BHP Billiton

Marketing Presentation to Investors

10 July at 08:30 Hrs (GMT)

Welcome

Mark Lidiard

Vice President of Investor Relations and Communications, BHP Billiton

Good afternoon to everyone in Sydney and good morning to those here in London and in Johannesburg. Today's presentation is from our Marketing Group, and for me this presentation is a little different to the previous presentations that we've given. Firstly, for us, marketing is a clear differentiating feature between us and our peer group. Secondly, unlike the other customer sector groups, it's more difficult to kick the tyres in marketing to really see what's going on below the surface. Hopefully, today we'll be able to give you a good insight to why we think marketing really adds value to the BHP Billiton Group.

On that note, I'd like to hand over to our Chief Marketing Officer, Marius Kloppers, who's going to host today's presentation.

Introduction

Marius Kloppers

Chief Marketing Officer, BHP Billiton

Slide 3 - Opening Remarks

Thank you Mark. Good morning everybody in London and Johannesburg; good afternoon to the people in Sydney. My name is Marius Kloppers. As Mark has stated, I'm the Chief Marketing Officer for BHP Billiton. I'd like to link today's presentation back to a set of presentations that have become a theme over the past two years, in which we have consistently highlighted six strategic value drivers of our strategy. One of them being customer centric marketing. As Mark stated, today we will try and give you more detail on this area and a number of my colleagues will try and highlight a number of specific areas which will give you a better insight into this area.

Key Messages

At the start of this presentation I would like to leave you with four key messages, which you will find a recurring theme in all of the subsequent presentations. Marketing exists solely to do the following:

- To sell more of BHP Billiton's product.
- To achieve higher average profit margins on those products.

- We achieve that by meeting the needs of our customers better.
- While we are doing this we will illustrate that we manage risks across the spectrum of our business better as a result.

So you will find that a recurring theme.

Slide 4 - Topics

I will give you a little bit about the presentations that you're going to see. The presentations will take the form of five elements. Three of them highlight elements that we consider to be the skeleton of the marketing organisation and of our approach. These are:

- The scope of the organisation and the design thereof, which will be covered by Michael McMullen in London.
- Subsequently, Peter McLure will talk about our integrated marketing systems and how these underpin a lot of the activities that we do, again in London.
- Tom Schutte in Johannesburg today will talk about measurement, risk management and governance.

Following these three core elements, we have picked two teams to illustrate how we deploy the capabilities and the approach that we will highlight in the first three presentations. We've specifically chosen these two teams to sort of span the spectrum of what we've got in the portfolio.

- The first presentation will be Jon Dudas, from our Energy Marketing team. Jon's area has obviously been, as most of you know, an area that has seen tremendous change in the way that the products have been marketed and the evolution of the market. Jon will illustrate how we've gone about proactively responding to these changes.
- The second team from Sydney. Andrew Offen from our Carbon Steel Materials (CSM) team will talk about manganese, iron ore and coking coal. That team was specifically chosen because it's often something that we think of as a little bit conservative, but we hope to illustrate that the principles we are applying also add value there. Andrew will cover the other end of the spectrum.

We would have liked to cover more teams today. You will note that a number of our colleagues are not here from the Aluminium, Base Metals, Crude and Products teams, and the omission of those teams is purely from a time perspective. We hope that you'll get enough information from the two teams that do present to see the principles in action.

Format of Presentations

Just one or two words about the format of the presentations. We would appreciate it if you could wait for the team to go through all five presentations and then take questions and answers after the last presentation has been completed. Each speaker will introduce the next speaker, so it will be a smooth flow. That's about it for me. I will try and summarise at the end.

With that I'd like to introduce Michael McMullen in London, Manager Human Resources. Michael will talk about the organisational design and scope.

Marketing Organisation and Scope

Michael McMullen

Manager, Human Resources Marketing, BHP Billiton

Slide 5 - Introduction

Thank you Marius. My name is Michael McMullen, Manager Human Resources for the Marketing Group. Today I'm going to talk to you about how the Marketing Group is structured and how we've gone about it to ensure we create maximum value for BHP Billiton shareholders. I will cover:

- Some basics on the model.
- How we're structured.
- Our major sales and office locations.
- The changes we've made in building a commercially focused organisation.
- Before concluding with the reasons that our organisation will deliver superior margin growth.

Slide 6 - Marketing Aims at Increasing BHP Billiton's Margins

I will start with a little bit about what the marketing organisation is all about. It's quite simply, as Marius pointed out: to add value to BHP Billiton Group by selling more products at a higher average product margin by meeting the needs of our customers better.

Slide 7 - Marketing Spans Finished Product to Customer

Firstly, a little on the marketing model.

Marketing takes over finished products from the mine/smelter or port stockpiles. The Marketing Group then manages the complete supply chain and money flow. Marketing plays a very important part in managing the information flow from assets to customers and vice versa.

This flow allows the organisation to ensure that we more accurately match product and production planning to the requirements of our customers and probably, most importantly for investors, that we make the correct capital allocation decisions. It ensures that we take our customers' future plans into account and respond with a global view of how to best meet those demands.

Marketing also manages the Group's revenue, credit and inventory, and hence the majority of the Group's Working Capital.

Slide 8 - Each Marketing Unit Reports to a CSG and Marketing in a Matrix Structure

This slide shows you that we are set up into a matrix structure. The matrix structure of the BHP Billiton marketing model allows effective management as the Marketing Director has a complete view on margin. It is critical to absolute margin improvement that the marketing function takes a complete view of all the factors that affect margin (credit, price, distribution/shipping, terms etc). It is equally critical that these factors are aggregated so that they can be effectively managed.

It is virtually organisationally impossible to put in place the systems and processes for a complete view with a disintegrated asset model. There is no control over the way the data is collected, reported and managed; no accountability of optimising decision making. Disparate organisations are incapable of effectively coordinating these things.

The matrix structure facilitates cross commodity opportunities through co-location, ensures the flow of information between assets and customers, and has clear risk management and control structures in place. This structure allows optimum decisions to be made. It allows a global view of sales as well as providing feedback to the assets for production planning purposes. Again this combination drives margin improvement.

Slide 9 - Marketing Is Organised as Two Hubs Operated as a Single Virtual Office, with Network Offices Forming Spokes

We are set up into a hub and spoke structure. The Marketing Group has two main offices or hubs, being in The Netherlands and Singapore. You will see on the following slides that our sales are split roughly one third in Europe, one third in Asia and one third the rest of the world. This is why we've set up in the hub and spoke format. Not all the offices are shown on this schematic. It's simply for illustrative purposes.

The hub and spoke design facilitates organisation by customer. One of the hubs is the central location for each CSG, with the focus being on strategy, planning, analysis and control. The spokes concentrate on sales, execution, account management and information flow to and from the customer.

Just to give you a clear picture of where our businesses are set up. The Aluminium, Base Metals, Stainless Steel Materials and Energy Coal businesses are set up in The Hague hub. The Carbon Steel Materials and Petroleum businesses are set up in the Singapore hub.

The hub and spoke model ensures there's one face to the customer rather than competition between marketers representing different assets. This coupled with the elimination of intermediaries, or agents, means that we are more in touch with the needs of our customers and what's happening in the local marketplace, rather than relying on filtered information. This improved information flow both allows us to manage our relationship with the customer directly and more effectively (always a desirable thing), as well as improving the value we create through more accurate planning and analysis. It also allows the sharing of information across products. This creates better knowledge of the market and provides the foundation for cross commodity opportunities.

Improvement and knowledge grow as systems and practices are shared and improved in our open plan environment. The structure promotes healthy competition and improvement. Our virtual office is also paperless and completely digitised so that people who need information to make decisions have access to that information irrespective of where they are in the world. A simple illustration is a paper contract sitting in a filing cabinet is of no use to someone sitting on the other side of the planet. Better management of data and information leads to knowledge, which leads to an advantage.

The integrated systems allow optimum decision-making whilst still capturing the benefits of being located close to the customer.

The central location also leads to better buying power, which also leads to better buying power in terms of freight and logistics.

Slide 10 - Sales Are Predominantly from Operations in the Southern Hemisphere to Customers in the Northern Hemisphere

The graphic displays BHP Billiton's sales by region. It's total sales, assuming 100% of joint ventures but excluding the Diamonds and Specialty Products business. The total sales are

$16.6 billion and as you can see from the chart it is a big sales area, roughly a third in Europe, a third in Asia and then split again geographically for the rest of the planet.

Slide 11- Marketing Employees Are Located in 37 Different Locations

Our offices are set up close to the customer base and large sales regions as I pointed out. The geographical spread facilitates better customer contact through having easily accessible staff who are real account managers situated closeby. Our organisation also consists of 34 nationalities with large numbers of local staff in frontline marketing and distribution roles. It is not simply southern hemisphere people trying to sell product to northern hemisphere customers.

The other key feature of our office locations is that they are positioned for growth. We have a significant presence in China with some excellent results emerging. India is being set up on a similar basis and we've established a foothold in Russia so that we're positioned to capitalise on any opportunities that emerge.

Slide 12 - Majority of Marketing Employees Are Front Line Marketers Or Involved in Distribution

To give you a sense of our people, a simple pie chart reflects the spread across the functions. As you can see, the vast majority are focused on selling, distributing, collecting and managing the money. The organisation is very focused on its core function with minimum overhead support.

Slide 13 - Marketing Workforce Has Reduced By Greater Than 20% Since the Merger

I mentioned earlier that the organisation is focused on its core function and this chart demonstrates that we're significantly leaner as well. Prior to the merger there were at least 800 people in marketing functions distributed amongst the Group. We are currently below 600, although our plan for this financial year is to grow to 619 through adding some strength to our energy marketing activities. This represents a reduction of well over 20%. The reduction is even greater when you consider that through the elimination of agencies we're doing more work directly. We estimate that we've reduced agency costs from over $40 million down to around $9 million.

We've also significantly upgraded capability as we've shaped this organisation. You can see that we have hired in skills where required and we've moved out those who weren't up to the standard of the new organisation. All of our front office have been through training in various financial courses and have done capability assessment for critical roles to ensure we have the right people taking the business forward.

Slide 14 - Areas of Focus Are Centred Around Knowing and Meeting the Needs of Customers

So why have we done all this? Quite simply, as we stated at the beginning: to sell more product at a higher average profit margin by meeting the needs of our customers better.

1. Leveraging Our Marketing Position

The model allows us to leverage our marketing position by centralisation of decision making. Having logical grouping of teams per customer sector allows optimum placement of product rather than a fragmented or regional approach.

2. Knowing the Needs of Our Customers Better

In addition to optimum placement, knowing the needs of our customers ensures we better manage production planning and more importantly capital allocation.

3. Having the Skills to Fulfil Those Needs

Capability has been substantially improved, particularly in the regional offices. No longer are they simply experts in visa cards and restaurant guides. They are now armed with top down and bottom up market analysis systems that give them the information they need at their fingertips, greater commercial capability, and focus on building long-term value creating relationships with customers.

4. Incubating New Areas of Growth for the Group

The model provides for strong market analysis and commercially focused local staff as front line account managers building relationships and fulfilling customers' needs. Our regional offices, including China, have been set up on this model which positions BHP Billiton for growth.

5. Measuring the Value Added and Managing Marketing Risk

The focus of the organisation is on the value add. A complete view of margin is taken in making decisions: freight, credit, sales price and payment terms etc.

This coupled with a complete view of credit exposure and other risks ensured an optimum view of total return is taken. This is why the marketing organisation will deliver a higher average profit margin.

I would now like to hand you over to Peter McLure, our Chief Information Officer, who will take you through our systems

Marketing Systems

Peter McLure

Chief Information Officer, Marketing, BHP Billiton

Slide 15 - Opening Remarks

Thank you Michael. Good morning ladies and gentlemen. I will provide an overview of our marketing systems. From the outset it was clear to us that having the right system in place was to be fundamental to the new BHP Billiton marketing approach.

Slide 16 - Our Common Execution System Provides a Distinctive Advantage to the Organisation

I will start by describing our initial situation, which was a mismatched collection of functionally inadequate systems. I will then go on to explain how we built the system which is now in place. Finally, I will talk about the benefits arising from this work and how this has contributed to our distinctive advantage. Also, I will demonstrate how we are able to use the system to draw reports.

Slide 17 - Mid 2001: A Multiplicity of Systems

In mid 2001, following the merger between BHP and Billiton, Marketing was formed with responsibility for the supply chain from finished stock through to the customer. So Marketing were to be responsible for all finished stocks wherever they appeared anywhere in the world through to the point at which they were handed over to the customer and this included all shipping, warehousing, logistics planning, as well as contracting and management of exposures arising from these activities.

At the start there were several systems in place but they had been developed to serve specific commodity needs. There was nothing in place to cover all the functional areas for all the commodities for all the activities of the supply chain.

There were more than 12 systems in the basic logistics, contracting and sales accounting area. They were all different and gave at best a fragmented view. There were tied together by manual, labour-intensive and slow planning and business reporting processes based on spreadsheets.

Most importantly, the different systems in place cemented in different ways of doing what were essentially the same things in each commodity area. The different systems enforced different ways of doing things whether this made any sense or not.

Slide 18 - Our Legacy Position Was Not Sustainable

With our mismatched collection of legacy systems, many functional requirements were simply not supported. For example, we could not enter a sales contract in such a way that all commitments for each party were accurately and completely captured.

It was not possible to easily put together a single view of customer or of stock positions or of exposures. Sure with enough time and effort we could do it, but it required a lot of work from many people to pull together data from disparate sources. Clearly, this would not do. We took a decision to replace our legacy systems with a single integrated system.

Slide 19 - The New Marketing Systems Form an Integrated Whole Spanning the Entire Supply Chain

Fortunately, we had the nucleus of such a system already in place within our Manganese business. This was a system based on SAP and it became the foundation for our new marketing systems. The system used standard components for Sales, Logistics and Finance. We rolled this out to our Stainless Steel and Carbon Steel businesses.

We then added a contract management piece, which we developed ourselves using basic SAP building blocks. The contract module, labelled as CT for Commodity Trading, allows us to enter contracts so that all terms can be captured and it also allows us to aggregate and manage our positions.

Connected to Commodity Trading, is a system called Panorama which is really a special purpose reporting system that allows us to calculate value at risk across all our portfolios and thus ensure that we operate within Board approved limits.

To allow us to manage our supply/demand balance for each commodity and thus optimise our working capital position, we have installed a supply chain planning tool labelled as APO and TSW in the slide. APO (for Advanced Planning and Optimising) makes it possible for a globally distributed group of marketers to estimate and produce a consolidated picture of forward demand. Using that demand forecast, we can then plan to fulfil it from our various production sites, or in some cases by buying third party product. Coupled to APO, the Traders and Schedulers Workbench schedules cargoes and initiates goods' movements.

Business Warehouse and Strategic Enterprise Management provide reporting for the overall system. Our aim is to run this business with around 30 standard reports. BW draws data from all other parts of the system and Strategic Enterprise Management provides additional features for budgeting, forecasting and consolidation.

The portal provides system access to end users. It has been set up so far for intranet but will be extended or extended to the Internet and perhaps to customer access in due course. At the end of the presentation I will demonstrate how we use this portal to access data from the system.

In summary, our new system provides an integrated, continuously updated view of the business to management.

Slide 20 - The System Has Been Substantially Completed and Has Been Rolled Out to Most Parts of Our Business

- **Contracting, Logistics and Back Office Systems**

By the end of 2004, we expect to have most of the business on the new integrated system. The projects to install Base Metals and Petroleum are now underway and this will complete the roll-out of contracting logistics and back office to the BHP Billiton businesses.

- **Supply Chain Components**

We have now installed the supply chain components in the bulk commodity areas and will be extending these across the rest of the businesses starting with Base Metals and Stainless Steel over the next 12 months.

Slide 21 - Our Integrated Systems Are Already Delivering Value

The new marketing system is already creating significant benefits for our organisation.

- **Shared View of Business Data**

By capturing all information at source and keeping it on one database we now have a shared view of data for almost all the activities managed by marketing. This has made it unnecessary to have large numbers of people just to collect and report data. It also means that data is available whenever it is required for whatever purposes.

- **From Periodic to Real-Time Management**

It no longer takes days to work out what our exposure to a specific customer may be. The organisation is more dynamic and responsive since we don’t have to wait until the end of the month to see the score.

- **Information Available Everywhere**

Because the reporting system is quite easy to use, it is no longer necessary for managers to employ middlemen to draw reports for them. Again, this improves the overall efficiency of the organisation.

If you were to walk around the marketing offices at night you would find that there is no paper lying around. In fact, there is no place to store paper and any what is left after work is disposed of. All our information is kept digitally so it can be shared across the organisation. Someone in Tokyo now enjoys the same access to relevant customer information as staff in one of our hub offices.

- **Integrated Supply Chain Management and Common Metrics**

With the new system in place we have visibility across entire commodity supply chains and the tools to continue to improve.

By using these new tools and a set of common metrics we are driving improvement in performance and in our margins. As an example of this, we can look at some results from Carbon Steel Materials.

Slide 22 - Manganese working capital – debtor days

Here we can demonstrate that we have saved significant sums by having the right information available to drive improvement in working capital. Prior to the introduction of the system it was difficult to gather this information. With the introduction of the new system in 2001, up to date information was for the first time available and as a result, the Manganese Team was able to drive continued improvements.

Slide 23 - Demonstration of Reporting System

I would now like to run a simulated demonstration of our reporting system. We are looking at a sequence of operations accessing data through the Marketing Portal.

We are now looking at the Marketing Portal. We're going to look at the Sales Book Report, which is one of the standard reports available. The Sales Book provides a consolidated 18 months rolling forecast of demand for each commodity and this is used to plan supply requirements. Since this is a public forum we'll be looking at simulated data and for the purpose of this demonstration we'll select a past period, in this case the six months ending December 2002.

As you can see, we have substituted symbols for real product names: A, B and C for real products. There are many components to the forecast available including sales forecast, budget and forward orders. We will drill down on the Sales Book line which consolidates the actually invoiced quantity with the forward forecast and then drill down to region to which we are dispatching product.

We are able to focus in on a single material group and also see the breakdown by region. We can drill down further if we like, right down to customers.

This is all I want to show you in the demonstration this morning. I know it's been brief, but hopefully it gives you an impression of how all this works. There are many other useful reports available. For example, we could look at what we have billed various customers and how each customer stands against defined credit limits as of today.

Taken together, these reports are part of the powerful tool set we have built for our marketing team to manage the business.

Measurement, Risk Management and Governance

Tommy Schutte

Chief Finance Officer Marketing, BHP Billiton

Slide 24 - Introduction

Good morning, ladies and gentlemen.

Slide 25 - Philosophy

Our approach to risk management does not stop at merely being aware of certain risks in our business, but once we have quantified and measured it we need to be able to apply our skillset to manage the reduction thereof.

Our focus to date has been to build up the understanding and quantification of all risks embedded in our historic and newly entered contracts, ie our current business. We are expanding this cautiously and quantify or disaggregate all the risks in new contracts upfront; our system forces this, as Peter explained earlier. The goal is to apply the lessons learned to new business opportunities as we grow them.

Slide 26 - Common Processes and Standards

The first and probably most important challenge we embarked on in this field was to define and develop a common risk management platform for the Group. This includes the standardisation of systems – once again, described by Peter – the building of internal capabilities and the formation of common views to define risk. These risk definitions range from pricing risks, which include shifts in market prices, to changes in foreign exchange. All this has to be executed within a robust governance framework. We also had to establish an approach to disaggregating the risks and define benchmarks of what to measure these defined risks to.

The basis for all this, of course, lies in the definition of these risks. Although there are many categories, we have chosen to largely classify into three, being market or price-related risks, operational risks and, of course, credit risks.

Slide 27 - Importance of Performance Measurement

Comparing the areas that need to be quantified to, for example, a financial institution, it became clear that the basic understanding of what we need to measure really lies within the complexity or the simplicity of our underlying contracts with our customers. The more complex, for example, a pricing formula becomes, the more complex the measurement and management of the exposures becomes. Compared with most resource companies, we have a wide range of products and the distribution routes and processes are multiple. This, of course, leads to a large number of defined basic instruments, or shall I say ways to execute commercial arrangements.

Improved risk mitigation steps and strategies are only of value if they are measured and managed, and for all purposes we view them as synonymous. As Peter mentioned earlier, a view from one integrated system facilitates this and creates a platform to implement. The focus remains to understand our base business better and build on this foundation.

Slide 28 - Risk Components

Let's, for example, take a theoretical contract that prices off a combination of indexes. In this example the price is set off multiples of various indices and resembles a typical European gas contract. The system forces the upfront evaluation and parameterisation of different components of the contract. The approach is to break these exposures down to their natural components, commonly called risk buckets. Therefore, for any contract we can determine what our Dollar exposure is to the different industries that they price off.

Slide 29 - Market Reference Price

Once the risks have been quantified they are compared with the market reference prices. It is important to note that these are not comparisons to history, although historic simulations are also used, but measurement to the actual markets. This gives a quantifiable Dollar figure after it has been marked to the market price. An active decision can then be taken to risk mange this figure. These comparisons to the market are done daily, with full profit and loss position and volume limits reported on.

Slide 30 - Outperformance Against Market

So, you may ask, what does all this mean? Firstly, it means we can place the management of certain exposures in the hands of the person best qualified to take the correct decisions in order to manage it. As an example, in most resource companies one will find that a marketer, when he makes a CIF sale, by default takes a view on the shipping or distribution market. In our model the freight trading and logistics people will assist in forming that view and the exposure to the freight market is quantified and managed before the contract is concluded.

The continuous comparison to the market has only one effect and that is to drive the marketer to improve his position and extract more value from the system. This does not always mean a negative effect for the customer. On the contrary, whilst improving our own position some of these efficiency gains also improve those of our customers. The bottom line here is if we measure, we know and we can manage.

Slide 31 - Principles of Governance

Our governance processes have been designed to effect the maximum segregation of duties and to ensure independent reviews of the measurement criteria and controls. Our aim is to measure and control our daily activities as close as possible to the rigor of a financial institution; of course, keeping in mind we are not one. To ensure total alignment within the Group, with the Group incentive and goals, the delegation of authorities flows from the Board level and the BHP Billiton Executive Committee. Volumetric and other limits are delegated via the Financial Risk Management Committee and the Market Risk Management Committee to the Marketing team itself, with limit management enforced daily.

Enhanced by the previously described process standardisation, we believe we have a level of control in this field unrivalled compared with historic definitions of mineral resource companies and far beyond what was possible in the historic 'dig and deliver' approach.

Slide 32 - Credit Policy

With our credit policy we have followed the same approach as outlined earlier. Our credit policy applies to all customers and is reviewed independently from the marketers. Credit worthiness evaluation processes have been standardised and single customer multi-product exposures have been quantified. The responsibility for ensuring that credit reviews have been completed before a deal is entered into lies with the marketer. As mentioned, he or she does not actually do the review, but knows that no commercial contract can be concluded prior to reviews and limits being finalised.

We report on our credit exposures daily, which reflect not only consolidated views, cross CSG views per customer, but also monitors results versus limits and any overdue amounts. As we take a total view, which is also available to all frontline marketers, management of the downside risk is approached proactively from a Group perspective.

Slide 33 - Credit Management in Action

To demonstrate what I just said in practical terms one can look at an actual example. Before the implementation of the credit policy all Customer Sector Groups had their own approach to credit management. For one specific customer, which is served by multiple CSGs, the aggregate amount of credit awarded was close to $100 million. An assessment from an integrated perspective supported a limit of approximately half that; i.e. the customer's balance sheet, whilst good, would only support half the original limit.

The customer was immediately placed on watch and steps were devised to reduce exposure to the appropriate level. Short-term risk mitigation steps were put in place in the form of insurance. In that process it became clear that the customer was at risk of being downgraded by the credit agencies. Once the predicted downgrade became reality, the result was we managed our net exposure to the customer down to approximately 10% of the original limit, with no loss of business, no loss of money, and reflecting a credit risk which is acceptable.

Energy Coal in Liberalising European Energy Market

Jon Dudas

Marketing Director, Energy, BHP Billiton

Slide 35 - European Coal Macro-Environment

We have chosen the European coal market to illustrate the marketing model and its principles in action. As Marius mentioned, that's the quickest changing market in coal around the globe at the moment.

However, in determining a strategy and an approach to the Energy Coal market, it's critical that the major drivers influencing any environment are firstly identified.

- **Demand Issues**

On the demand side these are:

- Variability: in that the demand pattern for fuels in each region in Europe varies according to available resources and legislation.
- Substitution is an issue since gas is the fuel of choice for new generation assets.
- Plant availability: in that many coal-fired stations are now reaching the end of their reproduction life, around 30 to 35 years, and are facing expensive upgrade decisions.
- Green issues: the adoption of Kyoto targets in Europe is already having an influence in investment and fuel purchase decisions.

- **Supply/Competitive Issues**

On the supply side, the major drivers are:

- Decreasing price. The fact that coal is plentiful is reflected in long-term declining prices, but new opportunities are arising from increased price volatility and seasonality in this market.
- Consolidation. The recent MIM transaction has added to supply side consolidation and more ordered markets, but the industry is still fragmented with new and high growth producers such as China and Indonesia.
- Risk management tools. Most utilities have set up trading desks to manage their price and volume exposures across fuels and they are now looking for similar or parallel mechanisms in the coal market.

Slide 36 - The 'New' Coal Environment Has Rapidly Evolved

How have these changes been reflected in the Energy Coal business?

- **Coal Now a Traded (Physical and Derivative) Market**

We have seen large and fundamental shifts in the manner in which customers approach their coal sourcing decision. The market has in many aspects become a fully traded market, with the most visible measure being the change in spot purchase levels from below 30% to above 80% in the last seven years. Even the East is not immune from the early stage pressures associated with the deregulation of their power industries and is following a similar pattern of increased spot sales. This market has become more immediate and volatile and generators have become very responsive to market signals.

- **Greenhouse Issues Affect Fuels Purchasing and Investment**

We already see evidence of the rising importance of greenhouse gas issues in terms of more stringent quality requirements, such as arsenic and nitrogen levels in coal. These issues will take on greater importance as the market for emissions trading develops in Europe over the next few years.

So, if customers are managing their fuel supply position from a holistic viewpoint and continually deciding from which energy market to source fuel, then so should a supplier.

Actually, from a risk perspective, being in one market increasingly means being exposed to all sectors of the energy market. This means that we've had to substantially change the way that we think about our business.

Slide 36 - Greatest Change Induced by Deregulation Process

The most significant change factor in the European coal market can easily be identified, and that is deregulation. But deregulation is complicated by the fact that each country is at a different stage of the process.

The graph depicts the generic value of migration that occurs during the deregulation process. Starting at the top with the yellow curve, this represents retail and distribution. When generators deregulate, retailers take advantage of lower wholesale prices. As competition for customers begins, retailers lower prices reducing their profitability.

The white line represents transmission, which is flat due to regulated guaranteed returns in most markets.

The red line represents generation assets. As the deregulation process evolves, competition results in a wholesale price decrease in power, unless there is a capacity shortfall in a market and generators then seek margin via efficiency and fuel cost reduction.

The green line represents the fuel supply business, essentially our business. The price initially experiences downward pressure exerted by generators and new entrants into the market. However, after a shake up of high cost generators, some margin is regained.

So the challenge for a fuel supplier in this scenario is how to recoup the potential loss in margin.

Slide 38 - Supplier Needs 'Market' Mindset

In order to regain some or all of the margin lost in the deregulation process, a supplier needs to extend the range and products of services that are offered to the market. In simple terms we can split the major supply market participants into three categories of marketing maturity, indicated as 'Classic', 'Commodity' and 'Market led'.

BHP Billiton is firmly positioned in the 'market led' category. We have concluded a number of innovative transactions from delivering South African coal to Berlin generators in Germany to more structured cross-commodity applications.

In addition, in certain aspects, Energy Coal is progressed to a more market "driving" mindset, leading the change in some industry practices, such as in index pricing.

Slide 39 - Coal Derivatives Have Breached Liquidity Hurdle

The tools to manage price risk in the European coal market and others are available.

The five-year-old coal derivatives market now exceeds 250 million tonnes per annum and is trading on some days at an annualised rate in excess of 10 times this figure.

However, whilst that coal derivative market has grown rapidly, it's appropriate to view it relative to other commodities with more established and mature markets as depicted on the graph.

A derivative volume of about two times or twice the underlying physical market is the generally accepted hurdle for non-traditional players such as banks or traders to enter a market. This year we have seen many, many such new counterparties in the derivative market, substantially boosting liquidity.

Slide 40 - Key Changes in Coal Marketing Over Last Three Years

How has Energy Coal adapted to the new environment? The key changes that have been developed in our marketing structures and approach have been focused on gaining better risk-adjusted margins.

- **Restructuring of Sales Book for Limited Volume Exposure**

As previously indicated, customers are reluctant to price volumes for long periods forward given the uncertainty in their power book sales.

- **New Products: Index-Linked Pricing Contracts**

Concluding index-based contracts secures long-term volume offtake for our assets and allows us – and the buyer essentially – to independently set the price. Multi-source supply contracts allow us to optimise our global knowledge base of product and freight.

As the largest player in European imports, delivered or tolling deals shield the FOB price from competitor insight. It also allows capture of intermediary margin and a bulk services discount across all tonnes, not only those affected by the new style contracts.

Further, in the current market, banks are now generation assets, especially here in the UK and they have been subsequently forced into a very unfamiliar coal market. They want, and we provide, recognised and familiar risk management mechanisms.

- **Improved Logistics Capability**

We also decided to bolster our position in the European arena, which is the highest paying coal market, though coordination with our Coking Coal Division we have a cape vessel arriving every week in Europe and we consequently utilise almost half of the main importing terminal capacities in Rotterdam. We have also secure European stockpile capacity to service spot customers orders more rapidly.

This allows us to optimise logistics and run with lower stocks since we control more shipping, but it must be noted that getting closer to the customer does imply higher working capital in some instances, to be recovered in the price or by additional sales.

- **No Agents Unless Appropriate**

Unlike many competitors, agents are only used when required by local legislation. At the moment, in Energy Coal we have only one legacy agent and that is the East and this is from a period of about 20 before. This allows us to understand our real customer needs. In fact, we have become agents ourselves for Arutmin in Indonesia, in the coal world's largest non-related agency agreement.

- **Zero Sales into 'Dumping' Markets**

Through these actions we have shifted around 10 million tonnes of sales to a higher priced market from the traditional dumping grounds and also secured better quality customers, thereby lowering credit risk.

- **Global Analysis Support Team**

We have also developed a joint team of global analysts resourced from both the CSG and Marketing in order to have a common market view to support global sales and business development activities.

- **Skills Added**

New skills have been added to ensure that we understand the true value of contracts and the risk management of consequential exposures. Origination and structure skills allow value to be derived in both new markets and with new counterparties.

Whilst arbitrage opportunities in the paper market are exploited centrally by The Hague marketing unit, arbitrate opportunities in the physical market are exploited globally via the use of our network office structure.

- **Mine**

Once agents were removed from our supply chain, we realised that customers were using our quality coal (with little price premium) as a base to buy in cheap generic coals for blending. Ending this practice has allowed improved co-ordination of mine production levels and different qualities, resulting in up to an 8% yield gain, or extra tonnage to sell at no extra cost at some mines.

- **Systems**

In line with the global marketing model, Energy Coal has implemented the full suite of marketing systems, in order to support the management of our global business from a single perspective.

Slide 42 - Delivered to Plant Deals Have been Expanded

- **Concept**

The original exclusive, multi-year, multi-plant, multi-tonne delivery deal has been extended over the last 12 months to a number of markets. A major benefit of these deals is that whilst they capture many aspects of the changed customer requirements it is also a coal sink for us in times of reduced demand with no influence on market price levels.

- **Margin Gain**

We capture maximum value by deciding whether to deliver equity or traded tonnage. In addition, the contracts normally allow for lower quality levels than our standard products

The increased volumes allow us to achieve discounted freight, barge and rail rates. Further, since we also have coal in transit to these customers, coal can be diverted to other customers to capture and capitalise on short-term opportunities.

We estimate that across these contracts we are achieving about a dollar per tonne average above normal market returns.

- **Valued-Added**

I would like to note that the capture of this added value is only made possible by capitalising on our integrated supply/demand view and through the use of the global planning and logistics systems that we have in place.

Slide 43 - Analysis: What Can a Generator Pay?

This slide illustrates the use of analysis skills in an associated energy market such as power. It is necessary to understand how non-price factors as well as underlying demand dynamics can influence the fuel purchase decision in Europe. Or from our perspective: What can a generator pay?

The example illustrates the effect that currency changes and spark spread changes have had on the profitability of a generator.

The top graph illustrates the German coal spark spread (spark spread being the gross margin between input fuel coal costs and power prices) for base and peak loads over the period 2001 to 2006. The key point is that generators are selling power in Euros and buying our coal in Dollars.

The lower graph depicts the actual and forward costs of coal in the German functional currency of Euros. It is clear (the lower blue line) that forward prices are extremely low supporting the high forward spark spread.

Given that coal's major competitor, gas, is priced in Euros in Germany, it is thus logical to assume that demand for coal is going to remain at a sustained high level in this environment.

So looking at the table on the right, a German generator in June 2002, so a year ago, buying for December delivery this year, could only afford to pay $49 at break even for a tonne of coal. But one year later he can actually afford $71, which is an increase of 45%.

This middle office analytical support is extremely valuable to the front office team during face-to-face negotiations with our customers.

Slide 44 - Quo Vadis?

- **Coal Indexation to Power, Gas, Oil and Emissions**

The coal market in Europe is still in a state of evolution. There is no doubt that as energy market participants change and risk management tools become more prevalent, coal will be priced against other, relevant and liquid indices.

- **Financially Settled Options**

Further, the addition of financially settled options will attract those market participants that add liquidity but are not able to handle physical deliveries.

As the energy markets in the East mature, we believe that we can rapidly apply the lessons we've learnt in Europe to our benefit.

- **Need for Flexible Production**

An area where the assets can assist in the market led approach, and do, is by planning mines that can adjust supply quicker to market demand.

So, whilst it is essential to have a low cost world-class asset base, it is just not enough in a deregulated energy market environment.

Slide 45 - BHP Billiton Is Different

It is the products and services packaged with the basic tonne of coal that differentiates BHP Billiton from the pack. In our approach, added value is derived from a global perspective on market demand balanced with our supply options, which may be equity coal or traded coal. The contract structures we use allow us to separate volume and quality issues from price, ensuring that equity production is well sold forward, but not necessarily priced.

It is important to recognise that capturing the opportunities in this changed environment would be impossible outside of the marketing model with its integrated network offices, systems and single perspective.

Thus, the energy coal marketing function is focused on understanding the needs of our customers in the changing energy environment (and meeting them), in order to maintain our position as preferred suppliers.

Our insight into global markets and the deployment of new mechanisms in a risk-managed process allows us to secure better margins for the Energy Coal business.

Thank you. I would now like to hand over to Andrew Offen, who is in Sydney, who heads up the Carbon Steel Materials marketing unit.

Carbon Steel Materials in China

Andrew Offen

Marketing Director Carbon Steel Materials, BHP Billiton

Slide 46 - Opening Remarks

I am Andrew Offen. I am responsible for the marketing of the Carbon Steel Materials Group based in Singapore. I would like to take a brief look at the exciting events taking place in China and examine how our business, CSM, is rising to the marketing challenge that's posed by these events.

Background to CSM Market

Firstly some background. The growth in Chinese steel demand and production is truly dramatic and impacts the dynamics of the global steel industry. Chinese growth was the main reason we saw such a strong global steel and pig iron industry in 2002, which pushed total steel production to over 900 million tonnes. This figure is a production target that was considered completely unbelievable just a few years ago.

It highlights the profound change that China's rapid industrialisation is driving and the long-term step change that is becoming evident. Flow-on effects in Japan, Korea and Taiwan are also increasingly obvious and significant for those markets.

Slide 47 - Chinese Growth

- **China Dominates Pig Iron Growth**

The pie chart you can see on the slide was the story last year in 2002. The important thing, of course, is what will happen in the future. All our analysis looking forward over the next five to 10 years, and examining a number of different scenarios comes to the same conclusion: 75% of global pig iron growth will be in Asia and the vast majority of that will be in China.

So just think about that, about what it means for CSM and how absolutely important it is for us that we capture the opportunity that is presenting itself.

Slide 48 - Implications and Challenges for CSM

The impact on each of our three businesses is actually quite different.

a. Iron ore: market boom

Firstly, in iron ore we are really seeing a boom that is quite unprecedented with market conditions as strong as any the industry can remember. It presents challenges to us at a number of different levels:

- Firstly, as an industry in terms of our how we keep supply up to China without letting down our existing long-term customer base.
- Secondly, as a company, it presents a challenge to BHP Billiton to play our part in that capacity expansion and for us to capture our fair share of the growing pie. There is an opportunity for a step change in our business and we are focused on realising it.
- At both levels, it also presents a challenge in terms of how to respond when the party stops. We are going to invest significant capital in this next round of expansion and we need to protect the return on that investment through the cycle that we all know ultimately will come.

b. Met coal: uncertainty

Coking coal, on the other hand, is a different story and there are many questions we need to get a handle on. We have in the past viewed Chinese met coal exports as a major threat to our business. Given huge domestic met coal demand growth within China, there is increasing uncertainly about their ability to export substantial volumes of hard coking coal. We need to understand where this issue is headed in order to understand the future for our met coal assets.

We also have to determine if there is a sustainable niche for our own high quality hard coking coal in China. There is some evidence of this potential now emerging but more work needs to be done.

There is also a big impact on the merchant coke trade, which is being dominated by cheap Chinese exports, but which is now seeing tremendous price volatility as Chinese domestic coke demand grows quicker than supply. We need to understand the threats and opportunities that this situation presents as well.

c. Manganese: an emerging opportunity

Significant new ferro alloy demand is being created by the steel boom in China. The Chinese ferro alloy industry is huge but it's highly fractured and very unprofitable. It is, however, rapidly restructuring and going through quite a big upheaval, from which again will emerge threats and opportunities for us as both as an ore supplier and as a ferro alloy supplier.

Chinese domestic manganese ore reserves are of poor quality and there is a growing niche for us to use our high grade South African and Australian material to enable ferro alloy manufacturers to blend up to achieve the better quality alloys that are increasingly in demand in China.

Slide 49 - The Customer Challenge

Before turning to our response to these various challenges, we need to comment on the nature of the market in China. Put simply, China actually isn't just China. The Chinese steel industry is a very diverse and dispersed industry and historic reasons have resulted in almost every province having a steel industry.

It has also evolved from a centralised Government directed industry with strictly controlled commercial channels to an open, rapidly growing, private, energetic, entrepreneurial sector.

By comparison, in Japan, Korea and Taiwan we have only nine blast furnace steel makers as customers in total. In China, we have a hugely diverse customer base with over 80 customers or potential customers spread all over the country. They all have different operating configurations, different technical drivers, different logistical chains, different credit worthiness, different economic drivers, and different commercial cultures, all of which need to be understood.

On top of this the market is awash with traders and agents, all with competing agendas and claims of special relationships.

All up, this means a much more complex and challenging market than others.

It is very important to get the marketing effort right to cope with this complexity. To have enough resources available to make sure we are capturing maximum value and making the most of the opportunity.

Slide 50 - Marketing Strategy Stage One: Post Merger Consolidation in Shanghai

So how has the CSM marketing team risen to meet this challenge?

- **Six Offices Rationalised to Two**

In the period immediately after the merger we quickly brought the two China organisations from each parent entity together into one structure. We closed the duplicate offices in Shanghai and Beijing and also our Hong Kong and Kunming offices and consolidated into two locations.

We established Shanghai as our major commercial centre where all our businesses relocated their marketing and commercial people. We kept Beijing as a satellite office with some business development and our Government relations functions based there.

- **Two Organisations Rationalised and Merged**

We then effectively high graded the two organisations, cut out the duplication and reduced by over 20 people. This left us with a single refocused core group of commercial staff.

Slide 51 - Marketing Strategy Stage Two: Shanghai Capability Build

After the initial merger and consolidation phase, we made a conscious decision to build our capability, particularly CSM.

- **Recruitment of New Commercial Talent**

We recruited a new Head of Marketing and changed out several of our key Chinese marketing managers, adding to the experience profile and skill set of the team.

We expanded our market intelligence function bringing in two Chinese analysts to expand the capability we already had in place and enable us to get on top of what we have seen as a very complex market picture.

We then brought in an experienced steel maker as our Technical Marketing Head, and also recruited two local iron making engineers and, more recently, an alloy specialist as support.

We also recruited a credit analyst from a bank to help us get a better handle on the financial position and credit worthiness of our customer base.

Finally, we set up a logistics team to provide specialists support to the marketing team and review supply chain opportunities.

- **Commercial Systems Upgraded**

We've also rolled out the full commercial systems upgrade into the two offices. This has put the full suite of financial tools and supply chain management tools in the hands of our frontline sales people. We now run our contract administration and invoicing function out of the Shanghai office, which allows us to respond much more effectively and quickly to the day-to-day needs of the customers. It has also given the marketers in Shanghai a much greater transparency of the total global sales book and the supply chain. This helps them make much more rational day to day decisions about both commercial issues and also about how physically to meet customer demand.

The benefit of this transparency is already evident in the fact that we have been able to keep our demurrage in Port Headland under control despite huge increases in the iron ore volumes as we have pushed through the port over the past six months.

2. WOFE Established

We have now set up a local WOFE (a wholly owned foreign enterprise), which is in effect a local business entity. This will enable us to do business within China rather than just being on the outside and selling in. It will give us the ability to capture new and different business types and expand the scope of our activities beyond the traditional. It's all about opportunity generation.

After all of this, the CSM marketing team in Shanghai now totals 20.

Slide 52 - Marketing Strategy Stage Three: Leverage Our Position

We are now in the final stage of our post merger development, which is focused on leveraging our iron ore position for the benefit of the other businesses and capturing the value of all the work over the past 18 months.

- **One CSM Face to the Market**

In Shanghai, we have established a sales organisation which presents one face to the Chinese steel industry, with our marketers each managing a number of steel mills on an account basis. They look after all CSM products that are sold into those customers be it iron ore, HBI, manganese ore, ferro alloys, or coking coal. They have the support of a specialist coal marketer who looks after the coke makers and co-ordinates the coal book, and a specialist manganese marketer who looks after the ferro alloy customers and co-ordinates the manganese book. This allows us to seamlessly leverage the iron ore relationship base across all our businesses and gives our Manganese and Coal businesses a huge market development lift in establishing their positions in China.

- **Direct Customer Interface**

We are working hard at establishing more direct links with our customers and reducing the role of middlemen. This helps us understand what is driving the customers' decision making and to position ourselves more effectively.

- **Refocus on Direct Relationship with 'Winning' Mills**

We are also focusing on building a group of core customers who we believe are the long-term winners in China. They are the mills with whom we can build up a long-term relationship and who understand and utilise the technical merits of our products. That means they will tend to stick with us through the cycle as they appreciate the value proposition that we make to them.

- **Explore Logistics Initiatives**

We are actively working to build up a bigger freight book on our Chinese business. This helps us maximise port utilisation, control demurrage and generate opportunities to better leverage the supply chain. We are also looking at things like stockpiling opportunities and parcelling opportunities all with the focus of margin maximisation.

Slide 53 - The Results

That is all nice talk and sounds great, but let's look at how it actually faired and what sort of results we're seeing.

- **China Iron Ore Sales Up**

Firstly, our iron ore volumes have grown by 50% since the merger from 12 million tonnes to 18 million tonnes in a market which has increased in total volume by around 40% over the same period. So we have certainly captured our fair share of the market growth.

- **Agents Removed from the Business**

At the time of the merger, over half our iron ore business was done via intermediaries; now virtually all of it is done direct. That means we have cut out the middleman's margin and we are in control of the relationships with our customers.

- **Improved Technical Marketing**

The improved interaction with our customers and the better technical exchange with them have established a much broader recognition in the marketplace of BHP Billiton's competitive advantage in product quality, and have helped customers use our products more effectively.

A better understanding of our customers' needs and drivers has also led us to the decision to increase the Fe grade to four Mount Newman fines product which is the main iron ore product sold into China. This creates additional value for the customers, thereby strengthening our competitive position and gives us a greater effective volume lock-in when the cycle eventually does turn.

- **Iron Ore Price Discounts Eliminated**

This improvement in our product quality, a better understanding of our customers' position and the early recognition of the emerging strong market dynamics have helped us eliminate discounts in China that were previously prevalent. We have re-established rational price structure there and, in fact, China is now trading at the same price level or in some cases even at a small premium to our other North Asian markets.

- **Over One Million Tonnes of CFR Business**

We've also captured and carried over one million tonnes of CFR business to date and have significant more CFR business coming over the next six months.

The result of all these activities has been an increase in our iron ore margins in China by over $2 per tonne on a like-for-like basis; that means after taking out the market benchmark price moves. This has been a very pleasing result.

- **Cross Selling Opportunities Captured on Back of Iron Ore Relationships**

On the strategic side we have also had considerable success in developing markets in China for both our Manganese and Coking Coal businesses on the back of our iron ore market position. Volumes of both these products are now being pulled through from our Chinese iron ore customers. In effect, both these businesses are benefiting from almost instant market penetration which we've been able to capture through access to the relationships our iron ore business has built up over many years and with a broad base of Chinese steel mills. It's still early days in this effort but prospects look very encouraging.

- **High Level of Confidence in Our Understanding of the China Market**

Finally, we've been able to get a very clear and early picture of what's happening in China, a market that traditionally has been very difficult to interpret. This has allowed us to get early input into CSM's business and capacity planing process and allowed the business to react quickly to the market dynamics.

We now feel very confident that we know as much about the Chinese market as we do about our traditional markets. This is very important in developing the organisational confidence to make major investment decisions quickly.

Slide 55 - Summary

- I believe we now have a more capable and focused marketing organisation in China than we had in the past and we're beginning to see the results. Those results can be seen in terms of improved margin, improved volume, and stronger market position.
- We're also working hard at leveraging the strong iron ore market position to benefit our other businesses in China and that is starting to deliver results as well.
- Finally, we now know as much about the Chinese steel industry as anyone. That makes us feel very confident that we have a good handle on what's happening and it improves our decision-making processes within CSM.

Thank you.

Questions and Answers

Marius Kloppers

I would like to open the questions to the floor, starting in London.

Question

Could you just compare and contrast the state of your marketing organisation with that of a financial institution and with competitors like Glencore?

Marius Kloppers

Tom, I think that is a question that you can perhaps best answer from Johannesburg. I'll repeat the question for clarity: Can you perhaps contrast our control practices and just elaborate a little bit how you think it compares to how a financial institution would manage it or, for example, some other key competitors would manage it?

Tommy Schutte

Firstly, when we designed the base model we compared with various banks and decided to set up our business in the classic banking manner with a front, middle and back office, with full segregation of duties. We have market risk managers, which are independent from the marketing team, which review basic pricing exposures as well as monitor daily limits that are placed on the marketing team independently from the marketing environment. As far as I know, none of our competitors are actually structured in a similar fashion.

Furthermore, what we have done is added the logistics, finance and marketing people who generally sit together in order to enhance the sharing of the information. That is just an example.

Marius Kloppers

Perhaps I can add one or two comments. I believe that we had a really good event in the merger in order to galvanise us into some improvement of some of our processes, especially the choice to get all of our exposures on one system is an absolute major advantage to us. Peter couldn't demonstrate it here today because it is online, but we can with three clicks get exact exposures to any client across commodities. We don't believe that anybody else in the resource sector can do that.

Within that comment, I'd like to make one or two caveats, or just stress one or two things. Our base case is identifying and quantifying the exposures that we always took in our business and proactively managing those better. It's not about taking new risks or things that are different *per se*. It's understanding the risks that a coal marketer takes if he signs a 15-year fixed-price contract with a generator, in terms of counter-party risk, credit risk, market exposure risk and so on. Ultimately what that gives people is a much, much greater clarity of focus of what they've got to achieve to out-perform their markets.

Once again, I believe that we are well ahead of our competitors in measuring our marketers and actually quantifying their out-performance against the market.

Question

Jon Dudas mentioned index linked coal pricing in Europe. I'd just like to ask whether that is a concept that's taking off in Asia as well. I know it's something that the Japanese utilities have been talking about for a long time and I think it was Coal & Allied that were quite a strong proponent of it a few years ago; they seem to have backed away. Is that something that you'd like to see happen, or not, or do you have much control over that anyway?

Secondly, you spoke about cutting out the middlemen in coal trading, which we can see the advantage of that. Jon also touched on BHP Billiton becoming an agent, and I think he mentioned an Indonesian coal producer. That's presumably a more risky low margin business. Is that something that you would like to develop in the future? Do you see yourselves as having a competitive advantage in that field?

Marius Kloppers

Jon, I think you can answer both elements of that question best.

Jon Dudas

Sure. I think to the first question, which was around index linked coal pricing out of Asia, I think it's really just they're in an earlier stage of evolution in their markets and it's absolutely necessary that the generators out East also start utilising the price risk management tools as they deregulate as well. In fact, we'll probably see new ownership, so potentially Western ownership of some generation assets and the requirement for those tools as well.

That said, the indices coming out basically at the moment are based out of Newcastle and these are based on the physical markets. So you actually have a very robust index at the moment that is in a high growth phase and there are number of contracts that have been concluded on indices, both by competitors and ourselves. So I think the train has left the station in Asia and it'll follow the European route.

Your second query was around us being a large agent for an Indonesian company, a non-related company. It's certainly not risky business at all for us. We are committed to assist in the marketing efforts to place their products and they pay us handsomely for that. What do we gain out of that? We have the right to take some of their product as principal, so we can trade and arbitrage opportunities, but that's not the key factor for us. It's really understanding where a very large volume of Indonesian tonnage, which we don't equity own and have the risk off, is going into the market and how pricing is being formed around those tonnages. So it allows us to be in the game in fact in a very low risk environment or potential structure than a risky structure.

Marius Kloppers

Peter, perhaps you can comment on the scalability of our systems and comment on variable costs and so on for additional transactions and, which is also a consideration when entering into agency business.

Peter McLure

Well I think in simple terms we've designed our systems so that they can scale up to the volumes we expect them to have over time. So if this market grows we can cope with that growth. Not only that, but the systems have been set up so that they can be accessed just as easily in our offices in Asia as they are in Europe.

Marius Kloppers

I think the point I'd like to make is the system we've got has got very low incremental variable costs. For John to put through 10 million tonnes extra coal and get paid an agency fee on that deal, the marginal cost for us is negligible of doing so. So I think if it's a low risk business and people pay us a fee that's definitely something that we'd like to do more of, not only for the fee paid, but especially for the marketing side that it gives.

Question

Two questions please: one on credit risk and risk management tools from the Board level down, and the second on China. When the merger was first announced there was a lot of anticipation of the risk profile of the Group being very substantially moderated and certain numbers were put in place in terms of exposures. Given the maturity of the model, that it has delivered consistent profitability, have those numbers been reassessed in any way to actually give you perhaps a little bit more risk magnitude?

Secondly, on China, you put some figures in the slides on what your sales are today. You clearly have some future visibility, where might that number be in two years' time and more specifically, in the near term, post-SARS, now you've got people back on the ground out and about, what are the levels of activity?

Marius Kloppers

I will try and answer both of those questions myself. The FRMC is a known institutional sort of structure, which really is well documented in all of our filings, annual report and so on. We continue to very actively use the portfolio model that was developed as part of one of the predecessor organisations to this. We assess our cash flow at risk on a monthly basis – obviously all of the cross-correlations, volatilities and so on are continuously updated, and we continue to monitor portfolio effects very aggressively at the macro level. Obviously, at the micro level what we do in marketing is just using those exact same tools across a much more complex set of contract structures to really at the micro level understand what is going on.

So we continue to evaluate our portfolio performance. We continue to believe that all of the statements we made at the merger of stability of cash flows and so on have been well demonstrated. We continue to believe that they're valid and I think that's a recurring theme that you will see in our strategy presentations going forward. I think that answers that.

In terms of China, I think what Andrew has tried to illustrate is that we see, I mean obviously in our well-established products we have to get our fair share of the growth in China. We believe that our major advantage in China is actually the fact that we've got complementary products, which Andrew has well illustrated. We believe that we've got a niche for the coking coal products which we are demonstrating that we can gain additional volume, expand the hard coking coal market and so on. That's a clear area where we believe that our growth rates into China on margin will probably, hopefully be a little bit higher than our competitors'. Likewise on manganese. We've got similar possibilities in some aspects of the alumina, aluminium and copper businesses. Obviously, Andrew has just illustrated one leg of that, but we've put similar efforts in place on the non-ferrous materials.

I think where we are especially well positioned is that to take advantage of shifts in productive capacity from region to region, we understand that very well; because we also handle third party products it means that we can free up equity product more easily from areas which are declining and move that into areas that are growing. That largely has been behind what we've seen in China and it's no secret that we've seen probably close to 100% growth rate in our Chinese business over the last year. We continue to feel that we are very well positioned, better positioned than our competitors to take advantage of that.

In respect of where China has gone post-SARS, we've certainly seen some pump-priming by the Chinese Government to keep that going. As Andrew has illustrated and we've done similar exercises on aluminium and copper, we have both complete demand models from the ground up in each of our basic commodities in China. For example, iron ore demand levels we've estimated top down and bottom up from firstly looking at blast furnace capacity bulks, EAF bulks and so on; but secondly, just physically looking at construction growth rates. Starting off with the basics of how many kilograms per square metre of industry constructed – looking at construct.

So we believe that we've got a very good feeling there for what we need to feed into our investment cycle. We certainly see in the medium-term those sort of growth rates continuing, although I must stress that in certain products – and I note copper as a notable illustration – that a large part of the consumption that we've seen in China is displaced consumption where we have seen demand going down in other regions and going up in China simply because they are manufacturing industrial products and so on.

So, Andrew, I think we are well positioned to deliver that. We see that business growing, but I have to add the caveat that not all of it is real growth in terms of industrial expansion because some of it is matched by industry contraction in other areas. But I have to stress that we are very well positioned to reroute product into areas of relative demand decline into areas of relative demand growth.

Question

I have a question about how you incentivise your people, particularly the trading guys. Clearly the financial institutions, including Glencore, pay their guys well. Can you hire and attract and retain the best people?

Marius Kloppers

Michael, can you comment on that please?

Michael McMullen

Sure. We have a scorecard mechanism that we share throughout the company. Lots of it is tied to corporate objectives as well as specific business objectives and then their personal objectives. I think we were fortunate in the time that we were starting that cycled with a downturn in lots of other businesses, so we didn't have any difficulty finding high calibre staff and we pay market practices for those people.

Marius Kloppers

I think, Michael, certainly the practice is to remunerate our marketers in line with the practices that are prevalent in other parts of the Group. There is certainly no extraordinary profit-linked-type remuneration systems and so on. I think that is a factor of it being a buyers' market at the moment for human talent and certainly in some of the industries that we are active in. Also, some of it is a feature of just the industry we find ourselves in. So I think we feel that we can cost effectively attract very good staff.

Question

Am I allowed to forecast more on copper? Since you are here…

Marius Kloppers

Certainly you can ask the question and I will attempt to give you some answers, yes.

Question

I would like to know your assessment of the world copper market in general. You mentioned that demand in China helped offset some low demand in other regions. How is it overall and how is the outlook, is it improving?

Marius Kloppers

I would like to, with your permission, try and steer away today from making specific predictions on multiple commodities. Obviously, we've got people here from all of the areas and I think this is primarily focused on trying to highlight our marketing model. So I am unfortunately going to restrain my comments to the fact that we've seen stocks drop, we are very pleased that the base metals prices are recovering, but I really wouldn't like to offer any specific predictions about where they are going to go today. We are also in the closed period and I'd just like to just refrain from actively answering that question, sorry.

Question

I have two questions for you. Firstly, what's the future of your third party trading in North America? Secondly, you've highlighted that you've managed to pull through reductions in working capital. Is this something that we're going to see as an ongoing trend, and will it be enough that it will show up in financial reporting?

Marius Kloppers

Okay. I'll try and answer the second part of that question myself, which is on working capital. I think a recurring theme that we've heard throughout the presentations today is that in some areas we are moving closer to the customer. That inherently has got a working capital increasing effect. I think offsetting that in our accounts… and obviously, if you move closer to the customer and deliver more service you get paid more and I think we've seen that our margins have grown over the last couple of years and we'd like to think that we've played a part in making those margins grow.

In our case, I think what we've seen over the last year or so, and what we hope will continue over the period that our systems are bedded down and people become comfortable and manage more, is that there is an offsetting working capital reduction due to efficiency in planning, efficiency in logistical execution and so on. So we've really had two offsetting effects, but the net benefit to us has been, I believe, higher net margins. I think those two effects will continue and certainly over the next period I don't foresee that there's going to be any major net movements as a result, but I'd like to stress that the underlying efficiency has increased because we've effectively extended the business model and are getting paid more at the front end of the business. So I hope that answers the second part of the question.

As opposed to the first part, we've not traditionally had a huge presence in the North American markets. Alex, can you perhaps comment a little bit on what is going to happen in the petroleum and crude and products markets as the Gulf of Mexico come on stream?

Alex Green

We will see a growth in Gulf of Mexico petroleum volumes going forward from about 2004-2005. We've made recent announcements on some of the production which is coming on stream from Chinook and Atlantis and that will certainly increase our presence within the North American market. We are currently working to globalise our petroleum team so that we can take more advantage of the growth in the North American market.

Marius Kloppers

To add perhaps to Alex's comments, there are also two effects. There are certain duty modifications that are taking place, which we believe will give some advantage to our copper sales into North America. Then, with the coming on stream of Hillside 3 we have made specific provision in the facilities that we've provided in that cast house facility to also increase our aluminium sales volumes into North America. So I would say that on three counts we will see turnover increasing relatively speaking in North America, growing oil volumes, some copper volume pickup and then thirdly, increased aluminium exports from southern Africa to the United States.

Question

When you look at all the other operating businesses within BHP Billiton, it's easy to measure what's going on. You've got EBIT, you've got EBITDA, you've got assets, you can work out the returns and all those things. The Board can look at their returns, they can look at the way those assets are performing. How does the Board look at you and measure how you're performing?

Marius Kloppers

Perhaps two comments then I would like Jon to comment a little bit on some of the aspects in the coal market to illustrate how we get measured.

The first is that the first and foremost measure, as we've articulated throughout this presentation, is to increase our margins on our product. Now obviously margin increase is a function of cost decrease and price increase relative to market. So one half of that equation we've got a disproportionate handle on, but the two aspects are absolutely intertwined in our business. Just by way of illustration: our production facilities are intimately linked to the way that the marketers market product. I will ask Jon to illustrate some of the things that have happened in the South African coal mine yields as a result of some product modifications that we've made. But the message that I'd like to give is that we increase margins not only by selling better; we also increase margins by matching what we sell to what the asset can most cost effectively produce. Again, I'll ask John to illustrate on that.

On top of that what I call vertical measurement of performance, and I would just like to highlight somebody like Jon Dudas or Andrew Offen. A very significant percentage of their incentive is tied to the performance of that asset grouping. In fact, the major percentage of their key performance indicators or targets relate to increasing the profitability of our assets. That's very important to realise.

Separately from that, as Tom has highlighted, we also do a horizontal measure of performance, ie how have we outperformed the market? On that horizontal performance we look at return on risk capital, value at risk and so on, just like any other financial industry would look. That outperformance forms the second major component of endeavour for each of the people leading a product group.

So we measure vertically, the most important measure, we measure horizontally and the combination of those two measures really is what defines our effectiveness as a marketing team. Jon, perhaps illustrate what has happened in the South African coal markets.

Jon Dudas

I think it's actually very, very invigorating because we have some hot discussions with the general managers of the assets etc, because they are just as well informed as we are around, for example, what index pricing is doing in the relevant markets. So when we discuss with the manager of an asset, 'This is the price that was achieved' he is quick to point out if it's five cents below the index and sometimes forgets when it's five cents above the index. But he has full sight of that. So he actually already has a performance base to judge his marketing unit, albeit thousands of kilometres away.

I think also important in the way we approach these contracts, especially on the back of visible and transparent index pricing contracts, is that we exploit the broad range of quality specs that are around the coal indices. So in fact where South Africa was producing around a 6,100 CV product, calorific value product a few years ago, the indices allow you to sell at 6,000 and sometimes down to 5,900 without penalty. That immediately can be fed back to the mine, saying, 'This is going to be delivered against such a contract' basically lower the quality. As I mentioned, that just means they get more saleable product for no extra cost, which adds significantly to the margin.

We see this in a number of aspects, in terms of sulphur values, for example, and so on. It's really about not trying to push the wrong product into the wrong market. It's matching the markets and in Europe especially it's highly visible, are we actually performing at the market level or not.

Marius Kloppers

Perhaps a closing comment: it's very important that alignment of asset and market are as crucially important in our business where the way that a marketer markets influences cost, life of mine, mine planning and everything. That alignment, which is also driven by our integrated systems, where we pull that planning cycle all of the way to the finished product, is a key distinctive capability for us.

So just in summary: measure horizontally in order to measure outperformance against market. Measure vertically on how we influence margin growth. The combination of those two would be how the Board looks at us at adding value.

Question

On my earlier question regarding North America I was also interested in Integris. I don't think we've had any mention of that. That tends to use quite a bit of cash, I believe, in terms of turnover?

Marius Kloppers

I'm really ill-qualified to talk about Integris. I believe we had a diamond and speciality product briefing a couple of months ago. I really am not very well equipped to answer that. It's an asset in which we have a shareholding, we don't directly manage the marketing activities as such and I think the strategic positioning of that asset has been well flagged in the various presentations that we've made.

Question

I wonder if you could just give us some more insight in terms of trying to quantify the value that you're adding on this business, Marius? We did hear about the vertical and the horizontal way of measurement, but is there some sort of indicated value that you have added so far? If you are reluctant to put a number on that, can you indicate which businesses you've added the most value to and, secondly, which businesses are you like to add value to going forward?

Marius Kloppers

When we embarked on the process for internal planning purposes we set a target for ourselves of adding 200-300 basis points of extra margin to our products. On an adjusted basis for capital, stock levels and so on. The various teams have got different levels of maturity. For example, our copper business until very recently managed on an asset to asset basis and we have just recently pulled that liquidity together. On the other hand, something like our aluminium business has effectively functioned in a model not too dissimilar to what we've described for probably the last six or seven years. In that business, the latter business, we have seen on a net adjusted basis that we have added over 200 basis points of extra margin in that business over the last couple of years.

So I think that's sort of the expectation that we have for our margins and the value add that we can create. But I have to stress that certainly in the bulk products a major portion of the value add is in how we can expand the relative or the overall market for our products. The examples that Andrew illustrated on expanding the coking coal market in China through our actions, which perhaps wouldn't have been examined to quite the same degree if we didn't have all of our marketers knocking on the doors of the steel mills and saying, 'Can I sell you iron ore' and then if they say no, we say, 'How about some coking coal today?' That enhancement and growth of the overall market for our product is actually in the bulk products probably the major contributor.

Lastly, I'd like to stress that we'd like to back winners and we'd like to do business with those people that will grow. So as a last measure I think you should also look at the quality of our customers and the growth profile of those customers and our positions with those customers.

So once again, just in summary: you have sort of a 200-plus basis points internal target – I want to stress that, that is something that has got to be added to the margin over a process of years through a combination of not only one endeavour, but really a series of endeavours, and we've got some evidence in some of our products where we've been going a little bit longer than others that that is indeed possible.

Question

I've got a couple of questions actually. The first one really relates to what Andrew Offen was talking about in the iron ore market in China. I think you had mentioned that you had increased the iron ore grade of the Mt Newman fines you were delivering into China, and I was wondering whether or not that at least partially accounts for the increase in margins that you've been able to achieve there.

Marius Kloppers

Andrew, can you go ahead?

Andrew Offen

The answer is very simple, it's in part yes, but only in part.

Question

And the other comes from all the logistics and everything else that you've been talking about?

Andrew Offen

It's a combination of the whole thing. Taking out the traders, taking out the… grabbing more of the CFR business for ourselves, the grade increase, but also just being more in control of our pricing mechanism as well has contributed quite significantly to it.

Question

Okay, Andrew, thanks very much.

The second question is I think probably for Jon. Just in terms of the chart I think on slide 37, that you put up about changes in the deregulation process for profit margins being achieved across the electricity supply industry. Clearly within that the fuel suppliers are set to be disadvantaged going forward. You obviously explained somewhat about how you're going to be acting in order to offset that relative underperformance by moving further up the line, and on slide 38 you're talking about partnerships, I think, under the market led section. Could you expand perhaps on that? There has been relatively recently some speculation that you've been looking at moving into or further down the line into the electricity generation market. Is that something that you could see happening in order to try and grab some of that additional value?

Marius Kloppers

If I can try and simplify the question. Jon, the question is, given that the value is migrating intrinsically in the early stage of deregulation away from the fuel suppliers, to what lengths are you… where is the end point for you in trying to recover that margin? Does it include investing in power generation activities?

Jon Dudas

I think I'll answer that from two perspectives. The first is around power generation assets. I think we should actually note that the Group does own and operate a fair number of small power generation assets anyway, around the key mining assets, about 400- 450 MW, and of course we do know that we're a major electricity consumer, by the very nature of our business. So I guess if owning generation assets makes cheap and reliable power supply available to our mining and smelting processes then it's logical that we should be doing that anyway.

I think in terms of the energy coal business development, intrinsically if one was to be involved in developing mine-mouth power plant and so on, that's really just another avenue of commercialising your coal in the ground. It's just another vehicle to move it and get rid of it.

So I think that's from one perspective. I think the other part of the question was more around the trading of power and potential involvement in markets. Certainly around trading in power, we see that as a service to the customer. Not only do we provide a service to them it also gives us insight into our downstream products because essentially our coal is being converted into electrons. So if we enter into deals where we convert coal to power, all we're actually doing is increasing the generation capacity, or the utilisation rate of the generator, and we share in some of that margin, which they are getting on the retail side, which you've seen in the German market is fairly substantial. So this results really in higher netbacks to the energy coal around their basic tonne of coal. So the sort of volumes of power we would trade in the developed markets are very small, but it's all associated with gaining some of that margin from increasing capacity utilisation from generators.

Question

You would do it through that route rather than take advantage of the much cheaper prices available or being asked for electricity generation assets in the UK at the moment?

Marius Kloppers

Jon, again, can you take the question?

Jon Dudas

Yes. I think that's clearly our way forward at this point in time. Again, it's like a piece of string, you know, how cheap is cheap?

Question

It's been well documented that BHP are quite keen to seen an end to the alumina/aluminium pricing link and it has been mentioned that BHP marketing people are being incentivised to seek non-linked rates. Can you give us an idea in terms of the strategy that you'll be following in trying to split perhaps the alumina/aluminium link?

Marius Kloppers

I will try and answer that question, because Rod Kinkead-Weekes is not present here today who heads up that function.

We believe that *a priori* any product should be priced on a supply-demand fundamental. Indeed, pricing alumina on the price of aluminium is not reflective of the supply-demand conditions or tends to distort the price formation mechanism that should arise out of the natural supply-demand fundamentals in that market. So we've got a policy that in all of our product we really prefer to see the supply-demand in that particular product to set the price of that product. So in alumina, certainly that is different from what some part of the market practice has been.

So as far as possible where we can we would like to price alumina on the supply-demand fundamentals. Now, we are approximately 10% of the world's alumina market. I don't think we would be so presumptuous as to think that we can change things, but I think we have been very, very consistent in communicating that in order to not have… I mean, we don't want price spikes coming through our system; we want stable prices. Price spikes are inherently bad for us because it encourages new capacity that then sticks around when that demand falls away. I think that by having prices settle on fundamental supply-demand conditions you get better insight into what the true supply-demand fundamentals of an industry is, and the industry can more proactively add capacity to serve the demands of that industry.

So I think you will see us firmly communicating and wherever possible try to take advantage of letting prices price out on supply-demand. Yes.

Question

Good morning. The question I want to ask about is on working capital and obviously the way the structure is going to happen is that there is going to be an awful lot more stockpiled change of ownership from customer to BHP Billiton. Have you any idea of what sort of size that will take up of working capital and will you be able to give us an idea, or will you be able to quantify what return you'll get from that additional working capital?

Marius Kloppers

Okay. I think I've sort of indicated that we don't see any dramatic changes. We see the one effect sort of offsetting the other. So that's as far as I think I'd like to take the prediction. I would just like to point out that selling more product CIF does not necessarily increase working capital. I mean, Jon, I don't know if you can highlight your working capital experience as your European business picked up? Jon Dudas, on the coal business.

Jon Dudas

It's good business. You increase your stockpile capacity, but whether you actually utilise it or not is a different question. Really the key for us in Europe is to keep the trains on water, if you like, arriving. So while you are doing more business, the fact that you have more regular deliveries actually means that you have less working capital, less stock on the ground and you can actually commit to customers to deliver within a number of days. So in fact, you are right, Marius, increasing CIF business beyond a certain critical level actually helps you to start lowering working capital.

Marius Kloppers

Yes, so just by lead time theory if you've got a ship arriving every week that means that you've only got to keep a week's worth of inventory; obviously with the requisite safety margins and so on. So once you enter a certain threshold the relationship is actually not linear; you actually get relative decrease of your working capital per unit sold.

I hope that's answered the question.

Question

Marius, I was wondering if it was possible to get a sense of the level of capital spent on the marketing system design, say cumulatively since its inception in 2000, and then get a comment on how this might feed into the Board's measurement of the Marketing Group's performance?

Marius Kloppers

I think for a like for like comparison on marketing costs – and I'll ask Peter specifically to comment about system spend, which is part of this question – is obviously difficult. What we've seen is that we've cut costs in certain areas and spent money in others. So we've got fewer personnel, 20% fewer people – that's obviously decreased costs, and we've got fewer agents – that's obviously decreased costs, and so on. On the other hand, it's very clear that we've also invested money in margin-generating capacity. Peter, perhaps a comment on what our system spend would be for the current financial year?

Peter McLure

In this financial year we're planning to invest around $20 million on systems. We believe it will be somewhat of the same order in the following year. Beyond that our plans are less clear, but it is likely to reduce significantly because we will have completed most of our roll out.

Marius Kloppers

So I think what you've got to look at in terms of overall spend is a picture where the pie is cut differently and it's a balance of savings and investments, but overall, you know, what you're doing is you are actually investing money in something that will generate you a return as opposed to spending it on an agent that's not going to generate you a return. That's the way we look at that.

Question

If we look at your third party trading, can you talk a little bit about how you expect that to develop over the next few years in terms of volumes and obviously, therefore, turnover, and also your expectation for trends in margins there?

Marius Kloppers

A couple of comments. The area where we have actively geographically arbitraged premia, where we've actively managed moving product from one area to another is the netback is better, is the aluminium business. I think we've indicated over probably the last five years in that business how having a trade book helps us to move product from one area to another if margins change. I think it is well documented in previous presentations how we've moved 20% of our product from Japan to Europe during the 98 changes against, similarly, as premia move around. That book, and I don't have the exact figure in front of me, but probably run a sort of traded product to equity product level of about 50% of the volume of equity product again is sort of traded product. So I think in the more traded products that's sort of the level that you would see this build up to.

Now, what margin do we make there? I'd like to come back to those four takeaways that I've articulated upfront. We trade in third party product to optimise the yield or the netback on our equity product. *Per se* it's very, very difficult to purchase an aluminium ingot and sell it for much more than you purchased it at. I mean, you should look at that trade book as facilitating geographical arbitrage, stockpile management, working capital, inventory management, which is consistent with the messages that we said before. So I don't think that you should look at an outright margin on the traded product, you should rather look at if we helped through running that trade book in getting better prices for our equity product.

Obviously there are, across the various products, differences to this. Once again, I would like to refer to some of the examples Jon quoted in his talk where, by aggregating third party, let's say Colombian coal, with low nitrogen emissions, with South African coal, or perhaps additional South African low sulphur coal, and blend that into a 100% supply contract for a European generator, you enable things like optimising ash content in your own coal or sulphur content in your own coal, which in turn, optimises your mine yield, cost of production and so on. So I think you should look at traded product really as facilitators for placing our own product more effectively, blending down certain qualities and not paying penalties. For example, in certain of our copper concentrates we actively aggregated third party copper concentrate product to blend down certain characteristics in that concentrate and turn that into a product that trades at a discount to a product that just trades on a specification. That's sort of the way we look at traded physical product *per se*.

Question

You've obviously seen a spot shift in energy coal. I was wondering if that's something you are trying to encourage in other bulks. Do you like the volatility or not?

Marius Kloppers

Perhaps the person that is best equipped to answer that question is Andrew because he sits on a major proportion of the Group's bulks. Andrew, in Sydney?

Andrew Offen

The answer is not really. Whilst spot volatility offers you opportunity, you know, the basic business model we have for coking coal, for iron ore and, to a lesser extent, but still quite prevalent in our manganese business, is really long-term stable direct relationships with steel mills. So whilst we're not afraid of increased proportion of spot business in our book, it's not something that we're actively going out and seeking. We're quite happy with the structure that we currently have in place.

Marius Kloppers

Is it fair to say, Andrew, that your basic business model is technically differentiating your product and adding value to the product with a level of technical support, as opposed to encouraging that trend?

Andrew Offen

No, that's right. I mean, a product like coking coal or iron ore, very technically differentiated from each other. Whilst there are some broad categories, for example, you'll have low volatile, high quality hard coking coal, there's enough of a differential between our own Peak Downs with, say, Anglo American's German Creek that means they're not freely interchangeable. So that's meant people, traditional traders, for example, the likes of Glencore etc, have never really been very aggressively trying to move into these products because of that technical differentiation. Again, iron ore, there's virtually no traded iron ore market because of the structure of the business and because of the high level of technical differentiation between suppliers, even with Australia, for example. Our own iron ore is quite different in quality from Rio Tinto's iron ore. So that is a major driver, correct.

Marius Kloppers

I think we further technically tailor our marketing effort in to match the specific blast furnace operating practices, which differ dramatically across various regions and, depending on what the blast furnace operating regime is, whether it's for maximum throughput or lowest raw material cost, we actively try and differentiate the product. I think the answer is while volatility *per se* is not the main driver, the desire to technically differentiate our product is really the driver towards the status quo for us.

Question

In one of the flow sheets in the presentation you show how your marketing spans product through to your customer. In the copper side of the business, the copper concentrate side of the business, it was suggested some while ago that you would like to extend that reach beyond the first use of the smelter right through to refined metal. Is that an initiative that's ongoing and has there been any progress in that?

Marius Kloppers

I think in terms of copper strategy Brad Mills has pointed out on several occasions that we believe that the move is probably towards more directly produced copper units for future projects, and I think we have articulated that our future Spence project, for example, is most likely going to be a project that produces cathode directly from an SX/EW process. So we see that trend continuing.

In terms of copper units from concentrate, I think we, obviously following some of the capacity reductions that we've made, have operated under a regime of great concentrate scarcity and really the majority of our effort has been focused on meeting the needs and commitments that we've had with existing customers. So I would say that the current output regime, the level of our contractual commitments, has meant that not much progress on that area.

Eventually the copper concentrate market will become better supplied again and I think if we look at where smelting capacity is moving, where demand is moving – as we've highlighted in China – we believe that it's critical that we tow copper concentrates through smelters, get access to copper units in China and access those developing customers, some of which in due course will be world-beaters as that industry invariably will consolidate. I think that remains an integral part of our strategy. In practice, where we are in the concentrate cycle at the moment means that it's just not feasible to even really think about that at this point.

I think perhaps we are out of time. I'd like to thank everybody. It's been very good seeing you and hope to have more contact with you. Thank you very much.