

BHP Billiton

Interim Results

London Analyst Q&A Session

4 February 2009

Questions and Answers

Rob Clifford, Deutsche Bank

In your presentation you talked about the 2009 capex of 11.3. That is down from the 13.5 you talked about six months ago. When I look at your results presentation you detail your projects and they do not appear to have changed in either capex or timing. Can you let me know how you are getting that capex down and what it is going to impact in terms of your projects?

Marius Kloppers, CEO, BHP Billiton

Obviously, the projects that you see are the ones that we have sanctioned and that we are busy executing. We have several investments that were probably in our budgets that have slipped beyond that through deferral or having been cancelled. Examples include the Suriname development which, while we never released any definitive numbers, was something between \$500 million and \$1 billion worth of capital investment. I think the Guinea investment at the beginning of this year probably would have been on the charts here as being sanctioned earlier and, as you know, that project has gradually slipped out. There are also a number of things where we had pre-sanctioning spend which have come out and they are things like Pearl, the Indonesian nickel and so on. Apart from that, obviously on some of our projects where there is an appreciable local currency component we have had some currency movement.

I think that covers the main items. Alex, is there anything that I have omitted?

Alex Vanselow, CFO, BHP Billiton

No, I think you gave a good overview. We never gave a forecast to FY10. The 13.7 was a forecast for FY09 and what you see as well is a reduction to some extent of the sustaining capital base and other minor capital, but also in exploration, because the 13.7 encompasses everything.

Rob Clifford

I can see sustaining has nearly halved. Do we expect some lower production as a result of that? Is that the inter-development capex? Are you cutting into the bone, I guess is the question I am asking?

Marius Kloppers

Alex and I, who basically play the role of capital allocation in the Group, have certainly dug into the minor and sustaining capex and have asked whether all of these projects are necessary to be done at this time. I do not think that there is any production guidance outside of that that we have already given in our results.

Sam Catalano, Macquarie

On your slide on future capex and the comments about supply being impacted, as you look at that and consider that, are there any commodities in particular or do you look amongst the commodities and think that some may or may not be more or less affected in terms of barriers to entry for spending large amounts of capex, for example, that make it more difficult for some of your competitors to do so?

Secondly, do you have any comment in terms of growing or potentially acquiring businesses and relative attractiveness between acquiring assisting production today or long-dated development options where the value has yet to be added?

Marius Kloppers

Your second question is long-dated options or existing production and our bias is always towards things that are already in production. Obviously, you do also want to add, from time to time, long-dated, very high-grade resources and I think the potash acquisitions over the last couple of years would be an example, but on balance we always bias towards assets that are already in production.

If we look at the future capex and which things have been most affected, we have not really given that a lot of thought in this format. Perhaps, just thinking aloud, in the copper business there certainly have been no material new, extremely large mines or even provinces opened up during this upturn and I think it is fair to say that the current events have taken a lot of – let us call it expectations for capital deployment, particularly in places like the Congo and so on, which has gone out of it.

A second thought, and this is pretty unstructured, on the iron ore business clearly we are very happy that we are in a position to keep on growing production at a time when some other competitors seem to not be investing in those businesses.

Those are just two thoughts, but overall, probably I have not analysed that aspect in exactly the format that you have asked.

Tobias Woerner, MF Global

You have delivered very strong cash generation, with net debt lower than at least what I had expected. Would you be so kind as to give us some sense of where the year should end for yourself irrespective of any M&A and other exceptionals which could come during the year?

Secondly, through your one book approach, at least that is what I have always believed, you have quite a strong insight into the shipping market around the world. We have seen the Baltic freight rate move up quite nicely recently from 663 up to now 1150. Maybe you can tell us what you sense in the shipping market at the moment and what it tells you.

Lastly, and I do not want to dwell on it, but I think it has some important messages and lessons to learn from it, Ravensthorpe. We can discuss it maybe with Alex and the roundtable more in detail what your lessons are from it.

Marius Kloppers

Taking those in reverse order, starting with Ravensthorpe, clearly there are always lessons to be learnt. The one aspect that I emphasised earlier today on Ravensthorpe is obviously we have had a massive change in the nickel business over the last couple of years, particularly over the last

18 months in new technologies, nickel pig iron and so on dramatically changing how you think upside in that business will respond. We have spoken about that before. Nevertheless, there is obviously a lot of debate. I think the one thing that the management team would ask itself today given the same set of issues is just whether a focus on absolute tier one resources would not have screened out this project on the basis of resource size and quality. However, there are obviously a myriad of other smaller lessons to be learnt and it is a pity if you have to learn from your own mistakes rather than purely learning from the mistakes of others. I think we have said that that is probably not the finest investment out of our portfolio of 44 projects that we have completed since the merger or the creation of the company in its current form.

On the one book approach, Alex and I did review just a couple of days ago with our shipping folk what they are seeing. While we cannot forecast for you where the freight market is going, I think the one thing that stood out for us is given the bulk commodity environment that we have outlined here today, the one thing that I think overhangs the shipping market is a very, very large number of deliveries of vessels over the next two years. Even though some of those vessels may not materialise as a result of financing, shipyard issues and so on, it is still a very large proportion of new additional capacity that is going to come on the market. That would probably be the one aspect that we would take into account.

Alex, do you recall any other specifics that the freight guys highlighted to us in preparation for today?

Alex Vanselow

No, that is basically it. It was a case of going from chronic under-supply to just a dead market, so I think more than in any other commodities it was a very quick shift in that market and that is even more pronounced with the new capacity that is coming through in the next couple of years, as you said.

Marius Kloppers

Regarding your third question on cash generation forecasts for the year, that is probably a very, very difficult question for us to give you more guidance on. We simply cannot forecast that and particularly with this volatile outlook.

I will now ask the operator to read out the first question that has been submitted by email.

Webcast Operator

The first two questions from the webcast come from Mr Jason Fairclough of Merrill Lynch. The first question is 'Could you discuss why you have not restarted the share buyback programme?' Secondly, 'Could you please discuss the future of your Southern African smelters in the context of low prices and poor outlook for aluminium and the ongoing power restrictions in South Africa?'

Marius Kloppers

Thank you. On the share buyback programme, I think the most succinct summary that I can give is that we believe that the optionality that we get from maintaining that cash on our balance sheet, firstly from an outlook perspective where we do not know what will happen, the option that we have in retaining that on our balance sheet, plus the option to use that capacity in what we believe will be an environment that will deliver additional opportunities. Between those two things the optionality probably outweighs other considerations.

On the South African smelters and starting off with the last part of your question about the power restrictions, in fact the power restrictions are ameliorated by quite a lot of capacity cut-downs that have occurred in the platinum industry, which is power-intensive, particularly in the ferrochrome industry and also obviously in our ferromanganese industry, coupled with other diminished industrial use. Thus, the power availability issue has probably been ameliorated.

From a profitability point of view, clearly we have to continue to review particularly the higher cost capacity and, as you are well aware, not all of the capacity is the same, Bayside is a slightly older smelter. We have to continue to review that, but I would like to point out that as part of the power curtailment some time ago we closed the highest cost capacity in that region.

The second thing that I would highlight is that for some of the products sold on the domestic market, particularly in South Africa, there is obviously a value-added premium as well as a logistical advantage and we capture that, so we do not realise purely the LME price on sales in that domestic environment.

Operator

The next question is from Sylvain Brunet of Exane. 'Are you expecting cost deflation in the second half of the financial year? Secondly, do you think that value-accretive opportunities could arise earlier in the oil and gas sector than the metal sector?'

Marius Kloppers

On cost deflation, I think Alex showed a slide that broke down the \$1.6 billion in additional costs that we saw and while I do not know all of those numbers off the top of my head, roughly speaking there was about \$600 million in there for raw materials cost inflation: coke, pitch, aluminium fluoride, sulphuric acid and so on. Our philosophy on these input materials is to follow the market in the same way that we follow the market on our revenue line, on our interest rates and so on. While it is not perfectly possible to immediately move as the market moves to shed those costs, clearly we expect that as sulphuric acid has decreased I think eight-fold in price and so on, those cost decreases will come through. Also in that category, obviously on a more immediate basis are things like lubricants, diesel and explosives, which are coupled to the petroleum price.

Other categories of cost that will come out of our costs or will be non-recurring are, for example, the \$300 million or so in the rebuilding costs of the Kalgoorlie nickel smelter. Thirdly, Alex has also detailed that we incurred extra costs on additional contractors producing high-margin products, particularly at the beginning of the period, highlighting manganese and coking coal as two examples. Out of those contracting costs I think that both on a unit usage basis as well as a unit cost basis we are going to see decreases.

On the last one, I would like to tie that in to Rob Clifford's question on sustaining capex and maintenance costs where you saw that maintenance did indeed, as we sought very high availability particularly in the first half of the first half. Clearly, going forward we are going to scrutinise maintenance costs extremely closely.

Those are the components of how we think about costs coming out of our cost structure.

Could the operator please repeat the second part of the question?

Operator

The second part of the question is, 'Do you think that value-accretive opportunities could arise in the oil and gas sector before the resource sector?'

Marius Kloppers

We probably have not looked at it that way. Typically, we do not break out opportunities by end use product. We typically look at it on an opportunity by opportunity basis, so I could not really comment on that.

On that note, let me go back to the telephones and see if there is another question.

Charles Kernot, Evolution

My question is in relation to the cash flow situation. Clearly, there is a big increase in reported cash flow, but I suppose in looking through the detail it was \$5.4 billion of an improvement in trade and other receivables, which has obviously come down a lot. You talked about the big increase last time in the full-year results because of much higher commodity prices and, in a way, is it not true that this cash flow improvement really relates to the high prices that you were receiving in the first half of the 2008 calendar year rather than any strong improvement in underlying cash flow in the second half of 2008 calendar year?

Marius Kloppers

If we look at cash flow and EBITDA, there are clearly some separations there. Clearly, liquidation of the receivables book in a lower price environment is an important contributor and there are some impacts around provisional pricing and so on, which I do not have the exact detail on. However, it is fair to say that there is indeed some cash coming in because of liquidation of the receivables book, with receivables days staying at approximately the same level period on period.

I should point out, however, that in the credit environment we have, bringing that cash home and into bank accounts is a serious management task and one that we work on very hard. Therefore, maintaining our receivables book at a very, very tight level in what is a difficult credit environment is something that we take particular pride in.

Alex, can you shed any more light?

Alex Vanselow

I would just like to point out to Charles that you are correct in your analysis that there has been an impact from a working capital perspective, but also you should look at the EBIT margins that our business is producing. The 46% is quite significant, it is coming down from where we ended last year, which was about 50%, so we have seen an impact of the lower prices on the aluminium products, but we are also seeing the impact of the higher prices on the bulk products that are coming through. Thus, it is a mix of both.

Operator

The next question via email is from Mike Bedford of BJM. 'We note today the \$508 million Newcastle Steelworks rehabilitation. Are there any other similar obligations that we should be aware of?'

Marius Kloppers

No. The Newcastle Steelworks remediation project is a complex one. Similar to another one that we have had to handle in the past, Southwest Copper, it is something that stems out of a legacy operation that was there for the better part of a century, in this case a steelworks. As a result, it

has taken considerable time for us to quantify the exact amount of material and this legacy really stems from the split out of steel from BHP in perhaps 1999-2000. It has taken some time [loss of audio] permits to obtain in order to get clarity on what this will cost us. It has taken some time, but we finally have a quantification of volume, method and the rate at which we can do it and we have that go forward commitment on this. There is nothing similar that has been identified through our risk management process that is insipient here.

Operator

The next question is from Kieran Daly of Investec Securities. 'Do you envisage building a potash business by M&A as well as by greenfield projects? Given your balance sheet and the sharp fall in equity value of listed producers there must be good opportunities for you.'

Marius Kloppers

Obviously, there are not that many companies when you talk in the potash space and by me commenting on this I would implicitly be commenting about one or two specific opportunities which you will understand we cannot do. Perhaps a couple of comments: we do not see greenfield and M&A activities as being mutually exclusive. Secondly, I note that potash prices have held up relatively well compared to some of the other commodity prices, so there has not been the same movement in potash prices as we have had in some of the other commodities, which obviously has affected valuations and so on in the sector. Perhaps I should just stop at that point.

Operator

The next question is from Kieran Daly of Investec Securities. 'On costs, you normally have a slide showing the rate of cost increase year-on-year. Can you provide some guidance on the first half 2009?'

Marius Kloppers

I thought we provided a fairly good breakdown of the costs in the usual format. Without wanting to make a forecast of exactly what we expect on costs, which we never do, I would restrain my comments to noting those things that I have already discussed on contractors, raw materials, maintenance costs, unit usage and non-recurring items, all of which point, everything staying as they are today, to probably a net deflationary environment in the second half.

Operator

The next question is from Jason Fairclough of Merrill Lynch. 'Could you please discuss the outlook for volumes on the various steelmaking raw materials?'

Marius Kloppers

In the appendix material on the release you will find some guidance. Essentially, in iron ore, we believe that a substantial amount of de-stocking has taken place in China. We hope to sell approximately the same volume of material in our iron ore business over the second half of the year as we did in the first, for a total of about 130 million tonnes per year.

On manganese and coking coal, the situation is a little bit more complex. These products have different customer regions. Where the iron ore is very North Asia-focused with 50% going into China and hence you have a reasonable degree of visibility with the steel de-stocking in China and local domestic Chinese production being the main variables there, on coking coal and manganese

we have North American markets, European markets, Brazil, India and so on. In addition to that, manganese is a very easily storable product and hence when de-stocking is complete is far more difficult to judge. We have given guidance on the coking coal; I do not think we have any update to that here today. My observation would be that, if anything, the risk is probably to the downside in that product, consistent with the overall outlook that we given today in the short and medium term. In manganese, you have seen that we have had the cutbacks in our manganese operations totalling almost 50% in the second half of the year on a unit basis. As with coking coal and particularly given the unclear stock situation here, because from a time perspective a lot of manganese can be stored, probably the risk here is towards the downside on volume even from here at this time as well.

Just one last word on the iron ore. On iron ore we probably have modified our selling behaviour where we have more product going into the clearing market than we had and with term contracts relatively contributing less.

Damien Hackett, Canaccord Adams

I have a quick question on IFRS accounting. The tax effect of that write down on the Australian Dollar tax assets, I presume that is an IFRS accounting mark to market issue and therefore does it mean that we might see a reverse of that tax situation going forward should the exchange rate strengthen?

Marius Kloppers

We have had this and I think two years ago we noted that over a two-year period, because the Australian Dollar had strengthened on a more progressive basis, I think we had in the order of a \$250-300 million effect year-on-year. Obviously, what comes to book here is the fact that we saw such a very quick depreciation of the Australian assets and the number that you are seeing is exactly that: it is a mark to market effect with no cash impact and where the companies that do not have a US Dollar functional currency for the assets will see this as a balance sheet size increase or decrease. Unfortunately, because we have US Dollar functional currency these adjustments show as a mark to market on the US Dollar side and flow through the P&L.

Alex, I do not know if your education of me was complete.

Alex Vanselow

That was perfect, Marius; you get a star in accounting there. The only thing I would add is that the drop in the Australian Dollar in relation to the US Dollar in that half year was to the tune of 28%. If you go back in previous half years, you will see that it never even reached double-digits; I think the highest before was 9%. Thus, it is all happening very dramatically in one period.

Damien Hackett

Therefore, it has nothing to do with the long-term view that you may have on the Australian Dollar rate.

Alex Vanselow

No, it is a mark to market thing.

Marius Kloppers

Again, out of all of the things on our P&L today, if I look at all of the elements as we broke them down and how we feel about our EBITDA, our EBIT, our margins, our cash flow and our profit after tax net of this amount, I think all of those are exceptional performances and we have one item which is quite difficult to understand or to communicate, which is of a non-cash nature, changes nothing on the value of the company, which flows through our P&L because of a US functional currency choice rather than through our balance sheet. I would like to emphasise that point for all of the people who are on the line.

Amos Fletcher, Cazenove

With regard to your nickel business, I notice for Yabulu and Nickel West, if we strip out the cost of the start up of Ravensthorpe, those places are still loss-making at the EBITDA level. Can you talk about how you might be able to adjust the cost profile of those businesses going forward or whether your focus may be on reducing production potentially?

Marius Kloppers

I have two comments. There is obviously a substantial amount of costs associated with the build up of partially processed stocks ahead of the Kalgoorlie nickel smelter, which we will liquidate progressively now that that smelter is rebuilt and costs associated with the rebuild of the nickel smelter. The second comment is on the Mount Keith open-cut operation where we have lower grade material which is at surface and which we will process during the next period.

Alex, do you have anything else to add on nickel costs?

Alex Vanselow

I have nothing to add.

Operator

There are no further questions from the telephone lines. Our last email question is from Luke Pez of Oddo Securities. 'Could you elaborate on how third party access to your railway network in the Pilbara could affect your existing operations and also your expansion plans?'

Marius Kloppers

I do not have a lot of comment from what we said before. We have an obligation to carry material as part of our state agreement for third parties. That means putting their material in our railway trucks and that is an obligation that clearly we take very seriously and we have every intention of complying with that.

On other access agreements, on putting third party rolling stock on our rails and so on, we have seen a ruling late last year by the treasurer on whether this process could be considered a production process or not and hence a ruling there. However, we are still quite a way from completing all of the legal processes around that. It could be several years before all of that is completed and, as such, I think the impact on our earnings as you model it over the next couple of years should be absolutely negligible both from a revenue basis or otherwise.

On that note, thank you very much once again, especially for people in cold London. We have appreciated having you and look forward to your comments perhaps on the format; we genuinely

would like to see whether that gives you better value. Thank you very much again for sharing with us what we believe is an excellent set of results from a company that is in terrific shape from a cash flow and balance sheet perspective.