BHP BILLITON FULL YEAR RESULTS
ANALYSTS' BRIEFING
THURSDAY, 28 AUGUST 2003

CHIP GOODYEAR: Ladies and gentlemen, my name is Chip Goodyear, Chief Executive Officer of BHP Billiton and welcome to our presentation on the fiscal 2003 financial and operating results. Joining me today is Chris Lynch, he is here in Melbourne. Chris will have some prepared comments also.

Now in Johannesburg by video conference we have Mike Salamon. Mike is an Executive Director and he is the President of our Aluminium business. Joining Mike in Johannesburg is Bob Kirkby and Bob runs our Carbon Steel Materials business. Also from London we have Phil Aiken. Phil, as you know, is the President and CEO of our Petroleum business and with Phil is Dave Munro who is our chief development officer.

Those individuals I may call on as we go through our question and answer period and they can provide some additional insights to hopefully answer some of your questions.

In terms of our schedule today I am going to make a few comments and we certainly have plenty to talk about so we will get right into it. Then Chris is going to come up and talk about the financial results and then I am going to come back and spend a little bit of time on putting this year's results in context of our overall performance since the merger in 2001.

With that I will move on to the first slide which is our highlights. I begin with health, safety, environment and community because that is a fundamental underpin to our ability to earn our license to operate. In this area we have had very good performance this year but thinking about our people, thinking about our communities and our environment are critical items for BHP Billiton and critical items for our industry.

In terms of safety, our classified injury frequency rate, which is a measure of essentially injury rate, fell by 20 per cent from 2002 to 2003 and you may have noticed that the company has received quite a number of awards in the community and environmental area, particularly one we are proud of is the Prime Minister's Community Partnership Award which we received for our contribution in the Revive Our Wetlands Program here in Australia. But again thinking about those things is essential business and good business for BHP Billiton, so that's why I mention it first.

Financially we talk about a number of statistics, EBITDA was up to $5.1 billion or up about 9 per cent from the prior year. EBIT was up 12 per cent to about $3.5 billion. Now attributable profit at $1.92 was up about 3 per cent but again that is impacted by the way we handle our currency adjustments, where we take the currency changes period to period and have to flow that through our income statement. Chris will talk more about that. But if you took that out and recognise those non-cash impacts, our earnings in terms of attributable profit would have been up about 36 per cent year over year and again, Chris will spend a little time on that.

In terms of available cashflow, continued strong at about $3.6 billion and the stability of that cashflow and strength allowed the Board to move that dividend up this year about 11.5 per cent from the 2002 results. Annual production across our businesses was quite good year on year. All of our major minerals businesses saw their production levels at or above the prior year level. If you take a look at third quarter, the March quarter to the June quarter, essentially all of our businesses saw production increases.

Now, to me what that says is operating our businesses day-to-day is going well. I will talk later about the fundamental platform of BHP Billiton and it does rest with those businesses and the ability to continue to move production, some up significantly and some up in a minor way is part of what operating excellence is all about and doing it in a cost effective way.

I would mention especially a couple of businesses that did extremely well setting records last year in production. One was our Western Australian iron ore business. In addition in nickel we set records in Queensland and in Columbia and in the Ekati diamond operation in Canada we performed particularly well.

Cost savings, we mentioned that at the time of the merger, US$270 million. We added to that target in April of 2002 for a total aggregate of US$770 million over the period to June 2005. Year to date, since our merger we have achieved about $600 million of savings. We feel very comfortable about achieving our $770 million target level again by June 2005.

In the project side we commented on this certainly with our development report at the end of July, very strong performance since the merger and last year was no exception. Five new projects commissioned last year. Every one of those projects was on budget and on schedule or better than that. This year we have approved three new projects. Those projects have an aggregate capital requirement of $1.7 billion. Our project pipeline today is 14 projects, 13 of those projects are on budget and on schedule or better than that. Now we said at the end of July we have 16 but two projects, Mozal and the project at Zanzama have been now in the commissioned stage.

So again, very strong performance. I said at the time of the merger how critical it was that this project pipeline $10 billion was executed on time and on budget and certainly our success over the last couple of years has been quite admirable.

With that let me turn it over to Chris so he can review the financial results and then, as I said, I will come back and take a broader view.

CHRIS LYNCH: Thanks Chip and good afternoon to those of you here in Australia and good morning to those in London and Johannesburg. What I would like to do is run through the financial results in some detail that we have announced this afternoon and then hand back to Chip to host the question and answer session.

All dollars I refer to will be US dollars in this presentation and as Chip has already mentioned, these are a set of quite strong results delivered against a backdrop of generally fairly ordinary economic circumstances.

Looking first at our financial highlights. Turnover increased by 15 per cent due to overall higher prices and volumes. I will cover average realised prices by commodity in more detail later in the presentation. Suffice to say for now that the greatest increase in prices was in the petroleum sector and the greatest decrease in prices was in the energy coal area.

Volumes increased EBIT by approximately $235 million and sales volumes of iron ore, energy coal, copper, aluminium, diamonds and manganese were all higher than the last year's figures. Petroleum production volumes were lower, mainly reflecting natural field decline.

Turnover from third party product sales has increased to $3.4 billion in the current year up from $2.2 billion last year. Attributable profit before exceptionals of $1.9 billion was 2.9 per cent higher than last year. However, if we exclude the unfavourable non-cash impact from the restatement of monetary items due to exchange rate fluctuations our results were significantly stronger than this figure, reflecting the benefits of higher prices, increased volumes and delivery against our cost saving targets.

Year on year non-cash restatements of monetary items reduced our reported profit by approximately $560 million which I will cover in more detail later in this presentation.

On slide 6 an analysis of EBIT by customer sector group shows stronger results were reported by Petroleum, Aluminium, Base metals, Diamonds and Specialty Products and Stainless Steel Materials. Total EBIT from continuing operations increased by 12 per cent.

Petroleum benefited from higher average realised prices up 25 per cent for crude oil, 22 per cent for LPG and 20 per cent for natural gas. Higher petroleum royalty and tax related price link costs partly offset these price improvements as did slightly lower volumes. We produced 122 million barrels of oil equivalent this year, 9 per cent lower than last year, reflecting natural field decline in Bass Strait, Laminaria and Griffin and a combination of natural field decline and higher down time at both Liverpool Bay and Typhoon. We expect 2004 production to be in the same range of 120 to 125 million barrels of oil equivalent.

Whilst the petroleum CSG recorded a strong increase in EBIT year on year, a number of factors have impacted the June quarter. Exploration expenditure for the year was in line with our guidance of approximately $250 million but of the 154 charged to the P&L account, over 50 per cent of this was booked in the June quarter.

The June quarter included a negative non-cash impact on EBIT of revaluation of resource tax, nominated in Australian dollars and lastly, the Tapis discount to WTI actually widened in the fourth quarter, having the effect of reducing the price achieved for some of the Australian oil exports.

The aluminium CSG achieved stronger results with high volumes, successful cost savings initiatives and operational improvements at Hillside, Worsley and Suriname. Improved results at Hillside also reflect a lower maintenance cost year on year due to the lower number of pots being relined in the current year. Production increased at Alumar and Valesul once the Government enforced power restrictions ended in the March quarter of 2002.

These increases in EBIT were partly offset by inflationary pressures on costs in South Africa and the strengthening of the rand and Australian dollar. Base Metals benefited from a 7 per cent rise in the price of copper compared with last year. The current year result also reflects higher copper production from the ramp up of phase four at Escondida which was completed in October of 2002 on time and about 10 per cent under budget.

Notwithstanding these improvements, Base Metals results for the year continued to be impacted by the self imposed production curtailments at Escondida and Tintaya. Last year's results also included a $38 million write-off of the La Granja project.

Carbon Steel Materials, we achieved record iron ore production and shipments from our Western Australian operations driven by strong demand from all Asian markets, especially China. Demand from the European pellet market has also shown improvement, resulting in shipments from Samarco in Brazil being 36 per cent above last year's figure.

EBIT also benefited from higher prices and volumes for manganese, ore and alloys and higher volumes of Illawarra coal. Operating performance continues to improve at Boodarie Iron and prices are also up for this product. Notwithstanding these improvements EBIT performance was marginally lower than last year, mainly due to the impact of the stronger Australian dollar on operating costs and inflationary pressures in both Australia and South Africa.

For the first nine months of the year contract prices for iron ore were lower than last year. However, from the 1st of April the prices have increased by 9 per cent in iron ore and that was announced earlier in May of this year.

Diamonds and Specialty Products CSG produced stronger earnings. Record plant throughput at Ekati combined with processing efficiencies and higher ore grades contributed to an 18 per cent increase in EBIT from our diamond operations.

Notwithstanding weak market conditions, titanium sales from Richards Bay minerals were slightly up but this was largely a result of timing issues from last year into this year. And Integress, our metals distribution joint venture with Alcoa in North America has benefited from synergies achieved since the merger but continues to face weak demand.

EBIT for Energy Coal is down due to two main causes. Firstly, a lower contribution from the South African operations due to lower prices, the strengthening rand and high inflation in South Africa. The business improvement project is underway, focusing on positioning the business to deliver acceptable returns to shareholders throughout the cycle. A restructuring provision of $6 million was taken for this activity in the June quarter.

Secondly, last year's results included $124 million from assets sold within the 2002 year. This included total operating contributions of $60 million from the PT Arutmin assets in Indonesia which was sold in November of 2001 and the Rietspruit mine in South Africa which closed in May of 2002. In addition profit on the disposal of the Indonesian assets of $64 million was included in last year's results.

This was partly offset by profits from the additional share of Columbian operations, higher sales volumes at Ingwe, increased production following the ramp up of production from Mount Arthur coal in the Hunter Valley and another strong year at New Mexico coal.

Stainless Steel Materials has shown significant improvement compared with last year. The prices were 29 per cent higher for nickel and 19 per cent higher for ferrochrome. Importantly, we are able to capitalise on these higher nickel prices with both the Cerro Matoso and Queensland nickel operations achieving record production within the year. The superior operating performance was due to operating excellence initiatives at both sites and the ramp up of line 2 expansion at Cerro Matoso.

Group and unallocated items showed significant improvement over last year. Base overhead costs reduced by over 30 per cent to $220 million. Losses from legacy currency hedging reduced year on year from $303 million to $86 million. Offsetting these costs in the current period were profits on asset sales and the positive impact of the stronger Australian dollar on the restatement of some net monetary assets in this area. So overall EBIT is up 12 per cent to just under $3.5 billion.

Moving on to the price impacts. This slide shows a breakdown of the $545 million favourable price variance by commodity for the group and the benefit of our diversified portfolio. The green bar shows commodities where prices rose. In total this resulted in an increase of approximately $785 million. The biggest single impact, as I mentioned earlier, was for the petroleum area.

The current year also saw higher prices for nickel, ferrochrome, copper, HBI, manganese and aluminium. Lower prices for export energy coal and iron ore decreased EBIT by approximately $240 million, so overall the $545 million net benefit at the turnover line.

However, this was slightly offset by higher price linked costs of $160 million mainly due to higher royalties and taxes for petroleum products and higher nickel ore supply costs giving a net EBIT benefit of $385 million compared to last year.

Moving on to the non-EBIT items, interest expense before exchange related impacts is significantly lower compared with last year. We achieved lower average interest rates due to lower benchmark rates, execution of our funding strategy and broad recognition of the strength of our credit position.

The exchange loss on net debt was $140 million in the current year compared with a gain of $180 million last year, the movement of $320 million period on period. This is mainly due to the translation of rand in nominated debt at period end. The rand appreciated by 27 per cent in the current year compared with a depreciation of 27 per cent in the prior period. The tax charge excluding exchange impacts was $774 million and represents an effective tax rate of 26.3 per cent or 33.4 per cent after the exchange related restatement effects for the year.

Following promising progress at our Gulf of Mexico petroleum projects in the US, some of the previously unrecognized tax losses in the US have been recognised in the current year. This has reduced our effective tax rate by approximately 3 per cent. Based on current plans we expect further recognition of benefits over the next four to five years.

I would like to show you now the impact of exchange rate movements in more detail on the next slide. As you are aware, we operate under a US dollar functional currency based on the fact that the vast majority of our business is conducted in that currency. The major impact of this accounting treatment is the restatement of monetary assets and liabilities denominated in currencies other than the US dollar, in our case mainly interested in the rand and the Australian dollar.

What is important to note on this slide is the change in this item from the prior period. The total impact of the net monetary liabilities at balance date was to reduce our attributable profit by $380 million. Last year it actually increased attributable profit by $180 million, a total adverse change of $560 million year on year.

I just want to take a little bit of time here to try and get a bit more clarity about the underlying business performance behind these results. The attributable profit for the year is $1.92 billion, but this is after currency related reductions of $380 million. These restatements are essentially non-cash items. Exclude them and attributable profit would have been $2.3 billion.

Last year reported attributable profit was $1.9 billion boosted by currency related gains of $180 million, again largely non-cash. Excluding those gains last year's attributable profit would have been $1.7 billion so the total underlying improvement is $614 million or 36 per cent compared with last year representing a very strong operating performance in the current period.

Another way to focus on this strong result is to look at the quarterly profit performance since the merger. This shows a consistent trend of growth in earnings over the eight quarters and the 36 per cent improvement year on year, if we exclude the non-cash impact of the restatement effects, very strong result reflecting the benefits of higher prices and volumes and delivery against our cost saving targets.

Moving to the cash flow on the next slide, a feature of these results is our strong cash flow. Operating cash flow before interest and tax was $5 billion, 8 per cent higher than last year. After the payment of interest and tax available cash flow was a robust $3.6 billion.

Capital expenditure for the year was $2.7 billion and this is comprised of expenditure on growth projects of $2 billion and maintenance capital around the $700 million. Exploration expenditure for the year was $348 million. These expenditures were offset by net inflows from sale of fixed assets and investments totalling $659 million, mainly relating to the sale of our indirect stake in CVRD and the sale of our 6 per cent residual interest in BHP Steel.

Cash inflows relating to acquisitions and disposals are $405 million, mainly reflect proceeds received on the demerger of BHP Steel from the repayment of intercompany loans and the sale of our 25 per cent interest in the Alumbrera project in Argentina. Overall, asset and investment sales generated in excess of $1 billion in cash for the group.

These strong cash flows enable the group to increase dividends to shareholders and also to reduce our debt by over $1 billion. We expect the total capital expenditure in the coming year will approximate $3.8 billion from all of those sources.

I would like now to update you on the progress on our efficiency improvements. At the time of the merger we announced a target of $270 million in merger benefits by the end of 2003. As I reported to you at the half year results in February, we exceeded this target six months early by delivering $285 million in benefits by December of 2002 of which $200 million was cost savings and $85 million was other merger benefits.

Good progress has been made in the current year towards our second target of $500 million of additional efficiency improvements by the end of 2005. We've achieved additional improvements over and above merger benefits of $310 million this year, meaning we are well on track to achieve our combined target of $770 million by the end of 2005.

Operating excellence is our strategic initiative supported by the charter that adds value by identifying and solving our most pressing operating and processing problems. We do this by actively promoting the networking of people to share business improvement opportunities and solutions. We've also invested heavily in six Sigma teams to deliver results. These six Sigma teams delivered 350 projects and nearly 250 six Sigma black belts have been trained.

Next year the target is 1,000 projects, many of which are already underway. For those of you joining us at the presentation venues today, we've set up around the room some examples of projects and invite you to review these at your leisure after the presentations.

In addition to operating excellence, $40 million of savings has been achieved in the area of strategic sourcing. Again there are a number of different examples to draw on here, including global supply contracts for earthmoving and mining equipment, and also corporate services such as IT and travel. Acquisitions and disposal of assets or changes in our product mix have also reduced our average unit costs by a total of $70 million. Examples here include the acquisition of Diamet, increased investments in Worsley and Cerrejon Coal in Colombia and the disposal of our Indonesian coal assets. So we are well on our way to our $770 million target with $595 million of benefits achieved to date.

So finally in summary, EBIT is up 12 per cent; attributable profit up 3 per cent; dividends up 11.5 per cent and our underlying performance up about 36 per cent. With that I'll hand you back to Chip.

CHIP GOODYEAR: Thanks, Chris. What I'd like to do over the next few minutes is take a little walk down memory lane and try to put these results in perspective of the performance of the company and some of the things we said at the time of the merger. What I'd like to use to do that is our value drivers. These value drivers we'd announced to the market in April 2002. Obviously we reviewed it internally and with the board prior to that.

These may look familiar to you. I'm not going to walk through each one of these things but I will talk about a number of them. I wanted to show this because we did add one value driver that you didn't see last year and it was area of employees. Over the last couple of years, we put our structure in place.

We've obviously put our strategy in place. In addition, we have put the right people in the right place and managed our business that way.

But as the leader in the industry, we certainly have to think about people who are going to run the company in the future. Great people create great assets and I've said that a number of times. We have to make sure we are identifying those people, we are giving them the right training and obviously moving them around the organisation to learn from the various things that we do. Employees are the key to this company now and in the future and it's very important that we put that on our value driver. We're not going to talk any more about that but we will be talking about that from time to time in the future.

Moving through the areas I would like to talk about, I will start with outstanding assets. This one is our first value driver. There's a lot of ways to look at this and we've done that in the past. We've looked at the cost curve, we've looked at our margins that we generate and very, very good results in that in terms of each individual business and how it compares to its competitors. What I've done here is take our EBIT margin across BHP Billiton and presented it in 2001 at 21 per cent, and 2003 at 24.3 per cent. And this excludes the third party sales and trading activity.

You can see a significant improvement, about 16 per cent in terms of margin. Now, there's lots of reasons for that. Prices move up and prices move down, and in addition, we have currency which is either hedged or not hedged or commodities which are hedged or not hedged. We've also seen significant inflationary aspects over the last two years, particularly in South Africa. We have seen currencies that have risen very significantly. In Australia both years, 11 per cent in '02 and in '03 about 18 per cent increase. And then certainly in the last year increase in the Rand. But despite that, EBIT margin moving up. And again, that's one measure of outstanding assets, but I do think it's quite important to note that we also have a HSEC criteria here and this has happened within the context of a safer work environment.

The next area is our growth projects. This is a critical distinguishing factor for BHP Billiton as many of you know. What I've presented on this slide is our project pipeline as presented in June of 2001, and it's presented for the calendar years '01, '02, '03 and '04. We've added on Cerrejon and Diamet. In the pie chart we presented our expected budgetary expenditure for this project. The total number was about $2.3 billion. Again that crossed many of our customer sector groups.

The next slide is what actually happened. A couple of things have happened here. First of all, the projects have come in less than $2.1 billion. There was savings of about $223 million or 10 per cent or so of the cost of those projects. In addition, three projects came on early; For Mozel 2 all 288 pots have been commissioned and we're producing at above capacity; a very successful project and in your numbers you will see that our capital costs were significantly below what we expected. Zamzama & the Bream gas pipeline also came in early.

Again as I mentioned at the time of the merger it is absolutely critical in our business that you are on time and on budget and hopefully better in all those projects. Over the last two years, eight projects, a couple of acquisitions, we've done exactly that.

In terms of the third area, third value driver, marketing, Marius and his team recently gave individual briefings, talking about the marketing activity, and they described what they do there, how they focus very much on our assets and our customers and find how to create value between the two. They primarily focus on moving more volumes and they look at increasing our margin.

They do that in a number of ways; Cross-selling of product. We talk about iron ore and our business there and how we can use those relationships to move manganese and move coking coal into those customers. Other ways to do it is to think about how we market. Perhaps removing traders from our intermediary activities between ourselves and our customers, and we reported I believe last year of that $160 million of savings, $43 million coming from doing that. In addition, it's stockpile management and all those things which are in the logistics chain that impact the cost to our customer. But it's those items that they focus on, and again, he talked about that in great detail with his people.

I want to step back a little bit and give a corporate perspective on this. It's a very valuable function to manage our risk. Now, at a touch of a button, every morning around the world, we can understand exactly what our exposure is with our customers regardless of business unit that they are involved in. That may sound for many of you in the financial market as something that you should be able to do anyway. For us it's very new, and I can guarantee in our industry it's very new, but that exposure is to understand that is very critical.

In the past iron ore would do their thing and coking coal would do their thing and nickel would do its thing. We need to understand that. In addition, understanding those exposures and managing them is quite critical. I've talked to you in the past how taking marketing and moving it into an expert function is value added. Well, when you put your marketing at the assets, what is their job? Sell product. When you take it into marketing, it goes beyond that and says let's get value out of what we do.

Two years ago, our overdue accounts, our overdue receivables, were about 15 per cent of our outstanding receivable balance. Sounds like a pretty high number. I was a CFO and I probably couldn't have told you that. Today it's about 3 per cent. What has happened, the guys have gone from saying, "let's just move product" to "let's make money doing it. Let's not give our customer that float. Let's make sure we capture that for ourselves." Structurally, we ought to be in the 3 to 5 per cent areas in terms of that number. But moving it down from 15 creates a lot of value, and more important than the money is the mindset that comes from thinking that way.

In addition, logistics management that helps schedule product, decreases our demurrage and helps us manage. You don't see that in a marketing line but you do see that in the margins that flow through to each of our businesses. That's where you see the value of marketing. I can tell you it's not just about volumes, it's not just about margin, but it's how we go through and manage our business which is again quite a distinctive feature of how we approach marketing.

The fourth value driver portfolio effect at the time of the merger, we said that this distinct group of assets and products in the markets we sell and the regions in which we produce would create quite a stable generator of cash. We measure that on the chart in front of you in terms of EBITDA. Now, we look back over eight quarters. We look back over a period that has had the 9/11 terrorist attacks, Enron and WorldCom bankruptcy, significant appreciation in the Rand and the Australian dollar, the black economic in power, concerns over the leaked charter in South Africa, the Iraq war and recently the SARS virus. Despite that, quarter in, quarter out, this set of assets and this set of businesses have produced a very stable level of cash.

What do we do with that? We take that stable level of cash and reinvest that into our projects, project pipeline that we know and understand well. Now, how does that benefit the shareholder? We can be counter cyclical. Personally, I think we will find in the years ahead spending the money we spend across all of our business units at this time will not only be a good decision in a tough environment, but as things recover, it's better to have the project running at that point rather than trying to catch up.

I think again, that stability gives us a lot of flexibility to grow earnings over two, three, four and five years. That's our investment proposition.

But that's also carried through in terms of our financial strength. Over the last two years, from the end of 2001, June of 2001 to now, we have reduced our net debt by $1.5 billion. That's despite spending $6.2 billion on our projects. Pretty incredible cash generation, and we put it to work where we think makes the most sense. That's been recognised in terms of our financial structure.

We have done a number of things. We've taken the opportunity to extend the maturity profile by moving into capital markets. We've issued securities in Australia, in Europe, through a global bond in North America. Moving that maturity structure out, decreasing our reliance on the banks, despite that, we've taken our borrowing cost from approximately 8 and a half per cent down to 5.1 per cent.

So not only have we taken advantage of maturity, we've taken advantage of the interest rate environment, and through that time, through the generation of cash in the business and reducing interest costs, our EBITDA to interest cover has moved from eight and a half times to 12.7 or almost 13 times.

Now, that's been recognised by the rating agencies who have moved our rating up into a strong single A area. In addition, Standard & Poors currently has us on positive watch. So integration activity going well, operating business going well, financial performance well, and project development have been recognised as the rating agencies that consider our financial exposure.

The last area I'll mention is Petroleum. At the time of the merger there were a number of comments that perhaps we ought to exit that business. Who has been successful running minerals and petroleum? And we made a case around our unique expertise in this area. Over that two years, if you take a look in a number of areas, essentially operating, development and exploration, I would be hard pressed to find companies who significantly outperformed us. In fact, I would look at our petroleum business and think it has been one of the best performers over that period of time across those areas, and again that's regardless of size.

On the slide you see some of our top quartile performance in terms of margin in the business and very highest in terms of return on capital. We have, if not the highest, one of the highest in the industry. Three projects have been commissioned since the merger. For Typhoon, the Bream gas pipeline and Zamzama, there have been two stages; the exploration results in the Gulf of Mexico, certainly Trinidad, and here in Australia have been very good and again quite unique.

We also report on the Wood McKenzie study that talks about value creation. This was a study they did in the early part of this year. They said that BHP Billiton Petroleum was a top quartile performer in terms of exploration activity. Again when you think about this business it's not only do we do it well, generate value, it provides additional areas of growth and does diversify our financial risk, and you've obviously seen that through the EBITDA performance that I illustrated earlier. Needless to say, Petroleum is a core part of our BHP Billiton portfolio.

This is a slide I've talked about now for some 18 months. I'm not going to spend a lot of time on it. I just wanted to use it to try to frame again the last couple of years. I've said that our platform of our business is our low cost high quality assets. Those assets as I said have produced production results that have been certainly very good and continue to get better. You've seen records in iron ore, you've seen records in nickel, records in Ekati and obviously a project pipeline that we hope will continue to deliver very good results but managing those assets and across our portfolio and managing them well.

Cost savings. That cost savings comes in many different ways. Operating excellence, strategic sourcing, managing our intermediaries between us and our customers. We've done very well heading those targets, again we expect that $770 million to be achieved by June 2005, but it is an integral part of our business. It can be a fun way to manage the business when you take a look at it that way and that's part of operating excellence.

I spent a lot of time on the growth pipeline. I'm not going to go into that in any detail further, just to say we've delivered projects on time and on budget or better than that. In addition we have a substantial pipeline we continue to execute very well. That pipeline is very different than our competitors and it's something that will continue to see as a distinctive advantage for BHP Billiton.

In the M&A area and the bolt-on acquisitions, 2003 from an acquisition point of view hasn't been particularly active but we have been active on the other side. We did obviously exit BHP Steel at the beginning of the year, but in addition we exited our interest in CVRD, the indirect interest in CVRD in March of this year. We sold down and sold out of our interest in Alumbrera and Agu Rica, two copper projects in South America.

Now, on that side, we see that that capital can be put to work in better ways and obviously have executed them, but from time to time, you will see our activity in M&A and in bolt-on acquisitions. In fact, every one of these areas will be an important driver to value to BHP and BHP Billiton shareholders in years ahead.

Let me just say here that if you do take a look over the last couple of years, we said at the time we were creating a unique natural resource company; one built on legacy assets, superior legacy assets. We were going to take that cash flow and put it back into our business, $10 billion project pipeline. We were going to execute that pipeline and then build on that through various areas, operating excellence, the marketing initiatives and obviously using that footprint all around the world to identify and source new opportunities. So over that two year period, the job I would say is never done.

We are never too successful in what we are doing. But we've made a very good start and we think we have the platform to continue to do that in the years ahead.

Let me just finish up with a little comment on this summary and outlook. There would be no presentation in the resource industry today that wouldn't be complete without talking about China. China has been an important source of demand and growth for resource industry in the last several years. 2003 was no exception. Our sales last year were $US1.2 billion, that's direct sales. That's an increase of 120 per cent year on year. It represents about 7 per cent of our turnover.

Our two biggest areas there are in iron ore and aluminium. In iron ore about 32 per cent of our iron ore turnover comes from China. On the alumina side it's about 45 per cent of turnover coming from China; again, growing that business and making it continue to be an important contributor to those particular assets. But as I mentioned earlier we're getting cross-selling opportunities. We can build on those relationships to supply products that are otherwise short in the domestic market in China.

Two years ago in coking coal we sold nothing in 2002. Last year we had good results and we looked to see that continue this year. In manganese, somebody who walks in the door and already sells a lot of iron ore can bring a new manganese product to that customer and we are seeing volumes there continue to move up.

Nickel very much the same story, and building off good production, record production in Queensland, record production in Columbia. Two or three years ago, demand for copper in China was about 2 million tonnes. This year it could be in the order of 3 million tonnes. We obviously expect our fair share of that.

In terms of China and its sustainability, that's something that obviously is a question on many people's mind. We're getting a little bit more confident and increasing our confidence about the sustainability there. Our marketing model is a very important factor in this. Again in Shanghai, 50 people, 85 per cent Chinese nationals, everyone fluent Mandarin speakers, we are in direct contact with our customer. And we have the capability to own product all the way to their front gate including stockpile management.

That's a much better way to understand what is happening in that market. The activities in marketing are a key conduit for us to do that, but it won't be a straight line up. There will be bumps and bruises along the way, and understanding regional demand and supply patterns is quite critical to us and that's why having marketing on the ground is quite important.

As for the rest of the world, demand certainly remains subdued at least in times of absolute metal demand. It's not true in energy but in metal area it is. Now, having said that, we are seeing some encouraging signs particularly in the US. In the US, consumer confidence has continued to grow and business confidence has started to follow that. That has been lagging certainly over the last year or so.

A significant part of that appears to us to be government pump priming, the Iraq war and the spending related to that as well as the tax cut, the recent tax cut in the US. Perhaps you saw yesterday increasing same source sales in major retailers in the US so the ability of take some of those government sponsored initiatives and turn them into true sustainable development and sustainable economic growth is quite important. I would say obviously you've seen equity markets continue to improve, and that's improved some of that confidence level.

In Europe, not quite the same story. We would see as behind the US in terms of recovery. Having said that, confidence numbers are certainly improving in that market but it is going to take some time. There are some structural issues there. The strength of the Euro in the earlier part of the year certainly would be a negative, but obviously that's come off somewhat.

Again in energy we see a little different story with regard to Europe. Coal prices are moving up quite dramatically but in terms of metal demand that will take a little bit of time. How are we reacting and what should you expect us to see in the year ahead? Chris mentioned our capital investment program, $3.3 billion, about $2.3 of that is in growth projects; $350 million of that is coming in exploration and the balance will be in maintenance.

So we continue to use that stable cash flow to put good projects to work, and we position ourselves for a return when that does occur but, again, through our price protocols which show real price decline, these are very attractive projects in and of their own right. So simply in the last point, our position around our existing assets and their strength, our ability to manage cost, pushing that initiative through operating excellence, communicating and understanding our customers through marketing, developing that project pipeline, not just in what you see, but thinking about prefeasibility and feasibility work to continue to fill that pipeline and obviously thinking about all this in a financial context making it at the end of the day, an important and significant return to our shareholders for the investment they make.

So with that, I will open it up for questions. We are in four locations, plus we have telephone. So what I'm going to do is start here in Melbourne; move to London. I will then go to Johannesburg and finally Sydney but we'll do three or four questions in each location and hopefully pick up people along the way.

I will ask that you direct your questions to me and then I will farm them out to the various individuals as appropriate. With that we'll open it for the first question here.

QUESTION: I see that your interest cover is very comfortable at 12 and a half times, well above your target level, and your new projects, you still have the likes of Spence and Ravensthorpe on the list, and the outlook is looking better. I'm just wondering where does your priority from here lie? Are you looking to increase your growth and grow the business that way, or are you looking at capital management options?

CHIP GOODYEAR: Why don't I go ahead and answer that one. We are very consistent in what we've said over the last several years. We would love to reinvest in our business. We think that the returns we get there are quite attractive. We believe that our investors would love us to continue to do that. Now, we have to make sure though it's a value added decision. And certainly we believe that. The second thing we do is manage capital structure. I think we met essentially all of our targets there as you commented. And then finally return the money to the shareholders if we don't have a better use for that. We've increased our dividend. We actually bought back stock in the June quarter. We did that in May, and so we have put some of that into practice.

But again, we'd love to reinvest. We have to make sure it makes sense. So many people have asked are you going to go out and spend money on acquisitions and so on? We are now, believe it or not, a US$50 billion enterprise. That does give us significant opportunity to look at those M&A opportunities, but we have to be disciplined in how we do it. So again, I can tell you that Dave Munro and his team spend a whole lot of time looking at everything that you hear about and a lot that you don't, but we will be very disciplined in how we put it to work.

From time to time, as I said, it will work but again, love to reinvest in our business, capital structure makes sense, then return it to shareholders.

QUESTION: I was wondering if you could give us some more clarity on the previously unrecognised tax losses in the Gulf of Mexico. What are the unutilised tax losses currently sitting in the Gulf of Mexico in petroleum business? Are any of those sort of arising from exploration? Thirdly I guess, what do you expect in terms of the ongoing tax benefits?

CHIP GOODYEAR: I'm going to turn that one over to Chris. I will just say for those of you that have seen me over the last four years, the question usually comes the other way, "what are you doing about them?" Now we have a chance to talk about it. Chris.

CHRIS LYNCH: Thank you. I guess the first thing is we have recognised in this year losses that we haven't booked in the US on the basis that we haven't had a profit stream to book them against. So that's the first thing is to get the confidence level about just how much profit stream will you have to come to meet these losses.

They largely pertain back to US operations other than petroleum. So we would have an expectation there's about 3 per cent impact on our effective tax rate this year. We would have an expectation of a similar dollar amount and that percentage obviously will change depending on underlying profitability elsewhere, but I think you could expect something in the order of US$50 to US$100 million per annum going forward.

CHIP GOODYEAR: Thanks. Next question here.

QUESTION: It looks like you expensed 75 per cent of your exploration on oil and gas this year as opposed to 52 per cent last year. You've indicated you have moved to normal levels this year. Can you give some guidance going forward? Do you expect similar levels in '04?

CHIP GOODYEAR: You give me a great chance to utilise our video link. Phil, if you're there, why don't I pass that question over to you.

PHIL AIKEN: Thanks Chip. Well, last year or the year ended June 2002 we had a very low level of expense because we had a lot of appraisal wells when we were going through the appraisal of the Mad Dog and Atlanis oil fields, and therefore we had an unusual amount of capitalised exploration. In the year ended June 2003 we finished up with about 35 per cent capitalised which would be I think towards the top end of what an E&P company would expect to do. Going forward, we would expect to be in the range of to 30 to 35 per cent. A lot of that really depends about how much we spend because we've said quite openly we'll spend about US$250 million a year in exploration, but we will always spend more money if we are funding success, and obviously if we're doing more appraisal drilling we will be capitalising that and the capitalisation rate will go up. But we are looking at some something in the range of 30 to 35 per cent which would be a top tier performance for an E&P company.

CHIP GOODYEAR: Thanks Phil, why don't we move to London and see if there's some questions there.

QUESTION: Thanks. Good evening in Australia. Chip, I'm wondering if you feel sufficiently emboldened to look beyond the current cost savings targets which appear astonishingly modest in the light of your performance in the last six months, and come up with some new billion dollar plus targets. I am being deliberately provocative here so I hope you'll forgive me. If you look at the targets, your cost base is US$14 billion, and you've said that you will achieve another US$175 million in the next two years and you already achieved US$240 million in the last six months. So the potential to deliver way above your targets appears to be there. Do you share those views?

CHIP GOODYEAR: Well, let's see. You will forgive me for not answering that question fully to your satisfaction. I think that our success on cost savings has been quite good. Now, I would say that the activities that we have undertaken in operating excellence and in marketing and so on and certainly at the asset level will continue to show benefits, and in addition we look for things like sourcing, an example being our Caterpiller contract which will roll through over time, because we don't get the savings until we buy the equipment or buy the spare parts.

So, I do expect us to have good performance. I think that overall our performance in 2003 was quite strong. I'm not sure I would expect that kind of performance in 2004. We do expect continued savings, but we need to see we move those through. We are not prepared to move up our target, but certainly every success we have gives us a reason to believe there's a chance to do more.

As I said to our staff today, cost savings is actually fun. Thinking about how you can do better, and I certainly hope you look around the room. Here in Melbourne it's out in the hall, look around the room and see what these people are coming up with. It's not reduced employees, it’s how do we get better tyre life? How do we get better performance out of assets? So, not ready at this point to move that target up, but certainly we never give up in terms of how we make this business better.

Another question in London.

QUESTION: Just looking at your cash flow statement and the actual tax paid, it seems to have doubled through the full year. It's about half a billion last year, it's now a tickle over a billion this year. I'm just wondering what the reason behind that is. We haven't seen a huge jump in EBIT so a bit more explanation on that.

CHIP GOODYEAR: Thanks. Let's turn that over to Chris.

CHRIS LYNCH: Tax payments will flow in a different pattern to the actual earnings. For instance, in this year we see the effect of 2002 earnings in South Africa being higher than 2003. In Australia's case, we had a lot of carry forward tax losses that have now been pretty much exhausted, and also the exchange rate on the amount of tax we actually paid translates to a higher US dollar number.

So those are the key items and if you look at the numbers, South Africa is in the order of US$130 million, the Australian issue is about US$300 million and the translation issue is in the range of around US$50 million.

CHIP GOODYEAR: Thanks, Chris. Let's move to Johannesburg. Mike.

QUESTION: I wonder if you would just comment on the strategy behind getting involved in the Drax power station equity and also in terms of the supply contracts and where it may lead to going forward?

CHIP GOODYEAR: Thanks. I will go ahead and do that. Let me just paint a little picture for you here. We are the largest supplier of export thermal coal into Europe. It's an important business for us and it's a big business. That market is undergoing significant change as many of you, particularly you in Europe would know. There are issues around greenhouse gases, there's issues about alternative power, alternative fuel supply such as gas and things are changing quite dramatically. In addition, just in coal burn we have a movement away from local coal suppliers supplying domestic facilities, that's a European issue, so our customers are seeing lots of changes in the way they run their business.

What we see here is a tier 1 asset. Drax as many people know is one of the most efficient power plants, certainly coal fired power plants in Europe. It burns about 9 million tonnes of coal a year. And as we've described in the past, we take a look at the significant resource position we have with our assets, and marry that with our marketing. In other words, providing more value to our customer, and we do this with other customers currently. A number of our customers have outsourced their coal supply activity to us.

So this fits very much along the lines of what we do. We produce a product. We then try to service the customer in the most efficient way so we add more value to what they do. Coal is not the first business or the first place we've done that in. For those of you in Australia, you may remember the Eastern Gas Pipeline which now provides gas from Bass Strait to New South Wales. That was a project that was conceived from BHP Billiton point of view.

But Duke took ownership of that once it was identified and the opportunity was available, and they then built the pipeline and we benefit day in and day out as gas moves from Bass Strait to New South Wales. So, I think let's just keep it in context. We see this opportunity as one that is a tier 1 asset related very much to the upstream assets that we have, consistent with our customer management, customer relationship side of our business.

Then I would also just say that we are talking here about a potential investment, and I do stress potential by the way. There are significant conditions that need to be met and the decision is ultimately one that rests with the creditor committee. But we are talking about US$150 million in a company with an enterprise value of $50 billion. So I have read a few very good analysts' reports around, but I've also read some people say this is a big change in strategy. I don't think so.

Another question in Johannesburg, Mike?

QUESTION: Diamond and specialty products division has become fairly chunky in terms of contribution, but could you comment on the future of some of the investments in that division specifically the titanium sands division whether they have any growth prospects there?

CHIP GOODYEAR: I will tell you what I will do with that. Mike, I might get you to answer questions on Richards Bay and if there's more about diamonds and specialty products, I will be glad to follow on.

MIKE SALAMON: Thanks Chip. Our 50 per cent investment in Richards Bay is an investment in the world's best mineral sands operation. It's an investment which has performed extremely well over the years. The uptake for the property is in a much more challenging situation at the moment, so we have seen some downturn in the result. Really the upside in that investment at the moment is in fact to regain full capacity.

CHIP GOODYEAR: In terms of the three major areas. One, Ekati, two Richards Bay, and the Integress business. I think one of the things you saw in the fourth quarter as Chris mentioned, was a significant impact from plant throughput at Ekati, and 2004 we would again expect to be a pretty attractive year in the diamond business based on the production side of that.

Obviously price will be what it will be, but the year ahead looks fairly attractive. You need to remember in diamonds that we are lumpy in terms of how we sell. There are two quarters where we only have two sales and two quarters where we have three sales, that is window sales. The June quarter is one with three sales in it.

Another question from Johannesburg, Mike?

QUESTION: Two questions really, related to the petroleum division. The first one is about the LNG announcement for the offshore of California. I'm reconciling that with the Woodside recent announcement about not going ahead with the fifth train at this stage or postponement of the announcement of it. Can you just give us some idea of your strategy going forward especially selling LNG into America. And then the next one is regarding the Gulf of Mexico. Considerable success in the Gulf of Mexico and very well done on it. How does that change the long-term profile of oil and gas coming out of the whole division?

CHIP GOODYEAR: Thank. Those questions are best handled by Phil.

PHIL AIKEN: Thanks Chip. Firstly, to some degree the US West Coast LNG terminal could be very similar to what we talked about before with the Eastern Gas Pipeline or even Drax. Basically, I think the world LNG market has changed quite dramatically, and I think now that the days of suppliers and buyers being separate have possibly changed, and we see the opportunity on the west coast of the US, as being a very significant opportunity, to possibly invest in a terminal which could then lead to us monetising gas out of Australia, either as part of the North West Shelf or another field we have, to supply that market.

I think most people know that the Pacific Basin LNG market is very much about the North Asian markets, but with the crisis in the US of gas supplies in the longer term, we believe that supplies into the west coast will be very, very important in the future. And really being the first to get a terminal built on the west coast of the US would give us a very significant competitive advantage to try and sell more LNG into that very, very large market.

The second part of the question was about the Fifth Train of the North West Shelf. Can I make the comment here that no decision has been made on the Fifth Train. In fact, we don't believe a decision on the Fifth Train will be made for some time. The reason behind that is that the supplies to China won't start until the back end of calendar year 2006, and as you are aware, we have recontracting to consider in Japan coming up from 2009.

Therefore the decision on the timing of the Fifth Train will be made when the market requires it. So there hasn't been a decision made and we are continuing to work on the concept of the Fifth Train and what it means.

I would just like to add the point also that the Fifth Train is not a single decision. Obviously when we build the Fifth Train, we have offshore facilities to consider and we have to consider another platform and how we develop the Angel field, what jetties we need, so therefore there is quite a bit of work that the North West Shelf joint venture is currently doing in looking at all the options about the timing of Train Five.

The last question really about the Gulf of Mexico. As you are aware, Mad Dog will come on stream at the back end of 2004 and Atlantis, which is very important to us, comes on in August 2006. When that happens we will be producing our share in excess of 100,000 barrels a day of oil in the Gulf of Mexico. Obviously that's going to make us a much larger non-Australia, much more international E&P company.

We also will produce gas out of those two projects. So probably by about 2007 you will see a significant part of our production coming out of the US, and much less coming out of Australia, and obviously that's going to change our overall mix of product and where our products are going overall, but the Gulf of Mexico is where the big growth comes. When Chip was talking before about the big production growth we have around about 2006, 2007, that's very much on that success in the Gulf of Mexico.

CHIP GOODYEAR: Thanks, Phil. And, I might just add that in June I was at the National Petroleum Council meeting in Washington and the discussion was around gas. Although certainly there's lots of talk about it, it's very interesting to see how they are going to meet their supply or their demand needs there, and we certainly see LNG as an important element of that and that's not inconsistent with what we heard there, but having that access to market, essentially owning that potential bottleneck or having exposure to that in some way really makes our upstream assets more valuable.

We see that as a potential choke point. So stay tuned on that. Maybe one more question there, Mike, and then we'll move down to Sydney.

QUESTION: More questions on the assets. We've seen a sharp turn around in profitability from Escondida. Can you give us a bit more detail in terms of that operation? Maybe a cost outlook there in terms of the higher production rates going through there. What is happening to the other base metal operations which I see are still generating a large EBIT loss? And then lastly on Typhoon, that's a relatively new project but you are already reporting signs of natural field decline. Can you maybe just comment on Typhoon please?

CHIP GOODYEAR: Let's see. Why don't I give copper a try here. In terms of Escondida, I think you have to look at the price in terms of performance at Escondida and recognise that Phase 4 started out this financial year, so that's mainly what you are going to see as the impact. We still have voluntarily restrained production in Escondida, and the decision to do something different will be dependent on what market demand is and so on and so forth. But I think that's mainly what you are seeing in terms of performance at Escondida.

Certainly if there's additional things, I am sure Michael or others can get to you on that. I believe you mean the Other line in Base Metals. Again, I will just mention that. That's a combination of some relatively small assets that are being shut down. It also is some of the ongoing cost in Southwest Copper. So those will be the items that are other in copper. I think maybe if I then turn it over to Phil for comment on Typhoon.

PHIL AIKEN: Yes. Typhoon was always a relatively small field which was going to have a relatively short life. Last year, you actually saw a decline in production which, as we said, was about natural decline with one of the wells watering out a little bit earlier than expected. We've always said though, that Typhoon is a host facility for what we call the Typhoon Basin, and there's actually a lot of other amplitude plays in that area which we are currently evaluating. Now, the first of those was Boris and we brought the Boris well on stream a couple of months back and that well actually was to produce 10,000 barrels a day and it has actually produced up to 18,000 barrels a day. Therefore the production of Typhoon has increased quite significantly over the last couple of months since Boris has come on stream.

We will be bringing Boris North on probably in about a month's time and so the production will increase again, and we have other amplitude plays in that area that we will explore and appraise in the next period of time. So you have seen Typhoon come off as the original Typhoon field came down, but I would hope in the next couple of years you would see that production increase as we do these near field developments of which Boris was the first.

CHIP GOODYEAR: Thanks Phil. Okay. Why don't we move to Sydney, see if there's some questions there.

QUESTION: Just on cost reductions, I would like to focus more on that. I think the previous comment is absolutely right. Given your large asset base you certainly need to accelerate the cost reduction drive to improve your return on invested capital. In that regard I would just like to know what are you focusing on in terms of the non-traditional areas of cost saving? You know we have chatted about a lot of the traditional ones but I would like to think about areas like cooperating with your neighbours, cooperating with your traditional competitors. An example of that would be the mass of savings that you could achieve in Western Australia in the infrastructure side. So that's the first question. Just other areas of cost saving outside the box.

Then the second question is China. There is obviously requirement for new raw materials into that country. They have become increasingly aggressive on the investment front. I would just like to know what your attitude or thoughts are on entertaining joint venture partners or participants in the form of maybe Chinese partners in some of your projects, your valued projects that you have going ahead? Examples again are iron ore, coking coal etc.

CHIP GOODYEAR: Let me answer the second question and then what I am going to do is let Bob and Mike talk just a little bit about some of their savings activities, keeping in mind you would like to hear about the unique things. What I am going to ask them not to talk about is whether we are going to partner with our competitors and so on and so forth. I think what we focus on here are things like operating excellence and so on. Transaction issues we don't comment on as a matter of course.

But in terms of whether we would entertain Chinese partners in our various activities, I think if you followed the LNG activities with regard to Guangdong in China, the North West Shelf venture did bring CNOOK in as a partner in that operation. If you look across our businesses we have partners essentially in every one of them and that is not an issue for us. We have partners which we look at to bring a particular skill or expertise or knowledge to that. The key is we find the right partner for the right project and we have no issue regarding Chinese partners. Again, if they are the appropriate partner, no issue with that.

Let me turn it over to Mike and Bob and let them just talk a little bit about some of the things they are doing within their businesses, those are again very important businesses for us and I think they have had great success in this area.

BOB KIRKBY: Chip, I will go first. There is still a lot of scope for us in the traditional areas for cost savings. Last year we ran 145 projects throughout the Carbon Steel Materials group. We are going to increase that significantly again this year.

Those projects cover areas such as labour savings which we have talked about in previous times, but also applying new technology to our business. We are seeing some very promising results, for instance in coal that I have talked about previously with our drag lines. Using new technology on old machines and there are many, many examples of that being worked on and many opportunities in the future.

I am here in South Africa today and we are just going through our manganese business with the people that work in it and there are some very good examples that we have talked about here in the last day or so. The Metalloys business, it's a relatively old plant, and used to operate six furnaces. Last year we operated three furnaces there and set record production. How did they do that? They do that by using the operating excellence technique, using the best of technology, getting reliability (Video link dropped out)

CHIP GOODYEAR: Bob, I'm not sure if you can hear us. Why don't we go to our next question in Sydney and if we get Bob and Mike back we will then follow up with that question. Next question.

QUESTION: Just a couple of questions. Firstly just following on the cost side, you had I think US$240 million of cost savings in the last six months. You do your cost savings on a unit of production basis. So I guess you have ramped up a lot of operations, as demand is picking up. I was wondering if you can actually give us some idea, of that cost saving of US$240 million, how much is sustainable? How much have you taken out of the business in millions of dollars against how much has actually been just because you have ramped up production?

The second question, going back to the Drax power station issue. Obviously you are buying a market, vertical integration to some extent which is general in business nowadays. Does that mean you are going to either substitute it with existing production, which doesn't make sense to me, or does that mean you are going to expand Ingwe or Columbia, and if so which is the preference?

CHIP GOODYEAR: Let me handle the second question first. Bob and Mike, we will come back to your question you were answering right after this. With regard to Drax and what we are going to do and where are we are going to get coal from and what does it mean, way too premature. The relationships that we have already, in terms of outsourcing supply arrangements with other companies, we have to buy coal from others in order to meet those requirements. We can't produce it all ourselves.

So, again it will be a situation that will develop as appropriate in the marketplace when and if that occurs and it's way too premature to talk about that. But again I think your characterisation of buy a downstream market is not correct. It has to be a project that stands on its own two feet and that's the way we look at it.

When we think about it, we don't think about the margin we can get in coal by simply selling coal as we do today against the index. That is not what we are doing in this transaction. It is about our business and how we execute it and then, is this a good business opportunity stand-alone?

With regard to the unit cost savings, are you in a position Chris to address that?

CHRIS LYNCH: The impact of the volume related issue, we do measure our cost savings on a unit cost basis. The impact of the volume effects on that is of the order of about 60 per cent. So the idea really is to move ourselves down the cost curve and that is going to come from a variety of sources, investment and also the cost saving involved in the excellence programs etc.

CHIP GOODYEAR: Bob and Mike, do you want to finish up on the cost savings activities.

MIKE SALAMON: Chip, I will make a few comments on Aluminium and Nickel. I guess in terms of sustainable cost benefits, the really important impact is when we do achieve volume creep because that comes both with the additional throughput and cost reduction. Now in the AP 30 smelters we have had the implementation of a range of practices, probably the most important of which has been something called slotted analyst, which has given us really tremendous stability of operation and processing efficiency, and that has given rise to increased amperage, increased current efficiency, hence more volume, hence lower cost. Now that is sustainable and it is happening at Hillside and Mozal.

It has also laid the groundwork for the ramp up of Mozal 2. 288 pots in just over four months which is an unprecedented rate of ramp up. That has implications both in terms of outputs of aluminium but also because the base is increased through the improved efficiency, it also has implications in terms of capital costs per unit of output. Clearly those improvements we would like to be seeing happen at Hillside 3 which we start ramping up in a couple of months from now.

The other area where similar activity is taking place has been at Cerro Matoso in Columbia where by beneficiating the blended ore ahead of the dry kiln furnace we have been able to utilise those furnaces better and improve throughput and reduce unit costs. So again a totally sustainable enhancement in regards to both volume and costs.

CHIP GOODYEAR: Okay, great. Sydney another question there.

QUESTION: Just in terms of looking at the costs again, in particular with the copper division you have benefited over a period from TCRCs falling year on year, and I am just wondering, are you concerned at all about the current state of the contracted smelter market where we have seen TCRCs fall again in the last half. I am talking more about the longevity of these smelters and what it means for your business going forward.

CHIP GOODYEAR: That is a complex issue. I was in Japan a few months ago, Bob and I were up there and I certainly took the opportunity to meet with some smelters. We could spend a lot of time talking about it. There seems to be an interesting development, not new but they look very much in smelter expansions at what it does for their average cost of production and what they do is they say, if we expand that smelter we can take production cost down, therefore although it is a difficult environment we lower our break even.

It seems to be resulting in significant interest in primarily expanding new copper smelters. Like with aluminium smelters, you are seeing in China significant demand for that end product, and that is pushing demand for smelters to produce that product. So I have to say we are quite interested in the way they are looking at that, but are we worried in the near term? No. No, we are not worried in the near term. But healthy customers are good for our business and so again, we could spend a lot of time on it, it's quite a curious situation but at the moment I have to say that there seems to be a lot more interest in building capacity rather than shutting it down.

SPEAKER: No more questions from Sydney at this point in time thank you sir.

CHIP GOODYEAR: Okay, let's try the telephone and see if there are any calls there.

QUESTION: I have two questions. The first one is to expand a little bit about the US tax losses. How many do you actually have accumulated from the Magma days? And you mentioned between 50 to 100 million over the next few years. Can we take that out into perpetuity? If of course it is like US$1.2 billion or something by memory that you have left there?

The second question regards interest rates and you said you have done a good job in bringing your interest rates down from 8 per cent or so to 5 per cent. Have you looked at going short-term debt as per Rio where they actually say the average interest rate is around the 2 per cent mark? You mentioned increasing the maturity of your debt and moving to the short-term markets.

CHIP GOODYEAR: Chris, why don't I get you to answer tax and if you would like to answer the other one also.

CHRIS LYNCH: With regard to the tax issue, we expect something in the same order for the next four or five years, not in perpetuity. The numbers that I quoted, the US$50 to US$100 million dollar range is the bottom line impact of that. With regard to interest rates, I think it is an important one. We do address this on a consistent basis. We have just completed our funding strategy that was put together with the merger and that has now been completed.

The idea with that was to spread our exposure into various markets. The success of the EMTN and Global Bond were both good evidence of that and we are in the process now of coming back with a revision to our ongoing strategy. So that is something that we will consider on a go forward basis.

CHIP GOODYEAR: Just to follow on from that. Just because we extend our maturity profile doesn't mean we have fixed rate debt. What we have done, at least in our last several issues, is we swapped that back to floating and as a result take advantage of low current interest rates.

I would also say though that historically, the company has issued debt, or certainly the BHP entity has issued debt, into the public markets for many years, and some of those securities had 10 year and 30 year type maturity profiles. So we do have to work that out and what you are seeing is a decrease in the average interest rate. But just because we go to the public market doesn't mean we stick with fixed rate debt.

QUESTION: You mention legacy hedging has become much less of a drag on your profitability than it has in the previous corresponding period and I understand most of the legacy hedging is now worked out. Can you give us advice of how much further we can expect that to impact in the next couple of years and also if there is any intention with a general market perception that the US dollar is weakening, of actually putting any further hedging in place?

CHIP GOODYEAR: Why don't I just answer that. In the back of the supplementary data released, we detail exactly what our position is with regard to existing legacy hedges. You will see it's not very much so you can just grab that there.

In terms of are we changing our mind? No we are not changing our mind. We felt very comfortable looking at our company as a portfolio of assets, looking at that stable cashflow. I can guarantee the natural hedges that rest between our businesses and currencies is a much better way to manage that exposure rather than trying to guess which way currencies or commodity prices go.

CHIP GOODYEAR: Next question on the phone.

QUESTION: A question just on tax again. Just to check with you or Chris, are they off balance sheet? And as they come back on, if that is the case, do they influence both the tax expensed to the P&L and the tax paid in the cashflow?

CHIP GOODYEAR: Chris.

CHRIS LYNCH: Peter, they haven't been recognised in the books on the basis that we haven't had a proper income stream to recognise them against. So the answer is that they will come into the books on a gradual basis, and then there would be a commensurate tax flow through both the P&L and the cashflow statement.

CHIP GOODYEAR: They may be in different periods.

QUESTION: Secondly, HBI. When should we reasonably expect that asset to turn a profit?

CHIP GOODYEAR: I will tell you what, I am going to pass that to Bob because that is in the Carbon Steel Materials business but Bob don't feel you have to answer that exact question.

BOB KIRKBY: What I can say about HBI is today four trains are running. This month is going to be a good month for us in terms of operation. Last month was a good month. (inaudible) higher than they were last quarter. The Australian currency actually had an impact on the margins and they are the main issues. We had a target to break even on that project at the back end of last year, the last quarter result was a small negative and there is nothing that I can see in front of us that will change our target to put it in the black.

The other issue is that final prices have gone up 9 per cent last year, and the iron ore cost into the plant is a major cost. But it has certainly improved the reliability of the plant and now the focus is on how can we get the cost down, and improve the efficiency and that's the activity that is going on at the moment. To get the plant in the black.

CHIP GOODYEAR: Bob, we had a little bit of an audio problem earlier on. Prices are up there in the fourth quarter, we had a small loss. We have four trains running at the current time and just keep in mind that we do have an Australian dollar cost base there so that will have an impact.

For those of you that followed HBI over the years, we said we would be essentially break even over the year and we got very, very close to that. Again, significant progress in that asset.

QUESTION: Chip, can I also follow up on demurrage? What is the position of demurrage in the iron ore business in the west, and what should we could expect with the current site conditions over the next month?

CHIP GOODYEAR: The iron ore demurrage - I can answer that or at least I think I can, wave your hands if I am not - went up from US$9 million in 2002 to US$18 million in 2003. I think that we have seen that in a much better position than you might otherwise expect given the significant growth in shipments there, and I attribute that a great deal to the way that our marketing team integrates with our operating team.

Where it might go, Peter, I am not prepared to address at this time. All I can tell you is demand continues to be very strong, and logistics and management of shipments does keep the guys working overtime with regard to that business and our other businesses also.

QUESTION: Just one last thing about Angostura please. This is directed to Phil. Given your push into the US market with LNG, where does Angostura now sit with that, and what should we expect with regard to LNG in Northern states apart from Trinidad?

CHIP GOODYEAR: Phil, I will pass that over to you.

PHIL AIKEN: As you know, in the first phase of the Angostura project we are only going to produce the oil. We are going to actually reinject the gas back into the reservoir so we can get the maximum oil recovery. The Angostura gas is very, very marketable and we would expect somewhere in the future, whether that is three years away or five or six years away really depends what happens with the oil there, but obviously we would see that as potentially going into Atlantic LNG or another LNG plant. There is also a domestic gas market in Trinidad but the most likely place for that gas is probably into an LNG plant in Trinidad.

As you know Trinidad is probably the most competitive source of LNG into the east coast of America and it really depends on how much more we find in the area and how we produce the oil over the first few years.

QUESTION: Would you build a stand-alone plant Phil?

PHIL AIKEN: It all depends. I think at this stage we have got about two to three TCF. If we found a lot more gas that would be a good idea but as you know they are building, I think the third and the fourth train of Atlantic LNG, and after that they become common and you can bring your own gas to the next trains, and maybe we can invest in a subsequent train, Atlantic LNG or look at a stand-alone facility. It is really too early at this stage to make those sorts of decisions.

QUESTION: Two questions, one for you, maybe one for Phil. Very interested to know what has changed with respect to your thinking on the sustainability of Chinese growth. And from Phil's perspective if you could put the recent Neptune drilling into context now he has had time to think about it?

CHIP GOODYEAR: What we have seen, as we have been able to develop our marketing activity in China to a greater extent, and utilised our salesmen to customer contacts, in a local context - in other words on a Chinese to Chinese basis - it has given us more confidence that we are seeing regionally, a development of business activity that may be something different than directed from the central government. And the more that occurs, the better we feel about individual areas creating their own supply and demand situation. Their own economic activity, and again by having people directly on the ground we are getting feedback on that. So the longer it continues, the better we feel about it, and obviously the more we can get knowledge around that marketplace, the more we can build that into what we think about. The second question, Phil, on Neptune.

PHIL AIKEN: There is not really a lot more I can add on Neptune. We are still actually drilling the side track. Obviously the Neptune 5 result was a very good result. At that time we said we would sidetrack to find the oil/water contact. It is also very important that we analyse the oil and do a lot more mapping of the area. As I said, we are still drilling that well and it will be a few more weeks before we really have anything more to say because we still have to complete the well and we also have to complete the mapping and the fluid analysis.

CHIP GOODYEAR: Thanks, Phil. One more question on the phone.

QUESTION: I have just noticed, and this is perhaps a question for Phil on Minerva, that you have actually put it under review? Your initial production target date was Q1 2004. It seems as though the CAPEX there has gone up quite substantially. Could you just give us a bit of info on that?

CHIP GOODYEAR: Phil, I will pass that to you.

PHIL AIKEN: With Minerva, at the moment we have some issues with the design of the gas plant and with the construction and that probably means that, well, it does mean we are almost certainly not going to meet our original target date which was the first quarter.

At this stage we are not quite sure what the final timing will be. There really is at the moment a number of considerations we have got with the primary contractor. We haven't actually changed the capital cost. At this stage the only issue is about the first gas date and that is probably going to slip because of some delays we have had in the construction program. As I said, we are still working through with the primary contractor and when we have got some more definitive advice we will pass that on to the market.

CHIP GOODYEAR: Thanks Phil. I just would say the I think the record we have had of on time and on budget or better, has been quite spectacular. We target around a P50 in terms of outcome and the environment in which we have purchased services, and knowledge that we are able to share has allowed us to get better and better with that.

As we continue to do so, obviously we need to look at how come our projects are doing particularly well. I will say from time to time you will have projects that are not going to meet schedule, not going to meet budget, we then will put a significant focus on that.

One final question here in Melbourne.

QUESTION: Congratulations on a very good result. I want to ask two questions. Today you can really compare BHP Billiton with Rio. You couldn't three or four years ago so you really are peers. But if you look at their margins on any of their operating units in terms of iron ore or any of the other businesses, the margins, the EBIT margins, they seem to be getting a bit higher than yours on comparable businesses. If you look at the return on invested capital, or return on capital employed, or return on funds employed in any of the businesses - aluminium, iron ore, coal - they seem to be a number of points ahead of you in that game. Obviously it is a bit of catch up. So I wanted to ask Chip, how long will it take you to really reach the operating excellence that we all know that Rio has produced over the last on the long term basis? That's the first question. The second one relates to coking coal. We did a fairly big project on iron ore and coking coal early this year concentrating on China. We looked at coking coal in some depth. Now the Chinese don't have much coking coal, not nearly as much as thermal coal. We all know what they have done in thermal coal, they have surprised many of us in the last three or four years. Our intelligence has it in China, that with coking coal the Chinese are going to develop those assets, especially in semi soft coal and hard coking coal, and they are going to attack the market in exports over the next three, five and seven years, by attacking it in coke, and they are going to try and pursue the export of coke as opposed to coking coal. If that does happen what would the Carbon Steel Materials group do? Would you be able to compete relative to coke in terms of coking coal and coke? So those were essentially the two questions I wanted to pose, thank you.

CHIP GOODYEAR: Referring to your first question about margins relative to Rio, I would just mention two things. I think you need to make sure when you look at our margins you eliminate the trading sales. That is something we do, and we see good value in that for various reasons. I think if you do that and then take a look over the last several years, essentially in all of our businesses, I think you will see in number we have passed Rio. But I would also say that the trajectory of our performance and EBIT margin has been quite good. There will be some research about that, I know that several of our analysts have commented on that, so I would certainly watch for that. So I think you have seen again our trajectory, and I would say if you eliminate trading you will see some very strong results.

Then with regard to coking coal and potentially the Chinese turning that into coke and exporting that. Bob why don't I pass that over to you and if you have some comments on that.

BOB KIRKBY: In fact, we've seen a significant contraction in Chinese coke exports in the last couple of years, driven by the government. The Chinese government has clamped down on some of the environmentally unfriendly coke (inaudible) that were in that country. Our current experience is that in fact coking coal, especially the type of coking coal we have, hard high quality coking coal from the Bowen Basin, we have an increasing number of inquiries to supply into China. So, I mean, I can't comment what is going to happen in seven years time but I can certainly say today we are seeing increasing demand into China, and our sales for coking coal into China are increasing rapidly.

CHIP GOODYEAR: Thanks, Bob. We are over the time that we have been given, we heading almost to two hours here. What I would like to do, if there are additional questions, to ask you to communicate with your Investor Relations or your Media Relations people in each of the markets, and we will be sure to get back to you with those answers.

Again, thank you for your time. We certainly have a nice turn out in four locations plus the telephone. We appreciate your interest. If there are more things we can do, more questions we can answer, we would be glad to do so. Thanks again.

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