capital structure through all stages of the cycle.

Our priorities for cash are first to reinvest in the business; then manage our balance sheets to a solid A credit rating; and finally, return excess cash to shareholders. In the 2011 financial year, BHP Billiton invested US\$12.4 billion in organic growth and US\$4.8 billion in acquisitions. We have consistently increased our capital spend and our compound annual growth rate of 18 per cent for 10 years. In terms of our balance sheet, we continue to maintain a solid A credit rating, independent of cyclical pressures, acquisitions, or buybacks. Our gearing level has provided us with flexibility to explore options in the face of increased economic uncertainty.

At year end, net gearing was 9 per cent, which ensures we can comfortably absorb US\$15.1 billion of Petrohawk deal. The inclusion of the full acquisition and funding of Petrohawk would see our pro forma net gearing rise to approximately 27 per cent. The 2011 financial year was another example of our capital management plans at work, with a further rebasing of our progressive dividend and the early completion of the US\$10 billion buy back. From this cash flow chart, it is evident that when we do have excess cash and once the first two priorities are satisfied, the company looks to return funds to shareholders. An interesting sidenote is that this year’s cash dividend was 1.3 times greater than our total operating cash flow in the 2002 financial year, the first full year for BHP Billiton.

Through three separate buy backs since the 2005 financial year, we have returned US\$22.6 billion to shareholders at an average purchase price of less than US\$25 per share, and this amounts to approximately 15 per cent of the 2004 issued capital. So to summarise our record US\$32.1 billion in capital actions this year, we have invested a record US\$17.2 billion to grow in value our portfolio, returned US\$5.1 billion in cash dividends, plus an additional US\$10 billion through the share repurchases. This capital management has benefited all shareholders by investing in our future and growing our dividend pool while reducing the number of shares that are serviced by that dividend.

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Based on this, we have been able to rebase the final dividend by 22 per cent to 55 US cents per share. This consistent and disciplined execution of our strategy is aimed at creating sustainable, long term shareholder value that will continue to differentiate BHP Billiton from our peers. So in summary, I have highlighted; firstly, the strong growth, margins and returns that continue to characterise BHP Billiton's performance; secondly, our significant cash generation in this disciplined and consistent approach to capital deployment; and thirdly, our delivery of shareholder value, shareholder returns through the cycle, that sets us apart from our industry peers. And now, I would like to hand you back over to Marius.

MR KLOPPERS: Thanks, Alex. I would like to now discuss our strategy in the context of this economic environment, as well as broader industry themes. This slide may be familiar to some of you as I included this chart, which we show you on the right hand side, in a presentation that I delivered earlier in the year in May. At that time, I highlighted the divergent signals that were emanating from the developed world. We have said for three years now that global imbalances and particular high levels of sovereign debt will create ongoing uncertainty. Indeed, a protracted OECD recovery has remained our base case throughout this period. Of course, a coordinated policy response may yet provide some mitigation. In the developing world, inflation remains a target of policy makers and recent economic data suggests that the tighter monetary policy is having the intended effect.

In our view, the current policy settings in China are entirely appropriate, given the need to manage the transition of that economy from an investment led to a consumption based growth. Notwithstanding the shorter term challenges for the global economy, we expect the influence of developing nations, and particularly China, to become more pronounced as their economies become an increasing proportion of global GDP as shown on this slide. We reiterate our longstanding belief that continuing urbanisation and industrialisation of these populous nations, and in particular, the associated metals in terms of growth, will provide strong, long term support for our products.

So in this context, why do we always emphasise the more diversified nature of our portfolio? As an economy, for example, China, industrialises, steel intensity per capita matures first, followed, only at a later stage, by commodities such as copper, aluminium, nickel, and so on. Energy and food – the latter of which, in our case, translates to potash – are linked with economic expansion in a more linear fashion throughout that development. Now, by having products in our portfolio that cover early, mid and late cycle demand, we create more opportunities for long term shareholder value creation, and hence, the emphasis on the more diversified nature of our portfolio.

However, demand is only one side of the story. Let me talk about the other equally important side of the equation, namely, supply. As noted earlier by Alex and myself, a surprising number of short term disruptions have contributed to the generally inadequate supply response, and specific examples, such as the Bowen Basin flooding, are highlighted on this slide. While those shorter term factors will ultimately unwind, there are some broader structural issues that have persisted for some time and that are worth commenting on.

To illustrate the point the chart on the lower right hand side of the slide that you can see suggests that for seaborne iron ore, seaborne metallurgical coal and mined copper production all of the actualisations of production have fallen short by 10 to 15 per cent over risk adjusted forecasts made only three years ago. These shortfalls, just to give you a quantum of what that means, in copper is equivalent to about three Escondidas, in metallurgical coal to about a BMA,

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and in iron ore to about three quarters of a Western Australia Iron Ore. So the supply side continues to lag and continues to underperform relative to forecasts and expectations.

And, as Alex mentioned, bottlenecks in the supply chain for tyres, trucks and other key consumables are increasingly apparent and likely to constrain the industry's expansion plans in the short and medium term. However, market forces will ultimately in the long run induce a supply response. It is, however, important to consider at what cost from both a capital and from an operating perspective that this new supply will have. As a result of firmer producer currencies an increase in raw material and energy costs, and declining ore grades, we have observed a general steepening and elevation of global commodity costs curves, as illustrated on the slide that you can see for iron ore. But I could have used any number of other examples as well. Similarly, as illustrated on the right hand side, here showing the capital intensity for iron ore projects, we have seen that capital costs have increased over time. And this too will in due course, as they get executed, give a rise or a steepening in the total or C3 cost curve.

Now, to emphasise, our high margin, low cost, upstream strategy that has consistently delivered industry leading returns offers significant advantages in this environment that we have just described. Fundamentally we believe that the quality and potential of any mining company is ultimately defined by the quality of its resources. And as you can see illustrated on this slide, BHP Billiton has large, long life assets that are diversified across the commodities complex, and as we commented on earlier diversified across the industrialisation cycle.

As an example of that size, based on conventional measures, our Western Australia Iron Ore assets, at 2010 financial year run rates would have the resource life of more than 50 years. However, if we considered the total mineral inventory it would imply a life of over 200 years. Now, one may think that 50 years of life is sufficient, however, thinking about the total mineral inventory becomes very important as we think in the case of Western Australia Iron Ore for example, taking that production from 155 million ton run rate to 355 million tons per annum and beyond, or as another example when we contemplate the expansion in output from Olympic Dam to many times its current output.

Having described this large, very large diversified tier one resource position let me talk about our development plans. We have said before, and I would like to repeat today, at BHP Billiton we recognise the importance of a simple and scalable organisation and with our large resource basins across the ferrous, non-ferrous and energy products we have the ability to plan for the very long term. As you can see from this slide current and future development options are located primarily in geographies that we know very well. You will also know an emphasis on the high quality, high margin businesses that already generate a significant proportion of our profit.

Investments at Jansen in potash and Olympic Dam in copper uranium, and onshore US gas, will add complementary long term production growth to this world class portfolio. And in order to successfully develop that product pipeline we have established a hub based project model that allows us to set up and construct many projects in succession in the same basin using the same teams. And this approach means that we can develop and retain specialist teams and grow our delivery capacity over time. The latter is all the more important in the light and in the context of the supply site challenges that I have commented on earlier.

Now, I would like to comment specifically on the Petrohawk acquisition. Firstly, it was with great pleasure that over the weekend we announced that our US\$15.1 billion tender offer to acquire Petrohawk Energy Corporation was completed. As we noted when we talked about that

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acquisition for the first time, we believe that Petrohawk's tier 1 resource and development potential perfectly aligned with BHP Billiton's unchanged, well defined, upstream strategy.

In this regard our ability to competitively fund accelerated development and growth throughout the economic cycle ensures that we are perfectly positioned to optimise both on the development of and the returns from these high quality resources. To do so it's important that we leverage the skills that we've developed not only on the petroleum side of the business but also the mineral side of the business.

Having discussed the building blocks of our growth strategy let us consider the potential of our portfolio. You've heard Alex discuss the strength of our financial position and the operating flexibility that that creates. I hope I've also emphasised the importance and differentiated nature of our upstream, long life, diversified resource portfolio. Those factors combined with the consistent and disciplined execution of an unchanged, upstream focus strategy positions us for strong, predictable and high margin production growth and, as you can see on this slide, putting together some of the elements that we've put out in our petroleum, met coal and iron ore businesses over time, we target a compound annual growth rate in production of approximately six per cent.

Of course, that goal is predicated on our substantial organic growth program that is expected to exceed US\$80 billion to the end of our 2015 financial year. We are committed to this invest throughout the cycle strategy but, as in the past, obviously, we will adjust our plans from time to time to align with the external market. That brings me to the end of my presentation so let me conclude. We are pleased that strong production performance, record financial results and industry leading returns have again illustrated that our tier 1, upstream, diversified portfolio and strategy is the right one. As a low cost producer we aim to safely maximise production and returns via the acceleration of our organic growth program.

The completion of our expanded US\$10 billion capital management initiative six months ahead of schedule has enabled us to declare a 22 per cent uplift in our final dividend, thereby ensuring that our strong performance benefits all shareholders. On that note, I would like to thank you, ladies and gentlemen, I would now be pleased to take your questions, I think it's best if we start here in London before moving to Sydney and then we will take the phone lines.

2. Questions

OPERATOR: If you would like to ask a question please press star 1 on your telephone keypad now.

MR KLOPPERS: You could address the questions to me in the first instance, I will pass them to Alex and others as required, can I have the first question, please.

MR N. STANOVIC: Good morning, Marius.

MR KLOPPERS: If you could just state your name.

MR STANOVIC: Yes, Nick Stanovic from Brewin Dolphin. I notice that the run rate for capital expenditure has been lower than the 80 billion this year, was that a conscious decision from

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your part or why was that, I mean, was it to do with M&A or if you could just talk around that, please, thank you.

MR KLOPPERS: I think the eventual expenditure was about \$12.4 billion on growth and exploration whereas we gave guidance of 15. That's within the normal threshold of error as projects move around and the rate of capital expenditure, you should not read anything into that. You will see in your pack that we've given on an equivalent basis about a \$20 billion forecast for the upcoming year which, in our mind, is a P50 forecast. Jason?

JASON FAIRCLOUGH: Jason Fairclough from Bank of America Merrill Lynch. Marius, you alluded to 'invest through the cycle' strategy but you said that you will adjust that from time to time depending on the outside market. If I think back to the last up cycle, 2006, '7, '8, if I remember correctly BHP actually at that point re-sequenced some of its projects because it was worried about competing with itself and essentially driving up labour costs in a limited pool of labour. Any thoughts on that, I mean, is that what we're getting to today?

MR KLOPPERS: Jason, no, I think that what we've tried to do, Alex, myself and the rest of the management team here over the last five years, we said that we probably wanted to go a little harder in our own backyard, so to speak, and we've communicated that message pretty consistently over time. What we see now is many of those growth options that we've pushed on hard over the last couple of years are starting to mature and I think of things like Jansen and Olympic Dam in particular. But my comment was more to indicate that there is a ceiling level on the rate at which you can go, i.e., you do everything that you've been working on and maturing, but if there is a downturn in perception, as there was a very material downturn in the global financial crisis, I just did want to emphasise the discretionary nature of that capital spend.

Now, I will caveat that in two ways. We do want to invest through the cycle and with complete hindsight, they always say the retrospectoscope is an incredibly accurate instrument. The one project that Alex and I decided to cut in the last downturn, the global financial crisis, the most material one that we put on the backburner was Escondida. Boy, in hindsight, that has turned out to be a very expensive decision and it has probably reinforced our desire to basically continue to grow in a measured way, but to continue to invest throughout the cycle.

MR D. KALILEA: Dave Kalilea, RBC. Marius, you have guided to 20 billion capex next year and you mentioned the 80billion by 2015.

MR KLOPPERS: Yes.

MR KALILEA: So you are giving us about a 20 billion a year anticipation. Is it possible to get any kind of breakdown on that? Say, how much you intend for Olympic Dam?

MR KLOPPERS: Yes, perhaps two comments about that capex. Since somebody probably will ask the question in due course, let me try and pre-empt one question, which is, how does \$5 billion or so of capex for Petrohawk fit into the \$80billion, which was done before we announced the Petrohawk acquisition. I think the way that you should look at it is that in due course, we will come back here with a new five-year plan which was a synthesis and high grading of the overall portfolio. So just to caution again adding linearly the \$80 billion, and then, add the Petrohawk thing which clearly happened over the last couple of days on top of that. What we will eventually get is a synthesis, high grading, further prioritisation of that asset.

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Insofar as Olympic Dam, perhaps here is the guidance that I can give without breaking it down further than we have put in the public domain. We have given every indication that if we keep on tracking in the manner that we are now, in all likelihood, at about our June board meeting, we will take a sanctioning decision of the so called Olympic Dam 1, ODP 1 Project. That project, consistent with our desire to always take more than one decision if there is no disbenefit of taking them separately, is essentially for creating the open pit and some ancillary infrastructure. Without being too precise, about 18 months, two years later, there will be a second sanctioning decision which really is for the expansion of, for example, the concentrator, water and smelting capacity, in order to take the product.

And we sequence those two things because the pre-strip takes longer than the construction of the thing. Now, that gives you some indication as to the timeframe with which those two projects will be approved in the five-year cycle. You then add a ramp up that indicates that you can't spend more than a couple of billion dollars per year in a given location, and you will find that in aggregate as a percentage of the total program, the Olympic Dam Projects, while massive individually as they ramp up, will still be a relatively modest proportion of that overall 80billion. I hope that gives you some guidance.

Andrew, I don't know if – perhaps we have got to go to Alex who is, I think, standing forlorn there on a Sydney stage. Alex, perhaps you could take a couple of questions in Sydney? If you can just address them to me in the first instance?

MR P. YOUNG: Paul Young from Deutsche Bank. Two questions: one on your LNG strategy, just can you comment on the fact that your Petrohawk acquisition is really U.S. domestic gas, non-exportable, and that is essentially your strategy to be involved in the export markets? Does this push down Scarborough and Thebe on the priority list? And can you potentially talk about the likelihood of actually exporting gas from the Petrohawk assets in the future?

The second question is on the purchase of Leighton's mining fleets in the Pilbara. You mentioned that Escondida, delaying that project was a mistake in the last answer. Can you maybe comment on why you actually didn't make this decision during the financial crisis, or was this one of the big synergies that would have been delivered with the iron ore joint venture with Rio? And secondly, or part two of that, could we actually see this now spreading towards other basins, if you like, an in particular the Queensland coal. Thank you.

MR KLOPPERS: Paul, let me take those in reverse order. You know, at the time of the Rio joint venture that we proposed we were going to adopt an owner/operator model. That was clearly communicated and we felt that that was one of the synergies. So this execution you should very much see as – this acquisition you should very much see as an execution of a long held strategy to get core activities controlled in house, particularly where they are integrated across a supply chain. Now, that obviously will never be the case for 100 per cent of the volumes that we move. And, again, forgive me that I do not have the exact volumes moved, but I think in Queensland coal probably contractors move on the order of 25 per cent of the total volumes. In Western Australia Iron Ore it was something like over 80 per cent of the volumes, given how the two main mines, MAC and Yandi that we started – particularly MAC that we started in the last 10 years, grew. So, you know, there's not the same order of magnitude event going to happen in other locations but the core movement capability of raw materials we would like to keep in house.

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As it pertains to the two questions on LNG, our ambition is unchanged to have many tools in the tool kit. And we put another tool in with the acquisition of Petrohawk in terms of non conventional gas and we will build on that. Our aspiration has always been and continues to be to have other tools in that tool kit as well. LNG operatorship, and so on, in due course in a measured way, being one of those. So unchanged ambition. With respect to the two projects that you have particularly highlighted in Western Australia, obviously those time frames are not set by us but set by all of the participants in the venture. And therefore you should see the execution of those projects over time as being unchanged by the Petrohawk acquisition.

The last question pertains to US gas exports. And perhaps a little too early to call exactly how the world will arbitrage calories. My personal view is that, Andrew, what do you say, about 10 per cent of the hydrocarbons that are released, or five per cent, from a shale basin get trapped in some sort of a way, or a couple of per cent get trapped in conventional reservoirs. So clearly the additional of shale has added massive hydrocarbon resources to the world and will continue to add those in other geographies. Over time the world is going to learn how to arbitrage energy costs or put simply the world continues to become a smaller place over time, floating LNG, pipelines, gas to liquids, alternative uses for gas, and the world is going to continue to arbitrage energy costs in an ever more efficient way because it has got more avenues to do so. Clearly gas exports from the US is one potential avenue, but another avenue may be substitution of liquid fuel for compressed gas, coal to gas – sorry, gas to liquids in some parts of the diesel chain, and all manner of other technological arbitrages that we cannot yet directly articulate. And I point you more at the broader picture rather than the narrow picture, Paul.

MR McTAGGART: Paul McTaggart from Credit Suisse. Just had a question really about, you got some press in the last week or so with the potential to put your own rail corridor through Queensland to take your coal, obviously, to your own port and then potential other ports. Is this about driving down costs of rail? Do you see inefficiencies in the current system? Is it just wanting to have a dedicated rail and port system like the Pilbara, for example? What's, kind of, the key operational impact thinking behind this and, you know, how far do you want to go in terms of spending capex, this is potentially a multi-billion dollar project through time, including port and rail?

MR KLOPPERS: Yes. I want to point out at first that it's an early stage project and as such, we should look at that in the normal course of things, in our case moving through what we call "selection, definition and execution," I want to be at some pains of pointing that out. However, we do think that there are synergies by more closely coupling rail, mine and port or simply put, across every interface that you do not control there is the inevitable leakage and inefficiency that results. That is not a reflection on the operators or the owners of the existing parts of that chain but I think we would very much say that our capability to engineer better outcomes and more proactive decisions is easier in Western Australia where there is one party that needs to take the decision around port, rail and mine and takes it, if it's required, whereas in Queensland you've got multiple parties, not all of the objectives are the same, alignment needs to take place, time passes, interfaces result, and that's really the thinking behind that.

And obviously, at the end of the day we've got to take a look at what the return on capital is of the basic rent strategy versus the build strategy. And in the light of these synergies that I've just spoken about, I should point out though that we very much see investment in infrastructure in that mine, rail and port sequence as absolutely aligned with the core business and part of the asset base that we create. That is the case in many of our operations but particularly so in the

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bulk products, obviously. Alex, perhaps take one more question in Sydney and then we will move to the phones for a minute.

MR C. WILKINS: Yes, Clarke Wilkins from Citi. Just back on the capex issue, when you talk about “high grading” of the capex profile and keeping it sort of at that \$80 billion is that due to a lack of, you know, skilled workforce to be able to execute on the projects, is it confidence in the cash flow and, you know, the projects that are dropping out of the bottom, are they effectively ones that do have a lot lower return than what the shale gas is and if so, why were they in the project pipeline originally?

MR KLOPPERS: I want to be at pains to say that I didn't say that we would keep the capex at that 80 billion level. All I said is we've had a relatively late event over the last couple of days with Petrohawk and we've got to integrate that total development pipeline over time, I was just at pains not to add the two sets of investment in a linear fashion. The best way that I can describe how that happens is to say that if you've got two separate systems and you locally optimise them that is not the same solution as if you put the two systems together into one system, take it top to bottom and prioritise, starting with the most attractive project and working down the sequence. So that's probably how I would comment on what we see and – over time, as we discover more about the resource base that we've just acquired, as we continue to work that investment and capital allocation pipeline, as we do every day, we will update that capex number.

Claire, perhaps we can go to the phone lines for just a second and take a few questions from the phones?

OPERATOR: Yes, certainly. The next question is from Heath Jansen from Citi, please go ahead, Heath.

MR H. JANSEN: Yes, good morning, Marius, just a question on Petrohawk. I'm just wondering – obviously, this is going to skew your earning stream much more to oil and gas so I'm wondering when you model that through your Jackson Pollock chart does that materially change your diversification going forward? And secondly, just on that, you know, does it actually improve your EBIT margins over time because when we look at a number of the US natural gas producers such as, you know, Chesapeake the average EBIT margins have been, you know, below 30 per cent whereas yours has been above 40 per cent. So I'm just wondering, you know, when you incorporate that in does it actually result in higher margins and again, higher margins than your peers?

And then maybe just sticking with oil, if Mike could give us some updates on the Gulf of Mexico, particularly in light with the issues that BP has had with Thunder Horse, are there any knock on implications with Mad Dog and Atlantis, thanks.

MR KLOPPERS: Yes. In terms of margins we believe that on balance the acquisition of Petrohawk and the Fayetteville assets and the investments that we will make in that will, on balance, increase margins. I don't want to comment on how much or how profound but we believe that that increases the margins on a net/net basis. Alex, I'm for the moment a little bit at a loss as to what the forward cash flow at risk projections as a result of the changed portfolio is. From recollection, I don't think it changes much but perhaps you can give a little bit more insight on that?

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MR VANESLOW: It actually has a smoothing effect on the volatility, because what you doing is you're increasing your USD cost base, so that provides diversification from Australia heavy cost base. It also provides a commodity that's not directly correlated to WTI, so in itself provides another smoother. So if you add Petrohawk and if you add Fayetteville and you look at the projections of growth in those two – potential growth in those two, it's actually the further smoother on the volatility of the cash curve.

MR KLOPPERS: Thanks Alex. And to the GoM question, obviously we can't answer any questions on Thunder Horse; that's not in the public domain. But I think that clearly production drilling activities have not recommenced on the Mad Dog and on the Atlantis projects for us. I think Mike is working one piece of exploration drilling on Mad Dog but Mike, beyond those comments I don't know if you're on the line and if you want to make just any additional comments?

MR YEAGER: Well, Marius, I just would remind Heath and everyone, certainly being the first company back out there drilling and producing wells, we're very proud of that. We have now – we – our first producer that we put online and we told you about 17,000 barrels a day at Shenzi; we're just about to finish up the second producer there, so – and that will come online in the next three or four weeks and that will be in Shenzi also. So, one of our rigs is back drilling producing wells and back in the game there in a big way. And as Marius says, we are operating right now over in the BP Mad Dog field ourselves and drilling a step-out well there that has – that we're very optimistic about adding more resources to Mad Dog. It's not yet finalised and all, but we're very optimistic about adding to that large field. But overall, Heath, you know, the BP rigs are not yet active, and that's something that we're working with them on and hoping to get the, you know, get their operations back moving here soon also. That does have a big impact on us, and we're looking forward to their return to the fray, and we're doing everything we can to help them. Marius, that's about all I could add.

MR KLOPPERS: Thanks Mike, that was very useful. Claire, may we have the next question on the phones, please?

OPERATOR: Yes. The next question comes from Grant Sporre from Deutsche Bank. Please go ahead, Grant.

MR KLOPPERS: Good morning, Grant.

MR SPORRE: Good morning, Marius. Just one question, if I may. It's really to do with your – you use the phrases “high-grading capex” and, you know, certain ceilings when it comes to spending capex. I wonder if that applies to your general outlook on the portfolio, so do you – would you have the same sort of vision in terms of high-grading your portfolio? And also, previously when been talking about your portfolio, you used the terms of “management capability” and there were certain limits which you felt the organisation could manage. I just wonder in light of the Petrohawk acquisition if those comments apply, and if you could comment on that, please.

MR KLOPPERS: Yes, Grant. We are very cognisant of what we call the limits of management capability which is why if you look at where – particularly our capital deployment, I think it's very disproportionately going into things where there are billions, if not tens of billions of dollars of investment in a single place. And that scale would have been reasonably dramatically increased over the last 10 years. I don't think that we would have answered that question in

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exactly the same way 10 years ago, so there has been a further defining and refining of what can management manage.

Grant, our portfolio over time has continued to simplify. I was just reflecting the other day on things like Highland Copper, Suriname Alumina, Ravensthorpe, Yabulu, Manganese Metal Company, Zululand Anthracite Collieries, Chrome, long products, flat products, a little ahead of the – prior to the merger, stainless steel production, and so on. And while those disposals may not have been very very large from a sales price, I think we have sold on the order of seven and a half billion dollars worth of – depending on how you value the steel spinouts. But I think that you should have every anticipation that that portfolio over time – without wanting to signal anything in particular – is going to continue to be concentrated, continue to be high graded, and continue to be, in particular, focus on deploying new capital in the very largest of assets.

MR SPORRE: Thanks very much.

MR KLOPPERS: Claire, one more question on the phones and then I will loop back here to London.

OPERATOR: Yes, certainly. The next question comes from Caroline Learmonth from Absa Capital. Please go ahead, Caroline.

MS LEARMONTH: Thank you. Could you please give some guidance on the longer terms, so I know – on a five year view or beyond? What would you see as the ideal business mix, profitability mix, in terms of your different commodities, and in particular oil and gas versus other, and how are you planning to get to that ideal mix? What would be the split between your organic pipeline, which you have talked about in some detail, versus potentially more M&A? : And then the second question, on the progressive dividend policy, should we assume going forward that that will be the focus rather than further share buy backs. Thank you.

MR KLOPPERS: Let me talk about the third element, buy backs versus dividends. Alex has spoken about our three point plan for cash; grow the business, maintain the balance sheet, return surplus cash. If you actually peel back that final point it has got two components; grow the dividend and then return surplus cash. We have got to take a decision to grow the dividend, our progressive dividend, when we are very, very certain that we can increase that dividend in a sustainable manner. So the way that, Caroline, that I would differentiate between the difference between a buy back and a dividend is that the one we are confident, you know, not supremely confident because there is always uncertainty, but we are confident that like we have done for the last 100 years, that when we increase a dividend we can maintain that dividend.

A buy back is something where there is some form of unexpected surplus that arises because of high commodity prices or some other event which is temporary in nature, defined and that is the money that we channel into buy backs. So that's how we look at those two things. From a mixed perspective, we accept that the portfolio mix will change over time as we invest, differentially invest capital in different places. I think that our investors sometimes linearly talk about product mix whereas for us we look at all of the elements of mix; customer, production, geography, stage of economic development that the asset will play into, market that it services, and so on. So rather than looking at a two dimensional X, Y chart of what the commodity mix is, I would rather say that the way that we look at mix and diversification is on all of those dimensions simultaneously. And therefore each asset is different because it is different in

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operating geography, product, maybe market that it services, operating, functional currency and so on and so on.

Having said that, we have probably never given real guidance to your specific oil and gas question in a numeric format but we have said that, you know, up to a third of total profits, or maybe even a little bit more, adding oil and gas to the mix but obviously depending on what the particular characteristics of the project are, tends to continue to compress cash flow at risk which Alex has just confirmed with the Petrohawk acquisition. And obviously stable cash flow at risk in addition to that – or stable cash flows as evidenced by cash flow at risk in addition to all of those diversification metrics which we translate as don't have all of your eggs in one basket, obviously compliment each other. Thanks Caroline.

MS LEARMONTH: Thank you.

MR KLOPPERS: Perhaps move back here to London and take some questions from the floor here?

MR GURRY: Thanks. Yes. James Gurry here from Credit Suisse. I just want to ask about Olympic Dam. I think the fiscal agreement with the South Australian Government might be due to be completed soon. Can you just talk about that and whether you have got an optimal arrangement there? And given the five to six years of capex is there any potential, and I think you mentioned a couple of years ago that there might be some potential to get early production before, say, cutting into the ore body early? And just also back quickly on the Gulf of Mexico, given the situation with Mad Dog and Atlantis, you have probably taken on a little bit of risk with the shale acquisitions in terms of just dealing with the local communities and the like, just, would you be prepared to take over operational management of those projects if the opportunity arose?

MR KLOPPERS: On Olympic Dam indenture agreement I can't comment beyond where I think the South Australian political system has commented, which is that there has been years of work and very, very substantially all of the elements of that agreement are in place, as you would expect for something which we hope to finalise in the not too distant future. Now, obviously, there is still some work to be done, but there has been a very extensive body of work really starting six years ago, and then continuing to date. So I think I can just reiterate what both sides of the political system in South Australia has said and confirm that.

In terms of early access of tons, no, not possible. It pretty much takes – and I am looking at Andrew here, the four years to get down to top of ore that it takes, and there, you know, if you put more shovels and more trucks into the pit, you are more taking decisions on the ultimate pit reduction rate, in addition to your sink rate. So there is not a lot that we can do to accelerate there.

In terms of your question on communities and shale gas, I wasn't sure that I understood all elements of it, so I will get back to you. But let me make two comments. One, it is often forgotten by many of our analysts, a lot of analysts that cover our stock come more from the mineral side of the business, and in the mineral side of the business, the preponderance of royalty agreements are agreements between companies and a government of some kind: a state government, a regional government or a national government. What is very important to note in the assets that Mike has acquired in the two tranches – so that would be Fayetteville, Bossier, Haynesville, Eagle Ford, and so on. These are all in locations where private mineral

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rights exist on the order of – Mike, help me here – between 12 and 20 per cent net revenue royalty rates, which makes the communities' investment – they are free-carried investors – and that is a very, very different dynamic when you are seeking access for somebody on a farm which where you have got to use some of the surface rights, and that farmer or rancher, I guess, is the correct word, takes a 20 per cent royalty, as opposed to some other locations where there is not a lot in it for the person that is going to have some people trundle over land. So very important thing.

I wasn't sure I understood particularly the operatorship issue because I think we specifically acquired both the Chesapeake assets as well as the Petrohawk assets because of the high percentages of ownership in the wells and in the areas, and in the high percentage of operatorship that these two transactions brought, plus the organisation, obviously, that we acquired. But let me just clarify that I answered your question.

MR GURRY: Well, I just wanted to make the point that given Mad Dog and Atlantis seem to be slowing down or that rates of decline are rather fast, if there was a potential for you to take over operationership - - -

MR KLOPPERS: In the GoM.

MR GURRY: - - - and possibly, speed up production there, is that something that you would be prepared to take on?

MR KLOPPERS: Well, look, we have had a very cooperative relationship with BP. I think the fact that Mike is doing some work on Mad Dog illustrates that the partners are true partners. But you know, that question is best addressed to BP as it sets its strategic priorities. It would be inappropriate for me to speculate on that.

MR SYLVAIN BRUNET: Good morning, I am Sylvain Brunet with Exane BNP Paribas. The first question was on met coal, whether you could us help us quantify beyond the volume impact what would have been the one off costs of the floods for the year. And my second question is on base metals, also on the costs to get some colour on the breakdown of the cost impact, particularly in H2, if anything was more impactful. I am thinking more like energy cost pressures in Latin America.

MR KLOPPERS: Gosh. I don't know if I can add much value to those two questions, but Alex, I don't know if there are any specific comments that you can break out on base metals cost, or whether we have given any guidance on how the flood costs will continue to impact Bowen Basin met coal production costs.

MR VANSELOW: I pick the first question on the met coal and I ask Sylvain to repeat the second one. But on met coal, the impact up to 30 June is reflected on the results. There is the volumetric impact of 200million or thereabouts, and there is also efficiency in terms of reconstruction work and additional costs of about \$100million. So that is up to 30 June. Since 30 June, you have seen the production rate, and it is still impaired and when we produce the first quarter results that will be published in September, we will give you some indications of what level of production is coming out of met coal and what you should look forward in terms of this lost production. Can you repeat the question on base metals, Sylvain?

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MR KLOPPERS: Cost inflation, any observations in Latin America – so Chile, Peru – things that stand out, Alex.

MR VANSELOW: I think the area that stands out in South America is no different than the one that stands out here in Australia, which is the labour market. I think even in countries where you have high unemployment rates like Brazil, the qualified worker pool is very depleted; and you have seen yourself, investing in training. But not only the extra costs that comes with labour negotiations and bonuses as you have seen, but also a decrease in productivity that you've seen on this workforce, so it is actually a double whammy that's happening there.

MR KLOPPERS: Well, Sylvain, perhaps Brendan can help a little bit afterwards as well. Okay. Let me take one more question here and then I will move back to Alex. Sorry, there was a question here in the middle, I think, yes, thank you.

MS B. MOORE: Belinda Moore, also from Credit Suisse. Marius, just to sort of talk about from a strategic perspective, we've seen the red flags intensify in the energy space with regard to the public debate challenges, both in uranium earlier this year and then now also the contribution of carbon to global warming, particularly after the start of the test case between Xstrata's Wandoan potentiality and Friends of the Earth. I was just wondering how you would sort of see – what your thoughts are in terms of addressing that and what the challenges are for the mining industry and how they can take that on ahead?

MR KLOPPERS: A little difficult to generalise but let me step back. Modern life consumes more energy, that's the convenience that affluence buys us in terms of having heated homes, travel and comfort and obviously, the world is working out how to minimise the energy usage at a given standard of living through efficiency, technology and so on and so on. But energy usage grows, all else being equal, with GDP, because people consume more energy as they try and be more comfortable and live a more modern life. In that context the world will make energy choices and what I always say is the world has pretty much used copper for various applications for the last 5000 years or so but we moved through, you know, wood and whale oil, you know, in a relatively short period of time which means that the choices that the world has to make in the energy space are more dynamic than perhaps the choices it has to make on the metal side, or perhaps the metals usages patterns are such that while there is slight changes in consumption rates differentially between metals, there is not widespread, you know, one metal completely pushes out another one where in energy that has happened and will happen again.

We don't know how those things will happen but there is no energy source I think at the moment that is entirely issue free. On the one hand of this spectrum you've got land access issues and carbon intensity on coal, you've got land access issues and other environmental issues to be addressed in the gas space, you've got your political things in the liquid field space and on the uranium side, you've got various issues around the nuclear space. Our general view is that we try to be in all of those energy spaces, we try not to put all of our eggs in one basket. I think, on balance, our capital allocation will probably be somewhat skewed to lower carbon fuel sources over time, not that we will stop investing in energy coal, quite the contrary, but if I look at a total portfolio investment basis lower carbon fuel is probably likely to go up as a proportion and our basic strategy is just to continue to adjust investing patterns as we go along.

That probably doesn't give you a lot of additional insight but that's how our strategy works as a company. Alex, let me just hand back to you for a couple of questions.

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MR VANSELOW: Go first Glyn and then Neil, yes.

MR G. LAWCOCK: Okay, it's Glyn Lawcock of UBS, Marius. Two quick questions, firstly, if I just do the quick maths 30 billion of operating cash flow, I think that's what the market thinks you will generate next year as well. You've got your capex, you've got the dividend adjusted up plus the Petrohawk as well, so that pretty much consumes everything you've got, hence no buyback, I appreciate that, but are you comfortable at that sort of gearing level given the uncertainty that's out there? I mean, it was only two years ago things halved or even greater than that, the world doesn't feel great, are you comfortable with the level of gearing at this level, given your capex spend, or is there a risk we may have to shelve something that's in the 80 billion program to squeeze Petrohawk in, that's the first question, and I guess it leads to many questions.

MR KLOPPERS: I will try and answer that Glyn and I will – let me try and answer that and then I will get back to you and I will leave the mic open there. On the gearing, we are comfortable that a 27 per cent post-Petrohawk acquisition, 27 per cent gearing, the economic environment that we see there, i.e., the range of potential outcomes and our desire to be a strong single A is not in-compactable, so that's how I would describe it. "Comfort" is always a strong word but we think that where we are is consistent with what Alex and I have always said in terms of gearing levels at particular points in the cycle and so on and so on. I think that we will have to revisit that decision in six months time, but I do not see any knock on effects on capex programs and so on and so on, at this point in time, other than the normal capital allocation decisions which we make every day which is to try and put as much capital into the best projects. But clearly we have not digested in our internal planning on a five year basis what comes out of Petrohawk and what we have got in the current portfolio. But, no, you should take no read from this discussion today that there is either any desire to decrease or increase from what we have said before Glyn. And the second question.

MR LAWCOCK: Just the second one, then. The DLC. Just interested in your thoughts, I mean, I imagine it probably comes up at board discussions regularly that it is now up at 30+ per cent it has been out to. Does it worry you at all or is it just a fact of the market, like, or if it goes to 40, for whatever reason, does it become an issue? And, like, why do we have the DLC? I mean, what is the Plc, like, giving us at the end of the day.

MR KLOPPERS: I mean, they were obviously a topic that as – that is not only at board but gets discussed regularly between managers. Alex gets particularly annoyed about the blow out in the spread from time to time. But, you know, our view is that the market capitalisation of the company overall is the market capitalisation and it's a question of whether you see it as a premium for limited, or a discount for Plc. I mean, our conventional view is that if you put the two together you wouldn't change the market capitalisation of the company, so given where you are at a particular point in time, you know, that will transfer value from some shareholders to others. But we shouldn't look at that total – we shouldn't look at there is a value creating opportunity on a net/net basis by putting those two things together. I mean, basically if you put white and red together you are going to end up with pink, is, sort of how I look at that. And from a total perspective, I continue to believe, we continue to believe that having – I live by the Paul Anderson mantra, which is, we should look at this as a net benefit not a net cost because over time you would never know when you were going to be able to use UK paper and, I think we're comfortable with where we are based on that.

MR VANSELOW: First Neil here and then we will go to Tim.

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MR GOODWILL: It's Neil Goodwill from Goldman Sachs. You talked in the presentation a bit about the lagging costs.

MR KLOPPERS: I'm a little worried, Neil; Alex didn't seem to recognise you there for a minute.

MR GOODWILL: Sorry. You talked about in the presentation about the lagging costs that you have seen and you have included a chart which just shows a rate of cost change has been a little under five per cent last year and nothing the year before but nine per cent the year after. Are you alluding to the, do you think costs – and these are not including the foreign exchange rate moves, are you alluding to that you think costs are going to increase in local currency rates a lot more than the five per cent that you saw last year in the coming year?

MR KLOPPERS: It's important that we just reflect on what that chart shows that you're looking at. It's the – Alex will probably scold me for this, it's the super inflation chart. So it's the chart that excludes currency and it excludes the general inflation rate in that country, and that is the specific inflation on top of that. So it's meant to be a measure of what additional cost pressures, outside of general inflation, and outside of currency related moves, we get. And that's important to understand that in the first instance. The chart was produced to give you insight into how we see costs not to look at the total cost efficiency of the company which we present in different ways. Having said that I think Alex and I are very clear in our communication that the price rises that we have seen on our revenue side lags by between six and 12 months and we're going to see them on the costs side in due course. And, Alex, I don't know if you want to add to that?

MR VANSELOW: No. The five years have paid off, Marius. That was a perfect explanation. It takes time but we just want to alert so you're not surprised if you see a squeeze come in there because the things that we produce are in great deal the things that we consume, just through the production chain and the value adding chain takes a while to hit us back. So the proportion of price variation that you saw this time in terms of increasing EBIT to the proportion of cost is not normal. So that means that there is costs coming in the system.

MR KLOPPERS: I sometimes read in the broader industry that people say prices are going to go up and costs are going to be moderated. Not true. We don't live in a word of suspension of belief. If prices go up, producer currencies are going to go up and my input costs are going to go up, and we are going to work unbelievably hard to have the best resources with the lowest unit usage of these things and so on and so on, and have most of that price movement fall through to the bottom line, try and variablise, but the reality is if my revenue line goes up my cost line as expressed in USD terms in particular is going to go up as well.

MR GERRARD: Yes Marius, Tim Gerrard from Investec. I have just got a question with respect to exploration spend. In total, you're looking to spend next year – or this year, now, about 20 billion, and I understand something like 75 per cent of that will be in growth capital. So of the remaining 5 billion dollars I understand about half will be sustaining and about half on exploration. So to be spending two and a half billion on exploration – can you give us a little bit of insight into the split, perhaps, between oil and minerals? And also, just your philosophy on the minerals exploration. There was a time quite a few years ago when you were willing to spread your risk with financing the juniors; maybe you could comment a little bit on the minerals exploration philosophy and level of spend. Thank you.

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MR KLOPPERS: Tim, I will ask Alex to just comment on the split between minerals and petroleum for just a second, but if you split the five in half and say it's two and a half of exploration and you split it in half again you're probably not far off the truth. But I will ask Alex to put that in less engineering terms than I just did. If we look at the - - -

MR VANESLOW: I don't – Tim, we didn't give the split, but Marius just probably got you close to where you wanted to get anyway. But it is – what you have to understand is probably not too far from where you are, but the minerals one encompasses not only the greenfields exploration, which is actually a small portion of the whole, but it's mostly the brownfields exploration, and it started the increases in resources at base metals, you saw the ones in iron ore. So it's part of a program that we have on now for several years, that we are really looking at the backyard and bringing those resources into our tables.

On the petroleum side, what you see – what you saw this year was a depletion of the exploration number because of the moratorium in the Gulf of Mexico. So what you see is we're picking up on next year where we left before the moratorium. So it goes back to that billion plus, around the billion level petroleum exploration.

MR KLOPPERS: Yes, Alex, just on that last point, a comment. When we have the petroleum exploration it's from memory 500 or so, US\$550 million for the year. That is not only the moratorium in the Gulf of Mexico but also knock on effects in some other jurisdictions where there were some delays as well. And just to emphasise the point Alex made, the majority of our minerals exploration is on running – I'm looking at Andrew – 50 drill rigs at Escondida, 40 drill rigs in the Pilbara, and so on and so on. Andrew is modestly ramping up the greenfield exploration spend, working for things like Chidliak, West Musgraves, and a number of other programs that he has worked on over time, which is now going into the drilling phase.

But that is a relatively modest increase and probably our greenfield to brownfield ratio over time is something like 75-25, some – of that order of magnitude on the mineral side. Alex, perhaps one more question there?

MR VANESLOW: We have more questions here, yes. Lee, yes?

MR BOWERS: Hi Marius, Alex. Lee Bowers from Macquarie. You have flagged the outer harbour as a significant part of that original \$80 billion over five years capex program. You have also this year succeeded in protecting your existing infrastructure in the Pilbara in terms of it operating at capacity and denying others access to that capacity given that it is operating at capacity. I just wonder in terms of the outer harbour, how you see the potential for requests for access to that particular infrastructure when up and running, and what kind of strategic position you believe you come from in relation to any such requests. Thank you.

MR KLOPPERS: Lee, difficult to comment on something which hasn't happened yet, but our general approach would be, he who takes the risk should have the return. So I probably don't want to go beyond that – going anywhere beyond that is probably speculation on my part. But clearly, situations where one party takes the risk and another party benefits alters investment decisions, and I make that comment in a general sense, not only in the outer harbour sense. Let me go to the telephones, Claire, if we can.

OPERATOR: Yes, the next question today is from Tony Rizzuto from, please go ahead, Tony.

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OPERATOR: And the next question today is from Lyndon Fagan from RBS, please go ahead, Lyndon.

OPERATOR: The next question today, Marius, is from Jeremy Keith from Millennium, please go ahead, Jeremy.

MR J. KEITH: Good morning, Marius, I just want to

MR KLOPPERS: Hi, Jeremy.

MR KEITH: transaction. I was wondering in terms of the capital structure how you guys are planning to address - - -

MR KLOPPERS: Jeremy, it's Marius, we've got a lot of bounce on your line.

MR KEITH: Sorry, yes.

MR KLOPPERS: I'm going to try and answer the question but you will have to speak very slowly and very deliberately.

MR KEITH: Sorry, Marius, is this better?

MR KLOPPERS: Yes.

MR KEITH: Okay. It was just another question on Petrohawk. I was wondering how you guys are planning to address the Petrohawk bonds that are outstanding and if you're planning to call them, if you're going to use the equity call or not?

MR KLOPPERS: Jeremy, no plans at this stage but I don't know if Alex wants to add additional comment on that. Okay, he is quiet, Jeremy, he is not going to say a word which probably means I've already said too much. Claire, if we can have the next question, please.

OPERATOR: We have no further questions on the line at this time, Marius.

MR KLOPPERS: Thanks, if we can move to London and I will take a final couple of questions here in London, right at the back, perhaps.

MR JOHAN RODE: Marius, morning, it's Johan Rode from Barclays Capital, just a couple of questions quickly. On your 80 billion capex profile, I mean, a lot of this will be enabling capex so returns have been great for the last five years but what is the IRR agenda spend roughly on the 80 billion in your – using your long-term projections? And then secondly, perhaps also looking – thinking about the capex on the – down at – you know, some of these appraisals that you've done in the past have been pre the EIA approvals and therefore, you haven't been able to make reassessments for the capex spend on that. Is there any assessment or any – internally, of what kind of capex overruns we could see in projects like that?

And finally, on the capex side, it's just a philosophical question, I know you don't know hedge the revenue side, but capex costs have clearly gone up and you express the anticipation of

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further increases of that and potentially, a currency related increase, is there any thoughts on hedging capex plans going forward?

MR KLOPPERS: So let me answer those in reverse order. We do hedge the capex, we hedge that by investing throughout the cycle and we hedge that by investing in different geographies. That is ultimately the way we think about it, we have no plans at all to go to your currency hedging as well for - of capex programs, we're going to continue to give them to you in US dollars, manage them mostly in the local currency and take the currency risk there because we think that it's the portfolio and the strategy that ultimately over time plays out.

In terms of capex revisions, internally, yes, in Olympic Dam there is a team which is engineering, doing the definition which is a lot of the front end engineering and design for the project and out of that engineering and design, concurrently with that, we are doing the costing so that when we get to the point of sanctioning we will have an update, but we never put out capital estimates ahead of sanctioning, simply put, because you become a hostage. If prices of products are high and operating currencies are high, capex changes, you're happy with that capex, but if you put it out when product prices were low and operating currencies were low you immediately profile as having had a blow out before you've sunk a penny. So over the last 10 years we've just realised that the only place to put out a number is when we sanction a project.

Yes, on your first question, there are what I would call "flag fall investments" here. I mean, clearly, in the outer harbour you are going to amortise some infrastructure which is capable of doing 200 or 250 million tons of iron ore over a production profile that will only over time ramp up to that, that's one element.

The second element is the pit at Olympic Dam, to get to that constant strip ratio over time but moving about a billion tons of material is a sort of a pre-investment over a hundred year mine life. And then the third element of flag fall is probably in the – to a lesser degree is some elements of the Bowen Basin expansions have that nature as well. And the fourth element is the shaft system in particular at Jansen where you're building the surface plant in two million ton module increments but on day one you're basically putting a port in place that can handle the entire capacity and you're putting a shaft system in that can handle four modules in total.

Those concretely, those four elements really constitute almost all of the enabling things. The way we look at that is that we cannot run a portfolio that has only got brownfield investments. Those things effectively, if we leave out the Bowen Basin, effectively are the three big greenfield type investments that we're making. We're comfortable with the total level of flag fall contained in the \$80 billion and I would say that for a portfolio as a whole we haven't really adjusted about a 10 point differential between brownfield returns and greenfield returns. Historically we have said 15 and 25. I am not aware of any work that we have done that either pulls those two further apart or compresses that. Okay. Can we just get a signal on time here? So, let me take one more question here in London, perhaps. Hi Nick.

MR HATCH: Hi, it's Nick Hatch from RBS. Marius, its obviously early days in terms of Petrohawk, but in terms of the personnel that you have retained there and also Fayetteville, are there any synergies that you haven't anticipated and what sort of implications could that have for operating costs and operating skills going forward?

MR KLOPPERS: Yes. Nick, I would say that Mike would describe this as an addition to the portfolio not a combination. And he uses those words because if I describe something that was

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a combination it would be add WMC to the minerals business, strip out all of the overhead, synergise between various things, and so on. Mike would very much characterise these two acquisitions as an addition to the portfolio. Clearly we believe that there are long term skills that we will build on top of what we have bought but I don't think that we anticipate any, you know, combination synergies at this point in time. For us the real thing will come to what extent we can continue to get the drilling costs per well down, the recovery of resource down and hence the unit – and continue down that experience curve as the gas industry has continued to do over the last couple of years. That really is where most of the effort and most of the people investment will be made. Okay. I am going to check one last time on the phones. If we perhaps allocated a little bit too little time to the phones. Let me check one last time on the phones if there are any more questions, and then I think we will close after that.

THE OPERATOR: Marius, we have no further questions coming through from the line.

MR KLOPPERS: Okay. Alex, any last questions?

MR VANSELOW: One last question here, Marius.

MR KLOPPERS: Okay.

MR CAMPBELL: Hi Marius. Its Craig Campbell from Northcape Capital. Just to finish off still with Petrohawk, I notice on slide 18 you have given GDP estimates out to 2025, and if you look at developed market, it is rather anaemic at just about one per cent, which the US is obviously the largest economy. And I am just wondering in this type of environment how Petrohawk is going to make the returns that you need given that sort of economic backdrop, or is this really going to be a story about trying to reduce costs given that prices may not appreciate terribly over that period of time? And then second to the Petrohawk question is, in terms of maybe getting some early runs on the board are you looking to try and bring in the Permian, you know, in the next couple of years and drag out some liquids?

MR KLOPPERS: Craig, look, perhaps a couple of things. One, over time the world will arbitrage calories better. Our immediate forecast that we made when we acquired the assets basically took our conventional price protocols which you know how they work, we would essentially take forward markets for the traded period that they are available, invisible and then we would transition into some long run price. I should be at pains to point out that normally acquisitions we make is not predicated on some step change in prices and so on, so that's point number one.

Point number two is, in the diversified portfolio two of the benefits that our balance sheet brings is what our cost of capital is relative to what an explorer's cost of capital is, and what our ability to fund is through the cycle versus what an explorer's – and I use the term explorer just to draw out the nuances. Obviously Petrohawk was a producer as well but at the extreme and exploration company has got a very high cost of capital and no ability to fund, whereas a diversified player has got a low cost of capital and ability to fund. That financial synergy clearly plays into that and it is manifest by Mike hoping to drill at a rate that Petrohawk wouldn't have been able to drill on its own. In simple terms Petrohawk was, I think, investing more in drilling than its revenue line. That's not a sustainable situation forever. That's why they sold equity six times and had, I don't know, a dozen sales transactions of assets. So that's the second thing that I would point at. And then the third thing is, this industry has been on a cost reduction and efficiency improvement experience curve over the last couple of years.

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Our anticipation is that that has not yet been completed. As this has turned into an industrial process with replicability, continuous improvement learning, and so on. So we expect that experience curve to continue to progress, Craig.

So if you take those three things into account, and in particular not taking a huge view on prices, that's how we evaluated this acquisition. And cognisant, importantly, of what our unchanged view – and I see Jason smiling here at me, on low OECD growth rate has been, I mean, somebody asked us three years ago, “What is your view on world recovery? Is it V, is it W and so on.” And we said, “It's L.” It's down and then stays there for a long time in the OECD. And we really haven't changed our view over that period of time. So that went into the acquisition of Petrohawk.

Okay. I think we are just about complete. It has been our pleasure to have you here this morning. In summary we think it is a strong set of results. We are laying the foundation for continued long term diverse growth in the portfolio which will give us more opportunities for value creation and we thank you for your time and attention here this morning. Thank you.

THE OPERATOR: This concludes today's conference ladies and gentlemen. If you would like to hear any part of the call again a recording will be available shortly. Thank you for joining you may now replace your handset.
