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HD **Miner on the front foot in numbers game**

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Miner on the front foot in numbers game

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HP Billiton has demonstrated its strong credentials among the big Australian iron ore producers in the race to increase export volumes, delivering a much stronger than expected 225 million tonnes in 2014, with expectations this will increase again by almost 9per cent in 2015. BHP chief Andrew Mackenzie is clearly putting a positive stamp on the company after 18 months in the job - managing to squeeze more juice from the company's major assets while operating in a more constrained capital expenditure environment. BHP is the latest of Australia's big three to demonstrate that despite a weakness in the iron ore and coal prices, it is a volume game. It is clear that Australia's big iron ore miners, particularly BHP and Rio Tinto, which sit at the lowest end of the cost curve, are all about pumping out more rather than choosing to restrain supply to push up the price. Rio Tinto's "break-even" sits at $US43 a tonne, while BHP's is $US45 a tonne. Fortescue's is $US72 a tonne - but coming down. These are particularly comfortable margins in the current environment of a $US96 a tonne price - just not as comfortable as

BHP on the front foot in iron ore production numbers game

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they were at the beginning of the year before it fell by 30 per cent. BHP's averaged realised price for the first half of 2014 was $US112 a tonne compared with $US96 in the second half. But it is paying no mind to critics that suggest that it, along with Rio, and to some extent Fortescue, are killing the market. BHP's iron ore chief, Jimmy Wilson said a few weeks ago this suggestion was absurd. "It would be wrong - so wrong - for us to go 'let's turn our volumes down so we can up the price'," he says. "I wouldn't sign up to that, I wouldn't be party to that. At the end

of the day, we are price takers, not makers." Neither it seems would Rio Tinto, which posted double-digit increases in iron ore production in the six months to June and has more in the tank. Fortescue has just reached its magic 155-million-tonne run rate and while more constrained by its balance sheet is also likely to squeeze more from its infrastructure and push the boundaries further. All have been doing so in conjunction with taking costs out to, in part, compensate for lower prices. Thus all appear to be playing the long game. Ramping up supply is a well- honed tool used by the lower-cost producers to edge out the higher-

cost China suppliers. But it can be a blunt instrument and the Chinese have been a bit tardy in their response to this year's falling iron ore price. BHP is not a one-trick pony. It also posted strong production results in coal, copper and managed to significantly beat market expectation in petroleum. Western Australian iron ore is the flagship division in BHP Billiton's array of operations - but its stablemates among the anointed core divisions that are now Mackenzie's focus together produced 9 per cent more in 2014. And he expects more to come with production growth to reach 16per cent to 245 million tonnes over the two years to 2015 and towards 270 **million** tonnes thereafter. It's a result that got the investors' pulses racing, pushing the share price up more than 1.7 per cent in the hours after the announcement. But the elephant in the room remained, as BHP barely touched on the structural simplification options. It has already outlined the assets that are core (which we will call **B** group) that will be dealt with via **sale** or as part of a demerger. Some of the less than stellar performances were delivered by the **B** group - nickel production, for example, fell 7 per cent. It appears Mackenzie is running a dual process of looking for buyers of the non-core **operations**

like the Nickel West assets being pored over by prospective buyers. Over the past two years BHP has bought and sold $US6.7billion of assets. But this is the warming up exercise. The big deals are to come. "We continue to actively study the next phase of simplification, including structural options, but we will only pursue options that maximise value for BHP Billiton shareholders," the **company** said. Of course, the productivity enhancements also come with some cost. The **company** warned 2014 earnings before interest and tax would come with impairments of $900 **million** to $1.3 **billion** due to redundancies, mine closures and mine site rehabilitation.

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