

HD Event Brief of Interim 2014 BHP Billiton PLC Earnings Presentation - Final

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OVERVIEW

BLT.L reported half-year ended 12/31/13 underlying attributable profit of \$7.8b.

FINANCIAL DATA

1. Half-year Ended 12/31/13 underlying attributable profit = \$7.8b.

2. Net debt as of 12/31/13 = \$27.1b.

PRESENTATION SUMMARY -

Half-year Ended 12/31/13 Performance Overview (A.**M**.)

1. Highlights:

1. Production increased 10%.

2. Embedded productivity-led volume and cost efficiencies of \$4.9b.
3. Full-year capital and exploration expenditure expected to decline 25%.
 1. Sharp reduction:
 1. Increased competition for capital.
 2. Drove investment returns higher.
 4. Period-end net debt \$27.1b.
 5. Strong solid A balance sheet.
 6. Substantial free cash flow growth.
 7. Safety:
 1. Total recordable injury frequency rate reduced to 4.4 [for every **million** hours worked; Co.'s record low.
2. Financials:
 1. 1H financial performance benefited from:
 1. Substantial productivity improvement.
 2. Volume growth delivered by largely low-risk brownfield investment program.
 2. Growth:
 1. Underlying EBITDA 16%.
 2. Underlying EBIT, 15% to \$12.4b.
 3. Underlying attributable profit, 31% to \$7.8b.
 4. Net operating cash flow, 65% to \$11.9b.
 5. Free cash flow, \$7.8b.
 3. Disciplined approach to investment increased underlying return on capital to 22%.
 4. Interim base dividend, covered by internal cash flow.
 5. By financial year-end, net debt of \$27.1b is expected to approach \$25b.
3. Production:
 1. Record production at ten **operations** for three commodities.
 2. For half-year, Western Australian **iron ore** business produced record 108m tonnes.
 1. Contributors:
 1. Early production from Jimblebar.
 2. Volume-led productivity initiatives, including use of relocatable crushers.
 2. Increased full-year **iron ore** guidance to 212m tonnes.
 3. Queensland **coal** business:
 1. In Dec. qtr., ran at annualized rate of 68m tonnes.
 1. Daunia, not yet fully ramped up.
 2. Removed 7m tonnes of high-cost production, when Co. closed Norwich **Park** and Gregory open cut.
 4. **Copper** production grew 6%.
 1. Antamina achieved record **copper** volumes.

2. Escondida:

1. Leading **copper** asset.

2. Production increased 7%.

3. In 2014 financial year, remains on track to produce 1.1m tonnes.

5. Petroleum:

1. Liquids volumes 50m barrels; increased 9%.

1. Includes increase in onshore US liquids of 72%.

2. Prioritized drilling away from predominantly gas areas towards high-return, liquids-rich Black Hawk region of Eagle Ford.

1. Gas declined 7%.

6. Retained full-year production guidance for all major commodities.

1. **Iron ore**, 192m tonnes, Co.'s share.

2. Petroleum, 250m BOE.

3. Metallurgical **coal**, 41m tonnes.

4. **Energy coal**, 73m tonnes.

5. **Copper**, 1.7m tonnes.

7. Projects, over two years to end of 2015 financial year, low-risk, largely brownfield projects and productivity-led gains will deliver 16% production growth.

Half-year Ended 12/31/13 Financials (G.K.)

1. Headlines:

1. Strong operating performance and productivity-led gains underpinned significant profitability increase.

2. Dividend, covered by free cash flow.

3. Strong solid A balance sheet.

2. Note:

1. Results are being reported on basis of new accounting standards and interpretations that came into effect from 07/01/13.

2. Accounts include full consolidation of Escondida.

1. Previously consolidated 57.5% **equity** interest.

3. Entities that no longer meet definition of joint control, like Antamina and Cerrejon **Coal**, or those that are classified as JVs like Samarco, are now **equity**-accounted.

4. IFRIC20 required change in accounting treatment of production stripping.

3. Items Affecting Profitability:

1. Costs in petroleum business, elevated because of three specific charges.

1. At onshore US, optimized drilling program to focus on Black Hawk acreage.

1. Associated termination of rig contracts reduced underlying EBIT by \$75m.

2. Incurred \$103m charge for underutilized legacy gas pipeline capacity, primarily in Haynesville.

3. Petroleum recorded \$115m charge associated with UK pension plan.

4. Charges offset by restatement of monetary items in balance sheet; increased underlying EBIT \$345m.

2. Functional currency requires Co. to take mark-to-market differences for monetary items through profit and loss statement.
3. Taxation:
 1. Paid \$2.9b of income and royalty-related taxation, and \$1.4b of other production royalties.
 2. Adjusted effective tax rate 32.5%.
 1. Expected to remain 31-34% for 2014 financial year.
 3. Re-measurement of deferred tax assets associated with Minerals Resource Rent Tax reduced statutory tax expense \$491m.
4. Earnings Waterfall Analysis:
 1. Underlying EBIT \$12.4b.
 1. Increased 15% largely driven by factors within Co.'s control.
 2. Production growth associated with ramp-up of major projects and continued success of productivity agenda increased underlying EBIT \$2.2b.
 1. Relief received as stubbornly-high Australian dollar weakened against greenback, largely offset by lower commodity prices and inflation.
 2. Lower prices for each of the major metals, **copper**, nickel and aluminum, reduced underlying EBIT by \$937m.
 3. Strong rebound in metallurgical **coal** supply led to 18% fall in avg. realized price; reduced underlying EBIT \$520m.
 4. Strong growth in **Chinese** crude steel production, underpinned by significant increase in fixed asset investment.
 1. Created unexpected tightness in seaborne **iron ore** market despite addition of low-cost supply from Australia and Brazil.
 2. **Iron ore** prices increased underlying EBIT \$964m.
 5. Petroleum:
 1. 5% increase in avg. realized price of natural gas offset 2% reduction in avg. price of **oil** and liquefied natural gas.
 3. Factors within Co.'s control:
 1. Volume & cost:
 1. Production records at ten **operations** contributed to 10% increase in **copper** equivalent production.
 2. Ramp-up of several major projects and strong growth in liquids production from Atlantis in particular increased underlying EBIT \$705m.
 3. Early delivery of production from new Jimblebar **iron ore** mine, commencement of metallurgical **coal** production at Daunia, and completion of Macedon gas project, notable achievements.
 2. Productivity:
 1. After almost a decade of strong growth in demand and margin expansion, recognizes that value has been eroded by broad-based industry inflation and low productivity.
 2. Decided to take hard line on all facets of cost base.
 3. Disciplined approach delivered cost and volume efficiencies of \$2.7b and \$1b respectively last year.
 4. Ended period with strong momentum.
 5. Productivity agenda increased underlying EBIT \$1.5b.

3. Volume-related efficiencies increased underlying EBIT \$542m as several de-bottlenecking initiatives in Pilbara added valuable tonnes at one of Co.'s highest-margin **operations**.

4. Controllable cash costs declined \$1b.

1. Improved equipment utilization and availability, increase in proportion of planned vs. unplanned maintenance and continued optimization of contractor activities, important contributors.

5. Substantial Cost & Volume Efficiencies Since End of 2012 Financial Year:

1. Sustainable operating cost efficiencies \$1.8b.

2. Exploration and business development expenditure reduced \$1.6b.

3. Productivity-led volume efficiencies \$1.5b have been embedded.

4. Sustainable \$4.9b gain, expected to grow to \$5.5b by 2014 financial year-end.

1. Includes projected \$3.9b in productivity-led cost efficiencies and reduced exploration and business development expenditure.

1. Significant 11% of \$36b baseline operating costs reported in 2012 financial year.

6. Capital Allocation Framework:

1. Over last ten years, returned \$62b to shareholders.

1. Does not target specific payout ratio.

2. Equates to approx. 50% of underlying earnings over the period.

2. Committed to solid A credit rating.

1. Provides substantial flexibility and access to debt capital markets at attractive rates throughout economic cycle.

7. Applying Strict Capital Discipline:

1. Net operating cash flow increased 65%.

2. Received \$2.2b divestment proceeds.

3. Net debt \$27.1b.

1. Declined 6%.

2. Should the external environment remain supportive, net debt is expected to approach \$25b by financial year-end.

4. Optimized debt maturity profile with issuance of four-tranche \$5b US bond.

1. Funds and capacity on balance sheet will be used to meet series of financing commitments in 2H of financial year.

1. Redemption of Petrohawk **Energy** Corporation senior notes just completed.

2. Upcoming debt maturities.

5. Progressive base dividend:

1. Comfortably funded by internal cash flow.

2. Expected to grow broadly in accordance with business growth.

3. Maintained across several economic cycles.

4. Distributions increased at 17% CAGR, for total distribution of \$39b over last ten years.

5. Half-year dividend, \$0.59 per share, unchanged from last year's final payment; consistent with recent practice.

6. Will consider trajectory of progressive base dividend at 2014 financial year-end.

6. Investment:

1. Will invest selectively in those projects that meet Co.'s demanding criteria.

2. Capital and exploration expenditure will reduce 25% this year.

1. Further reduction is expected next year.

3. By reducing annual expenditure, more focused and driving returns higher.

4. Free cash flow increased \$7.8b.

5. In past, supplemented progressive base dividend by returning excess capital to shareholders.

1. Returned \$23b in form of buybacks during last ten years; almost 40% of total capital returned.

6. With strong free cash flow being generated by business, production growth of 16% projected over two years and further simplification of portfolio planned, well placed to extend strong track record of capital management.

8. Competition For Capital Will Increase:

1. Has four broad buckets to which Co. directs cash flow.

1. Solid A balance sheet.

2. Progressive base dividend.

3. Selective investment in portfolio.

4. When in surplus, additional capital returns to shareholders.

2. Many aforementioned options are interconnected.

1. Tests each decision against range of short and long-term criteria across several scenarios.

2. Amongst other things, aims to optimize net present value, return on capital through cycle, IRR and margin, whilst remaining mindful of portfolio construction and cash flow at risk.

3. No single metric dominates process, and alternatives, including investment in Co.'s own shares, actively compete.

3. Opportunity-rich portfolio remains key point of difference.

4. By reducing annual expenditure, sharpened focus on:

1. Core commodities.

2. Higher-margin businesses.

5. Fewer projects now pass through toll gates.

1. Design inefficiencies, exposed and re-engineered.

2. This has raised bar and lowered capital intensity.

6. Avg. rate of return for favored major growth projects increased to point where avg., ungeared, after-tax rate of return of more than 20% is achievable.

1. Considers value of future options carefully, as Co. must preserve their value at low cost.

7. Long-life **ore** bodies predominantly located in OECD.

1. Combination allows Co. to defer investment where appropriate so that it can optimize performance on basis of its investment criteria.

9. Summary:

1. Significant increase in free cash flow.

2. Capital and exploration expenditure will decline 25% this year, as planned.
3. Avg., ungeared, after-tax rate of return of more than 20% is achievable for favored major growth projects.
4. Progressive base dividend, covered by free cash flow.
5. Net debt \$27.1b.

1. Expected to approach \$25b by this financial year-end.

Half-year Ended 12/31/13 Business Review (A.M.)

1. Unlocking Value Through Productivity:

1. Working assets harder to:

1. Generate additional value.

2. Lower costs.

2. In Dec., described how teams benchmark fastest drilling times for individual well segments.

1. Work has reduced days to drill typical Black Hawk well by 35%.

3. Queensland **coal** mines:

1. Truck fleet in pre-strip **operations** is bottleneck.

2. Over past 18 months, teams worked through:

1. Less downtime on shift change.

2. In-pit refueling.

3. Better planning.

3. Increased truck performance 40%.

4. Western Australian **iron ore**:

1. Bottleneck, at mines.

2. No-cost and low-cost de-bottlenecking will move it to port.

3. By increasing throughput and improving reliability, raised overall performance of mine's **ore** handling plants by 4%.

5. EBIT margin 57%.

1. Every additional tonne produced from existing infrastructure like aforementioned, creates significant new value for shareholders.

6. Ultimate benefit of productivity agenda will be measured in dollars and cents.

1. **Coal** business; this translates to \$1.7b cost efficiencies.

1. Significantly increased return on net operating assets.

2. 7% return on **coal** business, not acceptable.

1. **Coal** will not receive another major investment beyond projects in execution until Co. sees marked improvement in those returns.

7. Western Australian **iron ore**:

1. Productivity agenda is in full swing.

2. Focused on costs.

3. Recognizes addition of high-margin volume at low cost can create substantial value.

4. Installed relocatable crushers, despite increase in operating costs, to increase volumes.
5. Productivity agenda delivered return on net operating assets increase; true measure of capital efficiency.
6. While Co. is committed to drive down costs in **iron ore**, as in **coal, iron ore**'s 57% return means Co. should invest in such low-cost opportunities that add such valuable tonnes.
7. Not all businesses are same.
 1. Productivity initiatives must reflect context in which Co. operates.
8. Underlying return on capital rose to 22%.
 1. Further discipline and completion of several major projects will increase returns further.
2. Global Economic Outlook:
 1. Global economic conditions improved over 1H of 2014 financial year.
 2. Stronger-than-expected performance of major developed economies means that uncertainty in outlook is, if anything, skewed to upside.
3. US economy accelerated as:
 1. Housing and manufacturing sectors improved.
 2. Unemployment declined.
 3. Confidence and consumption grew.
 4. Europe experienced period of relative stability.
 1. Conditions for corporate investment became better.
 2. Growth, likely to re-emerge.
 5. Remains cautious.
 1. Underlying debt and economic imbalances, yet to be fully resolved.
6. **China**, primary demand driver.
 1. In calendar 2013, **China** growth rate stabilized; remained strong.
 2. Expected to remain [about] 7%.
 3. Government continues with its reform agenda, which will move **China** towards mature consumption-led economy.
7. Over next 15 years, expects demand for Co.'s **coal** products to rise by up to 75%.
 1. In **iron ore**, expects significant growth in low-cost supply that will exceed increases in demand from **China** and elsewhere.
 2. Cost curve will flatten as higher-cost marginal supply is displaced.
 1. Will **lead** to lower prices and lower volatility.
8. Near-term **copper** inventories expected to remain at reasonable levels.
 1. In contrast to **iron ore**, long-term fundamentals are attractive.
 2. Rising strip ratios and grade decline and lack of high-quality opportunities ready for development will steepen cost curve.
3. Portfolio Provides Flexibility:
 1. To allocate capital, used well-researched and strong view for each core commodities.

1. Over last five years, steadily shifted investment towards high-margin **iron ore**, **copper** and petroleum projects.
2. Western Australian **iron ore**:
 1. After a decade of investment in major infrastructure, emphasis moved to low-cost expansions to 270m tonnes.
 3. Given confidence in outlook for **copper**, investing in high-return projects at Escondida that will maintain production at elevated rates.
4. Petroleum:
 1. Increasing investment primarily in:
 1. High-return Black Hawk acreage.
 2. Development of low-risk brownfield opportunities that maximizes value of conventional business.
 5. More competition for capital boosted returns of preferred major projects.
 6. Will focus efforts on fewer basins, on those basins where Co. can generate highest margins and greatest value.
 1. **Iron ore**, Pilbara.
 2. Metallurgical **coal**, Bowen Basin.
 3. **Copper**, Escondida and Andean **copper** belt.
 4. Petroleum, US.
 5. Potash, Saskatchewan.
 7. Simplified portfolio and largely brownfield opportunities will generate:
 1. Higher rates of growth.
 2. Superior returns on investment.
 3. Stronger free cash flow.
 8. Delivered strong production growth and productivity gains of \$4.9b, while improving safety.
 9. Acted early to significantly reduce CapEx.
 1. Increased internal competition for capital and raised avg. return of major preferred projects to over 20%.

QUESTIONS AND ANSWERS

CRAIG SAINSBURY, ANALYST, GOLDMAN SACHS: Thanks, morning Andrew, Craig Sainsbury here from Goldman Sachs. Productivity -- they were impressive numbers that you've delivered. So two questions that are from me, one is just how far do you think we are through the productivity cycle for you and how much more do you think you can drive out of these assets over the next two or three years and the second question from me is just looking at some of the ramifications that can come out into the market from those productivity gains? I mean you point towards better returns, costs are down 11%, flattening of cost curves and we've certainly seen in the coking **coal** market you still stay profitable with costs coming down but that's driven the coking **coal** price down. So what do you think the ramifications are going to be in terms of longer term commodity prices from this productivity led cycle that you're embarking upon and some of your peers out there and has that forced you to start to think about changing some of your medium to longer term commodity price decks because of those productivity gains you've been driving through the business? Thanks.

ANDREW MACKENZIE, CEO AND EXECUTIVE DIRECTOR, BHP BILLITON LTD: Well, Craig, we'll review our price decks during the course of the next few months as part of the planning exercise that we report some of the results over the full year. So we'll certainly take account of that but of course as much will depend on what our peers are doing as what we are doing and we do think what we're doing is quite distinctive, you know, that we have actually grown returns at a time of broadly speaking flat to slightly falling prices, if you look at our whole basket.

As we look forward, we've given you the guidance that we'll embed if you like a further \$600 million by the end of the year. Most of that's cost out to get to \$5.5 billion. This is about the whole culture of the Company, about the whole way we look at it and how we simplify our focus.

I think there's a lot more to go but my message has always been I'll give a little bit of indication as to how you can extrapolate, but we're learning as we go. We're ambitious and I stick with my mantra of track us don't trust us, but it's exciting the possibilities that we see going forward. We're just getting started and I think there's a lot more to come.

CRAIG CAMPBELL, ANALYST, NORTHCAPE CAPITAL: Andrew, Craig Campbell, Northcape Capital. A good result. A question relating to coking coal -- unfortunately it is one of the weaker aspects of the result and probably one of the weakest results we've seen out of coking coal for a while where there hasn't been weather-related events or anything like that impacting and I'm just wondering given the surplus in the market and it doesn't look like backing off, would you approach a strategy that was undertaken by BHP in the early 2000s in copper where BHP took an industry-leading position backed off copper production when there was a very high amount of surplus, coking coal prices -- sorry copper prices were at their weakest point? Could you back off maybe your coking coal production to bring the market back to balance and push prices back up and get a better return that way as a strategy?

The second question from me -- with regards to non-core assets particularly in petroleum, I imagine given the strength of petroleum prices globally at the moment you could probably release some capital through sale of those non-core assets. Is that something that's being actively explored at the moment and we could expect some release of capital through that?

ANDREW MACKENZIE: Okay first of all to your question on metallurgical coal, it is not our policy to adjust production in order to achieve price results. Once we've installed something we believe in the interests of productivity and stability and our support of open markets and to satisfy customers that we maximise production. Of course as you've heard me talking about it, because of the margins in coking coal and the returns, we're unlikely to invest in further increases in production but we'll complete those underway and we'll ramp them up to the maximum extent possible.

I don't have quite such a negative outlook going forward. I would like you to think more positively about our result. I mean we've pulled out a substantial number of costs and Brendan's behind you, he can give you a lot of details about that, but I think has moved us up considerably.

There has been a lot of recovery in the market or in the production I should say from Australia because of the recovery from things like floods. That's coming to an end and as we look forward there's less growth in the next few periods. We've seen some announcements just overnight about some of the cost challenges that are being faced from competition in North America, some evidence of that slowing. The pickup in markets particularly in the developed economies and the growth in their demand for steel will almost certainly benefit metallurgical coal and we've started to see some quite good steel numbers coming out of India which in the long term has no metallurgical coal and will have to import.

We think under those scenarios we've got the best basin in the world, we've got the best quality of hard coking coal and we will continue with our productivity agenda to open up even bigger margins and allow us to make decent numbers even at these prices. So we're in for the long term.

I think on assets and petroleum assets you've heard my mantra on focus. That focus is partly on our coal basins but it's also on our tier one-ness. So anything that we have out there that we feel does not pass a very high challenge to be tier 1, clearly we look at whether other people may be better at owning that and would pay us a decent return for that, especially if it's something that is undeveloped and we don't think we're going to develop for a while. So we're looking at all of those things, but until I'm much closer or have concluded a transaction I can't say any more today.

I think we should take the first question from the phone.

OPERATOR: Paul Young, Deutsche Bank.

ANDREW MACKENZIE: Hi, Paul.

PAUL YOUNG, ANALYST, DEUTSCHE BANK: Morning, hi Andrew, how are you going? Great result. It's good to see the comments on the plus 20% project return target. I note --

ANDREW MACKENZIE: Paul, can you maybe speak up a bit, we're not hearing you very well here in Melbourne.

PAUL YOUNG: Yes sure. Andrew -- yes can you hear me now?

ANDREW MACKENZIE: Much better.

PAUL YOUNG: Okay. Great to see the comments on the plus 20% project return target but I do note that's an average, but I have some questions about your higher returning copper projects. There appears to be the potential for a production surprise over the medium term and just some more information on that. The Escondida OGP1 project appears to be 6 months early considering it was 60% complete at the end of December. In my view this means the Los Colorados concentrator could be run parallel with OGP1 for a period of time and also the Bechtel Construction Team could be rolled onto the Spence Hypogene project as soon as early 2015. Can you comment on the timing of OGP1 and also could we see a decision on Spence this year? Thank you.

ANDREW MACKENZIE: Okay, soundly spoken as somebody who used to work at Escondida. You have all the details there. Look Paul, I think on the first question about the Los Colorados concentrator and whether we would continue to run that in parallel with the new concentrator at OGP1. Sure that is an option. You would not have a productivity agenda like ours with not wanting to look at that. We certainly, from the investments that you know we are making in power and in water have more than sufficient to run three concentrators. The considerations that we have to bring to bear though before we make that decision is clearly we would be moving a lot more dirt and that means a lot more trucks. Can we do this optimally and safely is point one. And secondly, as you know the Los Colorados concentrator sits on top of some quite high grade ore. And although we can nibble around it and look at some of the push-backs and so on the delay in getting to that is something we have to look at in a value sense. But I can assure you that is an option as part of productivity that we take very seriously indeed and it is certainly feasible.

I think as to what we might do with the project team at OGP1 and how -- whether they go forward. Really we only have one project team in base metals, that is the one area where we do everything centrally in a hub for all our copper assets. And absolutely a prime candidate for possible further investment beyond OGP1 is the Spence Hypogene. And certainly I would expect us to say a bit more about that in the coming months, possibly at the end of the financial year because as you are aware from the visits there it is a reasonably high return project. It has got even better through some of the things we have spoken about and would certainly fit within our desire to drive a basket of projects into IRRs north of 20%.

Maybe another one from the phone and then we will take one from here.

OPERATOR: Clarke Wilkins, Citi.

CLARKE WILKINS, ANALYST, CITIGROUP: Oh hi, Andrew, it is Clarke Wilkins here. Listen just in terms of the capital management side, is there a target for getting the net debt down to before that (inaudible). Also, in terms of the format or the form for capital returns in the future is there a preference at the Board level between buyback versus special dividends and mechanisms like that for returning excess capital?

ANDREW MACKENZIE: Look, Clarke, the important thing we have to do is that we have to get to a point where we feel our balance sheet is robust and robust at a solid A. And then everything that you then talk about has to be debated about the Board. These are Board decisions and they are decisions that will be made when we are ready to consider them in a deep way. And we have certainly not really debated the form of additional, if you like, cash distributions to shareholders if the Board then decides to do that. Clearly the time for that as we have said and has been in general our practice is at the full year. And hopefully by then we are at the levels of debt we are targeting and those conversations will be real and we will give you the feedback on it.

Maybe I will take one more from the phone and then -- because there are a lot waiting. So go ahead, it is Lyndon I think.

OPERATOR: Lyndon Fagan, J.P. Morgan.

ANDREW MACKENZIE: Hi, Lyndon.

LYNDON FAGAN, ANALYST, J.P. MORGAN: Hi, Andrew, thanks. Look my questions are on the Iron Ore Division. I guess at the quarterly we found out that strip ratios had risen. And I am just wondering if you can perhaps give us some more colour around that, perhaps what are they and how long will they stay high or is this a permanent shift upwards or just related to the mobile crushers? Just to help us I guess extrapolate that out. And then the next question is that there is certainly a lot of promotion around moving to 270 in iron ore which has been the case now for well over a year. And I am just wondering when we are likely to see some more project approvals or now that the port is the bottleneck, I guess just to get a feel for the timing of that production coming on. Thanks.

ANDREW MACKENZIE: Lyndon, I do not exactly know the further development of the strip ratios and not just at Jimblebar but also at Whaleback that you are referring to. But I think through the detail of the presentations even though we have incurred slightly higher strip ratios given the kind of returns we get in

this business it was worth continuing in those directions in the **mining** sense. Later this year we are having an investor tour to the Pilbara and I am sure we will be able to unpack that for you in quite a lot more detail.

As regards the journey to 270, we are doing so well with productivity as we talk about the no-cost, low-cost de-bottlenecks. A lot of these things are passing through without us having to take announcements. We talked about renewing two of the oldest ship loaders in the port partly for operational integrity reasons. But it also lifts a little bit of the production from that port as well. The more we can do that way the higher the capital efficiency of moving to 270. And we are taking our time, but as soon as we think we are ready and we need to make a more substantial investment in the port to get to 270 of course we will talk to you. And clearly the better job that we do through low and no-cost de-bottlenecks the higher the capital efficiency goes and the more attractive these things become. But some of them if we do good de-bottlenecks at the port may become redundant. So we will keep you posted but nothing more today.

So questions from Melbourne? Okay we will keep going from the phone then.

OPERATOR: Paul McTaggart, Credit Suisse.

PAUL MCTAGGART, ANALYST, CREDIT SUISSE: Hi, Andrew, a pretty quick and easy question. The (inaudible) contract related to the onshore gas business, I am just trying to reconcile those with the petrol account throughout. Did that charge go through in the fourth quarter -- well sorry in the fourth quarter of December or in the first bit? I am going to presume it has happened late in your half, obviously because [Petrohawk] was loss making in the [second] quarter? Would that be correct?

ANDREW MACKENZIE: Graham, did you hear the question? It was -- can we put Graham up please?

GRAHAM KERR, CFO AND CHAIRMAN OF THE INVESTMENT COMMITTEE AND FINANCIAL RISK MANAGEMENT COMMITTEE, BHP BILLITON LTD: -- second quarter but we can get Brendan to confirm that after and circle back.

ANDREW MACKENZIE: Yes, Graham, you probably need to say that again, because we only heard about the last three or four words from you.

GRAHAM KERR: Look, Andrew I am pretty certain that actually occurred in the second quarter but we can -- just after this call, I will get Brendan to circle back and confirm that.

PAUL MCTAGGART: Thanks guys.

ANDREW MACKENZIE: Okay, thanks, Paul, thanks, Graham. Anything from Melbourne yet? So next question from the phone.

OPERATOR: Glyn Lawcock, UBS.

GLYN LAWCOCK, ANALYST, UBS: Good morning, Andrew, just two quick ones. You have said fiscal 2015 CapEx will reduce and you had previously said you think the right spend is up to [2015]. Can I nail you down to a more definitive target like your peers [are provided] to give? Because I mean it does help us understand what free cash flow generation you may have next year. And then the second quick question is just on the productivity measures. You have done a lot in **coal**. Strip ratio has gone up in **iron ore** -- are you -- is there any deferral of capital or lowering of strip ratio going on in **coal**? I know some of your peers are doing that to try and get unit costs down at the moment to battle the falling price? Thanks.

ANDREW MACKENZIE: I think that the simple answer to your first question is probably not, Glyn. I think we have made it very clear that we think we can run this business for a long time optimally at or around current levels of CapEx \$16 **billion**. I have said that it would be our intention to let it drift down a bit. We will be much more specific at the full year. I think on the answer that -- on the question you asked on **coal**. We might need to get you a bit more detail than I am able to provide right now. But in general we have been working very much on the costs of running our **operations** rather than changing our mine plans to deliver the returns that you have seen. But we will get you back some more detail on that because there may be some things at the margin that you might be interested to know.

Another question from the phone?

OPERATOR: William Morgan, Intrinsic Investment.

WILLIAM MORGAN, ANALYST, INTRINSIC INVESTMENT MANAGEMENT: Thank you. Andrew, you logically continue to comment about the long term trend in **China** and about the supply response. However, with respect to **iron ore** I wonder if you could please give us some colour about your measure of

risk of shorter term shocks to demand, notably given solvency risks with the **Chinese** steel mills and the supply of capital to those mills?

ANDREW MACKENZIE: Well, I can only speak broadly. There are a lot of people who look at that. I think we would say if anything in the next quarter probably the risks are maybe slightly to the upside. But then we take a longer term view going further quarters out and certainly towards the end of this calendar year where the very strong growth in supply is more than enough, if you like, to create a bit of an excess and therefore to drive price lower. Now whether that is aggravated by the things you are saying or not, I am not sure. There are a lot of things going on in **China** at the moment that do not always eventuate in quite the same reduction in steel production that you think. I mean there is a lot of work that the government is doing, in some cases using their control of the debt markets to **lead** to some form of restructuring of both the **iron ore** and the steel industry.

But ultimately we think we'll actually improve their move towards being a middle income economy, more competitive and more growth. And will therefore attract in the medium term more **iron ore** from us and other suppliers outside of the country which means that I don't think we are looking at big shocks if you like. But we can have our economists talk to you a bit more if you are interested.

I will take another one from the phone.

OPERATOR: Adrian Wood, Macquarie.

ADRIAN WOOD, ANALYST, MACQUARIE **GROUP**: Yes hi, Andrew. Just a couple of questions, first of all on Jansen. Could you please just give us a bit of an update on progress both in terms of just how deep we are in terms of the shaft thinking? And maybe perhaps a little bit of discussion around why you chose to delay drilling in what would have seemed to be the most productive drilling period of the year. But also progress on bringing in a partner. There has been some scuttlebutt coming out of Canada that perhaps you are closing in on a partner negotiations. And just wondered if you were looking at customers or whether you are looking at other product producers to bring into that?

And second just on costs, you seem to have now, for the first time, given a cost cutting target for FY14, so at least looking 6 months out. Why can we not roll that over into FY15 and give us any guidance there as just how low costs could go?

ANDREW MACKENZIE: Okay, I will probably do them in reverse order and then when I forget the first one you can remind me. But I mean we are now, Adrian, we are now almost two months into the second half of the year. I think all I am doing is, as I said I would at the outset, is help people with extrapolation of a relatively short term nature. We are learning how to re-tool the whole **Company** and how to deal with -- and how to deliver productivity. It is much more than a costs-out program. It is about energising everybody to do their jobs better each day. To make equipment more efficient, using our new systems and so on. I -- as I said in I think in response to an earlier question, I think the potential is large and we are only beginning a lot of the things that we want to do. But I am not really at liberty to start giving big, long range targets yet. I would rather deliver, show you it and help you a little bit with shorter term extrapolation as I have done today.

So let -- I am now speaking from memory, I have already forgotten the -- let me talk about Jansen first. I mean you did mention that this was the right season to do more. That only really applies for things like seismic and drilling, not for sinking shafts. I mean that is not such an issue that is seasonally dependent. So you have obviously picked up that we are taking our time through the early sections of both shafts. This is not on the critical path. We have not even decided when we want to even add a lot more investment to create a mine there. We always said we would wait and be ready to move quickly when the market was ready probably sometime in the next decade.

We are using a bit of new technology to create these shafts and we were a little concerned that we were not getting it quite right in the earlier part with some of the temporary liner. It was nothing serious so we said let's stop, think about it, figure out how we can do it better. We have done all that and we expect to recommence sinking of the shafts within a matter of weeks if not days, having taken stock. No real impact at all, actually costs will be lower because we have been moving at a slower rate, no impact on schedule.

Sorry, what was the middle part of your question?

ADRIAN WOOD: Just on the progress with potential partners, that was (multiple speakers).

ANDREW MACKENZIE: Oh yes, sorry about that. Yes you asked whether we were considering customers or competitors and so on? Yes we would consider them, we are talking to a number of players at the moment but quite a few of them are not in that category. There are people who would like to invest strategically alongside us in developing this operation.

ADRIAN WOOD: Great, thanks very much.

ANDREW MACKENZIE: Anything more from Melbourne? Good.

CRAIG CAMPBELL: Craig Campbell, Northcape Capital again. One for Graham. On the Minerals Resource Rent Tax, Graham, you had a net benefit to the P&L in the current half just reported. Is that going to be repeated in this half or is there a reversal of that? If you could give us some guidance, please?

GRAHAM KERR: Look, obviously the guidance on the MRRT is always difficult because it is very much dependent on price and **iron ore** price expectation and **coal** expectation. But also on FX. I think the other challenge obviously is where do we end up with the MRRT. Is the actual law repealed or not. So I think at this stage we will give guidance when we get to the August full year result but nothing really to add at this stage other than to say, as I said in the past, it is a volatile tax.

ANDREW MACKENZIE: Thanks, Graham. The next question from the phone?

OPERATOR: Myles Allsop, UBS.

MYLES ALLSOP, ANALYST, UBS: Yes, just a couple of quick questions. First of all could you give us a sense if you expect to see some major divestment in the calendar year 2014? Is there -- because obviously you have talked about what is core and what is not core. But is it actually possible to sell assets in the current environment of a scale that would be material for BHP? Also could you give us a sense as to what your longer term growth target is? Are you still thinking about 5% growth per year for the business? And then with these favoured major projects you have hinted they include Jansen, the Inner Harbour and Spence. Do they include any other projects like Cannington?

ANDREW MACKENZIE: Okay, so let me, what was the first part of your question again, sorry I was -- oh divestments, yes.

MYLES ALLSOP: Well just on major divestments.

ANDREW MACKENZIE: Yes, no, no, it's fine, I've remembered it. So well I mean I think -- well there is \$2.2 **billion** of divestment proceeds in these results. So we are able to continue in this market. I mean clearly you are right that some of the things that maybe are less core to our business are -- have relatively low stands in price and therefore there is always the concern that we would not realise their full value by taking the whole cycle into account if we try to sell things too quickly. You can see from the strength of our cash flow we do not need the money. So we can play the long game in order to do things. But even within our portfolio, and we talked earlier about non-tier ones, there are plenty of things that we can consider. But I have nothing further to announce today.

The second question again, just one word will remind me. Oh growth -- I am not going to comment any further on the growth target beyond that we are on track to deliver over this year and next year a growth in **copper** equivalent terms of 16%.

Was there anything else? Are you okay? Okay.

MYLES ALLSOP: --as to what is included there?

ANDREW MACKENZIE: Sorry? Sorry, Myles, did you have anything else you wanted to ask?

MYLES ALLSOP: Which projects do you include as (multiple speakers).

ANDREW MACKENZIE: Oh projects, yes. Well now you mentioned some of them. I mean I presume you are talking about the relatively small possibility of an open pit on expansion at Cannington? That is not -- there are several others there which are in there that are being considered but we have a very strict set of criteria to move things forward and to fit in what we think is an affordable level of capital. There are others there that are in there but I would rather not go into too much specifics at this stage. I mean clearly in there is our continuing development of the shale. Continuing, as we said in the talk, brownfields expansion of our conventional **oil** and gas business. Some of the others you mentioned are in there for sure.

I will take the next question from the phone.

OPERATOR: Menno Sanderse, Morgan Stanley.

MENNO SANDERSE, ANALYST, MORGAN STANLEY: Yes, good morning, two brief ones please. One on working capital, there was quite a significant outflow of about \$1.4 **billion**. I'm just trying to get a sense if this will be reversed in the second half? And secondly on the US Onshore **operations**, it states in the release that it should be profitable in the second half. Is it on underlying **operations** or are there some one-off gains in the second half that will drive that to profits?

ANDREW MACKENZIE: No, no they -- you were on the tour, Menno, and we still expect it to be EBIT positive for the second half as we announced on the tour and cash flow positive by FY16 building it to FY20 to about \$3 billion of cash per annum. I will get Graham to answer the question on working capital. Graham.

GRAHAM KERR: Andrew, look about \$1.5 billion negative gearings for the half year on half year predominantly driven by timing of payables, receivables and build-up of inventory predominantly around Jimblebar. Probably worth noting that in January about \$700 million of that \$1.5 billion unfavourable variance reversed. So we do see a reversing.

ANDREW MACKENZIE: Okay.

MENNO SANDERSE: Okay.

ANDREW MACKENZIE: The next question from the phone.

OPERATOR: Peter Harris, JCP Investments.

PETER HARRIS, ANALYST, JCP INVESTMENTS: Thank you for the presentation, Andrew. Just two questions. You mentioned potential productivity gains. Are you targeting in the medium term real cost deflation or inflation and does that vary between your basins? I imagine it is probably more easy to achieve in iron ore versus copper given the declining grade that you are facing in South America. And also you mentioned your light copper, on slide 27 you have got -- you talk about the refined copper market. But it seems to me people always overlook the scrap market and as that market goes into deficit just magically scrap appears from nowhere and fills that gap. But at the same time people have falling copper prices. So could you just talk about the role of scrap and also any comments you have got on the shape of that copper scrap cost curve and the impact that might have in the long run to cut the price?

ANDREW MACKENZIE: Sure will, Peter. I expected to have you here in the room in Melbourne. We have come here to your home city and you are phoning in. Anyway, but good to hear to from you nonetheless. Just on scrap first of all, of course that acts as a bit of a buffer in the system as you described. That clearly if price starts to rise because of a lack of supply of primary copper from mines often that is enough to create more scrap. But it works the other way as well it smooths some of the price variations and we certainly handle that in our own projections in the way you describe.

Could you remind me of your first question?

PETER HARRIS: Just on whether you are targeting real cost deflation --

ANDREW MACKENZIE: Oh yes, now you see I have got it.

PETER HARRIS: -- or inflation and does that vary between your basins or your primary focused commodities?

ANDREW MACKENZIE: Well, we are targeting that everywhere and I think there are, as you say, opportunities that we are still working on and expect to do within iron ore. I would not rule out copper either despite some of the challenges you mentioned. Bear in mind that in the case of both Olympic Dam and where we currently are in Escondida we are not facing for the next few years any grade decline. But there is a variation between the basins but less driven by if you like the nature of the operations and more driven by the market. Where we have relatively low margins then it is less attractive to retain costs to grow volume than when we have high margins. You have seen that contrast that I have drawn in the presentation between coal and iron ore. That does not mean that there are not low cost expansions available in coal that we will go after and that there are not some significant cost-out targets in iron ore that we will go after. Of course we will do both.

But there is an individual tailoring depending on the margins obviously with a slight bias towards more volume and higher margins than the other way round in low margins.

PETER HARRIS: Thank you very much.

ANDREW MACKENZIE: Anything else from Melbourne? Okay, we will take one more question from the phone then.

OPERATOR: Andrew Hines, CBA.

ANDREW HINES, ANALYST, COMMONWEALTH BANK OF AUSTRALIA: Thanks, Andrew perhaps a question for Graham. On the new capital allocations that have -- are processes and being focused on generating the best returns from that capital use. Can you talk a little bit more about how you rank capital returns in terms of buying back BHP equity compared to projects? It seems to me that with the share

price a lot higher today than it was 6 months ago or even 12 months ago we are heading aback to an environment where potentially BHP is going to be doing a buyback at the top of the market which is what happened last time. If we have got new investment in projects generating 20% plus returns is that not going to be a better use of capital than buying back shares? And can you talk a bit about how you have changed the structure so that we do not continue to end up in environments where we end up with buybacks happening when the share price is high and not when the share price is low?

ANDREW MACKENZIE: Okay, I mean I think -- I sort of answered that earlier. But maybe Graham can give a little bit more detail, but not much.

GRAHAM KERR: Look I mean the comment I would make is over the last 10 years we have done buybacks in excess of \$20 billion and the buybacks as an average have had a share price around \$25. But I think more importantly when we look at our portfolio we look at all the options as I spoke to earlier and rank them on a number of different criteria such as NPV, IRR, return on capital, how the portfolio looks, cash flow at risk. But understand that a lot of those decisions are interconnected and shares buybacks certainly comes as something we consider. But as you rightly point out a lot of our projects, they're located in OECD basins, our brownfield expansions they have very high returns. So we go through that constant process every year we do our planning cycle. But the other piece is as well look when we have excess cash at that time we will decide what is the right mechanism to look at returning cash back to our shareholders. So there are a number of different mechanisms.

ANDREW HINES: Yes the trouble though is the excess cash always seem to come top of the cycle. So in other words at a time when the BHP share price is high. Is there some way that you have thought about breaking that disconnect between having the excess cash and the capital return?

ANDREW MACKENZIE: I mean can I just jump in, we are not actually at the top of the cycle, Andrew, that this result that you have seen is primarily driven by our own self help and our own productivity. It does not negate from the challenge you have said. But clearly the ambitions that we have now for the performance of our Company the guidance that I have given you is happening. Then we certainly do not feel that as things sit at the moment we are finished with our productivity gains. And -- or that we are operating at the top of the cycle, so that would be my only other colour I would add. I do not know if you want to add to that, Graham?

GRAHAM KERR: No, nothing more to add, Andrew.

ANDREW MACKENZIE: Okay. Okay anything else here? I think we will call it a day, thank you very much.

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