

Transcript



BHP Billiton
Investor Q&A Teleconference
Wednesday 16 February 2011

1. Chief Executive Officer, Marius Kloppers

MR MARIUS KLOPPERS: Ladies and gentleman, welcome to BHP Billiton's Investor teleconference for our 2011 financial year interim results.

Today we announce record profits for the half year, with our underlying EBIDTA up 60% to US\$17.3 billion and underlying EBIT up 74% to \$14.8 billion. Attributable profit was US\$10.7 billion before exceptional items and that is up 88%. You would also have seen that we have announced a substantial increase to our capital management programme, which has been expanded to US\$10 billion, which we hope to substantially complete by the end of this calendar year.

Not only are we returning capital to shareholders, but our portfolio of very long reserve life, high-quality, large assets allows us to invest significant amounts of capital in future growth. In this context we are planning to spend in excess of US\$80 billion on growing our business over our five-year-plan period to our financial year 2015. We currently have major projects in iron ore in our metallurgical coal businesses which are very advanced stage in our approval process, and which we hope to move into execution in the next few months.

Today's results presents the clear evidence that our strategy works for our shareholders and looking ahead we believe that our disciplined approach and tier 1 portfolio will allow us to continue to deliver superior margins and returns for our shareholders.

2. Questions and Answers

MR ANDREW KEEN, HSBC: Good morning Marius. Thanks very much. Three questions, actually; firstly on capital management: you are now cash-positive and you are generating \$35 billion to \$40 billion a year in EBITDA, so obviously you have very conservative balance sheet. The \$10 billion buy back in 2011, on most people's assumptions, will not change that. My question is under what conditions will we see BHP take on leverage again? The \$80 billion capex spend is very substantial, but will you go into leverage for that, or will you only use leverage for acquisitions? Secondly, on your project approval process, you have got a lot of projects still in that bubble chart, in the early stage of development. Are you looking at accelerating how you bring those projects through or are you still using the same kind of project approval process that you have used for some time? Lastly, just on Potash, I know that it is history now, but time over, would you look at doing that bid any differently to how you ran it this time? Thanks.

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MR KLOPPERS: Thanks Andrew. On the question on leverage, I think we would like to keep the Company at an A rating, strong A, as we put it. The value of that has been amplified for us during the recent financial crisis, during which the differentiation between triple-B or lower-rated companies and us, as one of the only As in the sector at the time, was really very, very profound, and you will recall that the markets from a bond perspective were essentially closed for mining companies until we opened it. We do not think that that would have been possible without the rating. So definitely an A rating – over the cycle we would probably like to carry the amount of leverage that normal economic textbooks tell you is commensurate with that A rating, which does imply a degree of leverage on the balance sheet.

What I do not want you to take away from today's results is that we are keeping the balance sheet unleveraged in order to cater for some unforeseen event. Given the size of company and given the capacity that the balance sheet normally has, to have some excursions in debt when one would want to make an acquisition, this is not the governing thought. The practicality of returning \$10 billion over the next period is probably something that most people underestimate, on how that gets done. As a result, Alex and myself today have really concentrated on putting a target out there for the capital return that we feel confident we can report success on within the timeframe that we have articulated. So that is probably what I can say on the first part of the question.

On the second part, perhaps the best way of articulating it is to say the \$80 billion is really no change from the path that we have been on for the last five years or so. If you take a look at our capital expenditure, I think the CAGR over the last 10 years is probably in the order of 20% or so, so 20% per annum growth rate on a cumulative average growth rate. What that actually means is, if you look at the forecast for capex that we had on the growth capex in our previous reporting periods, you will see that we really just picked up there. But what we have found is that we have traditionally only given a one-year view of what that capex is, and what has resulted for us is that we believe the market has underappreciated the sustainability of that. Our past capex plus the 20% growth that we have had annually would probably put you at a higher number than what we have put out today. So, it is not a step change, it is just a continuation of what we have done before.

Most projects that I can think of that are going to come into execution, and I am thinking of things like Samarco pellet plant number 4, RGP6, - just on the end of that timeframe in the next 12 months, perhaps something like Olympic Dam, Jansen, HPX3, which is the coking coal, Daunia, Poitrel and Caval Ridge – all of these projects that I have high degree of visibility over have been in preparation for the last couple of years, so that is probably why we feel reasonably comfortable in saying there are a number of projects that are imminent here, and the concentrated nature of the asset base in which we are investing, the known qualities of the resource base, probably gives a high level of predictability over that, than companies with 20 little projects spread out over different assets. So, no change, though.

On Potash, we have always said that M&A is opportunistic; we saw a stock price at which – I think the day on which we discussed that project with the Board, the PotashCorp share price had gone down to \$87 – we felt that we could do a deal at a market premium, which still gave us room for value accretion, but it was always opportunistic. Now, if the measure of success

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was to achieve the transaction, I guess we could have gone and offered \$200 a share on a friendly basis and we probably would have had the deal done. It is questionable, though, whether our shareholders would have liked that. So, probably not many things that we would have done differently, given that it was an opportunistic play.

MS OLIVIA KER, UBS: Some questions on growth, if I can. Firstly, in petroleum, you have baked-in growth up until 2012/2013. Beyond that, I guess you are looking at a number of future options as your next pipeline of growth. Do you think the petroleum division sees a period of time when production declines somewhat? Then, just in terms of the future growth outlook, a lot of it is iron ore-based. Can you just give us any update on RGP5 timing? Or capex increase or just around the scope? Also, just the size of the outer harbour, just in terms of is it outer harbour 1, 2 and some ideas around capex there?

MR KLOPPERS: Olivia, I probably can help you less on those questions today on additional granularity. We will have another opportunity – almost a couple of weeks from now - to look at our first quarter production results. I am sure that there will be more information then. I really cannot go into the capex of individual projects and so on, but certainly I have indicated that we believe that some of these projects are very imminent in their approval and then obviously they will appear with a little bit more granularity in our production report.

On the first part of the question, on petroleum growth, you must understand that our overall view of our portfolio is that it is a portfolio of assets that collectively generate a 45% return on invested capital, or thereabouts - 41% on invested capital at the moment. But we probably view that less as a series of commodity businesses bolted together than the market probably does. In reality, the way we look at it is that capex will sometimes go more to one product and sometimes more to another. We have today indicated that the majority of our capex will go into iron ore, coking coal, potash and the oil and gas business. I think that is the list. So, the petroleum growth is, as you say, probably pencilled in for the next couple of years, but given the shorter turnaround cycle from discovery to execution, I feel confident that we will continue to grow that business in due course. It is just that the level of sight on the forward resource view is of a shorter cycle than you have at Olympic Dam, where I can see for the next 50 years, or the Bowen Basin and so on, Olivia. My apologies that I probably, with all of that, have not added a huge amount of value to you.

MR SYLVAIN BRUNET: Just three questions; the first one was on coking coal, following the force majeure that we saw in Australia. Should we expect any form of carry over tonnage impacting prices? Essentially, I think to get a roll over from the Q1 level of 225?

MR KLOPPERS: Probably around 50% of the force majeure tonnes, something like that.

MR BRUNET: Okay. Thank you. My second question was to get a bit more colour on Olympic Dam. There were a couple of comments in the release, but anything you could give on design, or whatever?

MR KLOPPERS: Yes, we would like to approve the first stage of the Olympic Dam project in the next calendar year. I see after our statement today, the South Australian government made some very supportive comments about the progress of our environmental impact assessment,

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which really forms the rate-limiting step for us to get to an investment decision. So what I am saying is the rate-limiting step is the Environmental Impact Statement (EIS) and not the degree of engineering that we have to do to get to approval. Then, what you should envisage as we go forward is that probably while phase one is in execution, we will approve phase two, which is sort of what we have done in iron ore over the last four or five years and probably what we are going to see in coking coal, where you are busy building one tranche and you have already approved the other tranche. In that way our investors, but also our Board, get a repeated look to whether they are comfortable continuing to invest in what is a very large project. So phase one is likely, effectively, as we have detailed before and as is on our web - stripping the ore body and exposing ore, and then phase two would be expanding that further and putting some surface structure in place in order to expand production. That is sort of what you should view. Then we have indicated before that the ultimate capacity of this ore body is many, many times the output of these initial two phases. From memory, there is 9.3 billion tonnes of ore in the ore body, which as far as copper resources go is quite a bit.

MR BRUNET: My last question: I was interested to know how you look at the debate of buy versus build in energy versus metal. Prices are at very different levels. Some would say that metal prices look a bit more overrated?

MR KLOPPERS: I think that overall, margins are good in both in energy versus metal. I think from our comments today, you should read from that that in the bulk of our products, it is probably cheaper building at the moment or doing buybacks, rather than asset purchases. Normally our cash flow has been so robust that it has been a question of 'and build and look at buying' at given moments in time, but probably for many products at the moment, the aspirations that sellers would have on tier 1 assets probably puts them a little bit out of reach at these sort of price expectations. I don't want to rule out anything, but that is where I stand overall. Of course, not all parts of the energy sector have responded in a similar way. I think that there are probably two dislocations that I can think of at the moment: one is the WTI versus Brent dislocation, which means that assets that service different geographies have actually had a different price and therefore margin response. The other one is the ongoing debate of whether there will be any forward conversions on calories between gas and oil and how that plays out in North Asia versus continental US and so on. So I think on the energy space there is probably a little bit more variability in where asset prices have gone depending on the region and the product that they serve and the fiscal regime that they find themselves in. So that is probably how I look at that.

MR CHARLES KERNOT, EVOLUTION SECURITIES: Thank you. Hello. Two questions, please. First, just in relation to aluminium, which clearly lagged as far as performance was concerned over the half year. We have heard from other companies that clearly the situation in the aluminium market is very uncertain, with very high levels of LME inventories, etc. Then, Alcoa's results – and I appreciate they are obviously more downstream, a lot more diversified – seems to have been quite a lot better. Is there any explanation you can provide for us on that?

MR KLOPPERS: Charles, a little bit of a portfolio mix issue: how long alumina versus metal you are; then the degree of coupling that your energy contracts had to LME prices. The players that did best in the last quarter were the guys who had low metal price linkages to the energy contracts, whereas we have quite a high degree of coupling to metal in our energy contracts

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and hence your operating costs scale with metal prices. Obviously when prices go the other way it works to our benefit and to the disbenefit of others, but that has played a clear role as we have been in the period of rising prices.

Currency pressure on the South African rand has played a material role, where a number of players have got US exposure and hence have benefitted from a weakening US dollar, particularly against producer currencies in Australia, South Africa, Brazil and so on. Lastly, we had just under \$100 million of, not extraordinary items, but cost elements embedded in the EBIT line, which are probably non-recurring in nature. That pertains to tax effects in Brazil. So the results have been a little unflattered by that as well. Having said all of that, our view of aluminium has probably been unchanged over the last decade. It is a business where, given the more processing-like nature of the streams, both of alumina and metal, the ability to hang onto margins during periods of price rises is less, as it has a more processing-like nature. We probably view that product as having lower overall profit potential on the back of Chinese decapitalisation of their facilities. As a result we have seen that we have a relative under-allocation of growth capex to our aluminium business in that five-year view that we present today.

MR KERNOT: The second question flows on quite nicely from that, which is regarding energy coal. Again, this is an area where you are not going to be spending much money going forward, yet effectively it is the world's largest mine commodity market. I appreciate that on Alex's wonderful Jackson Pollock chart the margin on energy coal has been below the line, all the way back to FY2002. However, is there scope there for a change and an improvement in margins to come through at some stage in the future, given higher oil and gas prices? Would now not be quite a good time to be investing in energy coal rather than, as I think you are doing, selling off exploration assets in South Africa?

MR KLOPPERS: The South African exploration assets are relatively small exploration tenements, which have 'use it or lose it' provisions. Since they are of a size and scale where we do not feel that we can build a tier 1 mine, they just do not fit the portfolio. So that is how you should view the South African piece. On the energy coal side, it is probably tailored to hemispheres. I think the Atlantic market is contracting on the back of diminished European demand for energy coal. Basically there are no new coal-fired power station starts in the US for the second year running. Whereas, with respect to the Chinese and Indian markets, there has been a very robust import growth. I think that the limitation for us investing more capital in the energy coal business in the Asian hemisphere is more due to a lack of availability of quality targets than anything else. Therefore, our overall approach has been towards expanding the Mt Arthur asset to its next two or three phases of expansion, and matching that up with the port capacity we have built. That is probably what will happen and we feel relatively comfortable with that level of capital allocation within our overall portfolio. We feel comfortable having that weight in the portfolio as well.

MR ABI SHUKLA, SOCIETE GENERAL: Good morning. I would like to ask three questions. Firstly on Samarco, I see that your costs have gone up a lot since the second half of last year. Even if I take out the \$41 million provision there is a 32% increase in unit costs, so could you please tell me a bit about what is going on there and if there are any other one-off things? Secondly on Cannington, could you please confirm if there are any one-off items in your

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revenue in Cannington, because your reported numbers came well ahead of what I thought they would be? Thirdly on Manganese, could you please give some colour into what you are getting for manganese ore and alloys? I saw that manganese alloy shipments increased 20% against the last half of 2010, so I was thinking there would be a slight increase in your revenue, but it actually decreased a bit. Could you tell me what is happening there and what kind of prices you are getting?

MR KLOPPERS: The Cannington question is probably a matter of price participation on the movement of the prices where that has got to be taken into account, particularly on the zinc and lead sides, and then the credits that you get for some of the by-products. I would invite you to discuss that in a more meaningful manner with our investor relations team. I am probably not the person to give you the requisite amount of detail on that. So if you get hold of us we will answer that question in a more meaningful manner.

The same thing holds on the Manganese side. On the Manganese business we effectively get the price of the month of shipment on the products that we sell. That price is very visible in various publications and essentially we get that price. However, I know that in the last half there have been some reasonably material stock movements, particularly on the alloy side, where alloy stocks ran up quite a bit. So what you are contending with, which you may again want to discuss with our investor relations team, is the difference between the sales tonnage side and the production tonnage side. I do not have those exact figures in my head, but I am confident you would find the answer to your question in the difference between sales and production. I know that the production exceeded sales for some period of the prior period.

On the Samarco question, again we may be able to give you more detail on that if you call in. The three things that I would like to point out are that energy costs in pelletisation is a reasonably large cost element. Secondly, the local currency costs are there against an appreciating Brazilian real, which has clearly had an impact as well. Thirdly, you have the tax provision that you alluded to. I think the answer is between those three things and there are no abnormal items aside of those in the numbers.

Please do call in though, as I am probably not across that level of detail.

MR IAN WOODLEY, RENAISSANCE BJM: Did you give any detail on Escondida in terms of moving the concentrator or the OGP projects coming forth? Is there anything more happening on that?

MR KLOPPERS: Ian, as you know that project is in what we call a selection phase. It has to go into definition phase, or what the oil companies call FEED (Front End Engineering Design). For us that is the start of detailed engineering and I expect that between now and the next reporting period, all else being equal, that project will probably pass that toll gate. Beyond that, the scale and scope is not much changed from what you would have seen at the recent Escondida visit. In case you were not there, most of those materials are available on website, or if you cannot find them our investor relations people are happy to email them to you or point you in the right direction.

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We have come to the end of our questions, so for all of those that called in this morning, thank you very much. Again, if you have any further questions the investor relations people stand by to answer them.

I would like to recap by saying that we do feel this is a nice set of results, we have had plenty of headwinds from various angles, and the company has shown that the asset base, and the way that we manage these assets, has enabled us to generate healthy margins and a very strong set of cash flow figures.

In closing, the other point that I would like to emphasise is that, while there is no step change, we have quite pointedly shown, as we have articulated over the last couple of years, that the resources that we already have in our portfolio, the projects that we are working on at the moment, and the trajectory of capital expenditure on organic growth will equate to \$80 billion of investment. We think that the combination of strong results and strong growth opportunities enables us to say that the set of assets we have is capable of generating cash flow that feeds future investment, while at the same time, continuing to increase returns to shareholders. So, on that note, thank you very much for calling in this morning.