BHP BILLITON INTERIM RESULTS BRIEFING
HALF YEAR ENDED 31 DECEMBER 2002
24 FEBRUARY 2003

MR GOODYEAR: Hello, my name is Chip Goodyear. I realised this morning that this is probably my 16th or 17th results presentation in either BHP Billiton or BHP, and I said to myself, "When are we going to get some change around this place?" Well in any case we obviously have one. Welcome to my inaugural presentation as Chief Executive Officer of BHP Billiton. It is my pleasure to be here today. With me is Chris Lynch. Chris is our Chief Financial Officer and he joins us from Melbourne. I see several other executives in the audience today so who knows, we may have opportunity for surprise questions.

What we would like to do today is first run through our presentation and then open up for questions. There will be a time limit on that, given that we will be approaching midnight here in London.

Let me hit a few of the highlights. You see eight or nine bullets points on this slide. Let me break that down into four areas.

The first one is that we had strong performance from our diversified assets, despite continued challenging business conditions around the world and certainly that impacts our business. With that we saw EBITDA for the quarter being again a little over $1.2 billion. For the half year that brought it to $2.45 billion.

We've talked to you a lot over the last couple of years about the stability of the portfolio and its ability to generate cash. We do a lot of modelling around that, and many people find that surprising for a resource company. But this now represents the sixth quarter in a row since the merger where we generate EBITDA of $1.2 billion, and obviously that's come in some pretty tumultuous times. So now we've moved from just simply being a theoretical review of how models work, to actually seeing that performance in our business.

We saw EBIT for the half year at $1.66 billion. Again, that's flat from last year, but up 4 percent if you consider that the spin off of BHP Steel took place in June of '02. Attributable profit was down about 19 percent to $931 million. That drop was due mainly to non-cash foreign exchange adjustments that hit our balance sheet. Essentially what we're doing here is marking to market for period to period currency changes.

Then earnings per share at 15 cents was down about 22 percent. Again, non-cash currency impacts hit this number, but in addition we distributed 149 million shares of Plc to compensate for the distribution of BHP Steel. So we saw very good performance given the tough economic times.

The next item was the merger benefits we have achieved in this six month period, a number that aggregates to $285 million, exceeding the $270 million target that we set at the beginning of the merger. Chris will talk a little bit more about that in a few minutes.

In addition, we've started to make progress towards an additional $500 million for the 2 percent per annum cost savings that we discussed last April. Again, Chris will walk you through some of those items.

The third major area is commissioning three projects in the last half year, Escondida Phase IV, the San Juan underground project, and the Bream Gas Pipeline. We have 13 major projects in development. All of those projects are on budget or better, and on schedule or better. I will talk about those in a few minutes.

Then finally, as a major item, health, safety, environment and community continues to be something that is on the forefront of our thoughts. We came up to it early, very early on in the merger that we needed a programme that we could integrate across our company. I realise this is not the forefront of the financial community, but it is very important to the 38,000 people that work for this company. It's also an excellent indicator of the alignment within the organisation and our ability to push initiatives through this very large and very complex company.

Let me go to a few of the announcements we made this morning around the board and management.

First of all, John Buchanan, as many of you know, joined our board effective 1 February. John is the Senior Independent Director here in London. He joins us after a very distinguished career at BP. He brings an excellent understanding of global resource businesses, financial skills, and obviously strong knowledge of financial markets. We are very much looking forward to working with John.

In addition, Mike Salamon was elected an Executive Director of the company. He will be well-known to many of you. He brings an excellent operating base, certainly good international skills in the business that we are in, and very good knowledge of the minerals area.

We also announced that Dave Munro would take my former position of Chief Development Officer. Dave will have responsibility for strategy, mergers and acquisitions, and business evaluation and he will join the Executive Committee.

In addition Chris Pointon and Marcus Randolph, who are already presidents of their CSGs, that's Stainless Steel Materials in the case of Chris, and Diamonds and Specialty Products in the case of Marcus, will be joining the Executive Committee also. This will serve to flatten our organisation structure and increase our efficiency.

So with that let me turn it over to Chris who will walk you through the numbers, and then I will come back with some additional comments. Chris, over to you.

MR LYNCH: Thanks Chip, and good morning to everybody. I'm pleased to be able to talk to you today about what is a strong set of financial results delivered in a very difficult environment globally. What I would like to do is run through the financials that we announced this morning, and then hand back to Chip for the balance of today's presentations.

Looking at the overall results, on slide 5 a clear theme emerges. Namely the strength and stability of the company's cashflows. Available cashflow after we paid interest and tax was $1.3 billion for the half. Operating cashflow before interest and tax was almost $2 billion. This strong cashflow has enabled us to continue to invest in our pipeline of growth projects, while at the same time increasing returns to shareholders in the form of higher dividends.

EBITDA and EBIT were above last year's figures reflecting strong performance from our diversified asset base. Attributable profit of $931 million was $224 million lower than last year due to unfavourable foreign currency adjustments on net debt and tax. Period on period the unfavourable impact on our profits solely from restatement of monetary items due to exchange rate fluctuations was a swing of approximately $565 million. I'll take you through these non-cash adjustments in more detail a little bit later on.

As I discussed with you at our first quarter results, the exceptional item of $19 million that you see on the slide relates to the demerger of BHP Steel. EBITDA to interest cover continued to be strong reaching 12.3 times, comfortably above our target of 8 times.

Let's have a look at the EBIT by Customer Sector Group. To shows that Petroleum, Aluminium, Base Metals and Stainless Steel Materials improved in the current half. Total EBIT from continuing operations improved by 4 percent.

Petroleum benefited from a 21 percent increase in average realised prices for crude oil, and a 12 percent price increase for LPG. Oil volumes were lower, however, reflecting natural field decline in Bass Strait and Laminaria and weather related operating issues in the Gulf of Mexico.

Despite marginally lower LME prices half year on half year, Aluminium EBIT was higher, mainly due to cost savings and operational improvements at Hillside, Worsley, and Alumar.

Base Metals benefited from higher average realised copper prices in the current half, and the prior period included the write off of the La Granja project of $38 million. We also saw a full six months contribution from Antamina in the current half, and the ramp-up of the Phase IV expansion of Escondida. Base Metals continues however to be affected and impacted by the decision to curtail production and both Escondida and Tintaya.

Carbon Steel Materials was down, mainly due to the impact of the stronger Australian exchange rate on operating costs and lower iron ore prices. Australian iron ore operations, however, achieved record production and shipment levels in the current half driven by the strong demand from Asia.

Diamonds and Specialty Products excluding exploration and technology is in line with last year. Higher plant throughput and processing efficiencies were achieved at Ekati, but were off-set by lower average realised prices per carat for the diamonds, reflecting a change in the product mix.

EBIT for Energy Coal is down, mainly due to a significant decrease in prices for export energy coal, and adverse movements in the South African rand. Also, last year's figures included contribution from PT Arutmin, assets in Indonesia which were sold in November 2001, and the Rietspruit mine in South Africa, which closed in May of 2002. Profit on disposal of the Indonesian assets included in the prior period was $64 million of EBIT.

Stainless Steel Materials have shown significant improvement in this half, mainly driven by a 29 percent increase in realised prices for nickel and 11 percent higher ferrochrome prices. Volumes were also higher, reflecting increased production capacity from the ramp-up of Cerro Matoso Line 2 in Colombia, and an increase in market demand for ferrochrome.

Group and Unallocated Items shows significant improvement over last year. Base overhead costs actually reduced by 19 percent to $100 million, and the losses from the legacy currency hedging activities reduced year on year from $176 million to $95 million in the current year. The underlying improvement in group and unallocated items is actually better than the numbers on this slide indicate, as last year we had the benefit of some favourable one-off items.

Let's take a look at the impact of commodity prices. Slide 7 shows the effect of the diversified portfolio. The green bars in this graph are the commodities where prices rose compared with the same period last year. In total this resulted in an increase to EBIT of approximately $290 million. The biggest single impact obviously was the prices for petroleum products.

The half year also saw higher price for nickel, chrome, and copper. Lower prices for energy coal, export energy coal, diamonds, iron ore and aluminium decreased EBIT by approximately $230 million. So at this stage a net $60 million benefit.

However, partially off-setting these numbers was price link costs of $50 million, where we pay for input commodities that vary with markets, giving a net overall benefit of $10 million.

Moving on to the non-EBIT items. Net interest before exchange impacts is down $62 million on the same period last year. In addition to lower general interest rates, execution of our funding strategy and broad recognition of the strength of our credit position has resulted in lower average interest rates. Our credit ratings have been upgraded since the merger. Standard and Poors in September of 2001 and Moodys in October 2002.

Average debt levels are also down, notwithstanding our continued capital expenditure programme.

The exchange loss on net debt was $58 million in the current half, compared with a gain of $242 million last year, a movement of some $300 million half year on half year. This is mainly due to the translation in the Rand and nominated debt at period end.

The Rand appreciated by 16 percent during this period, compared with the depreciation of 47 percent in the prior half. The tax charge excluding exchange impacts was $458 million and represents an effective tax rate of 32.4 percent, or 33 percent after the exchange related restatement effects for the half.

I would like to show you a little bit more detail about the impact of these exchange rate movements. As you are aware, we operate under a US dollar functional currency. The major impact of this is the restatement of monetary assets and liabilities at balance date for those that are denominated in currencies other than the US dollar; in our case the main impacts being the Australian dollar and the Rand. Important to note here is that these are essentially non-cash items.

What is important to note on this slide is the swing in this item from the prior period. The total impact of the restatements of net monetary liabilities on the balance sheet, was to reduce our attributable profit for the half by $138 million. Last year it increased attributable profit by $427 million. A total adverse swing of $565 million. So if we isolate the underlying business, attributable profit actually increases by $341 million, rather than the $224 million reduction shown in the headline figures.

Turning to the cashflow on slide 10, I mentioned in my introduction that a feature of these results is our strong cashflow. Operating cashflow before interest and tax is almost $2 billion for the half. In a period of economic uncertainty this represents a very strong performance from our diversified asset base.

After the payment of interest and tax, available cashflow was still a robust $1.3 billion. We continued to invest in our growth pipeline, and increased our dividend in the half. The dividend flows on the slide include the payment of the two dividends in each period.

In the current half we entered into forward exchange contracts to hedge the committed portion of our Australian dollar capital expenditure on the MAC and PACE projects in iron ore and the Dendrobium metallurgical coal project in the Illawarra.

Acquisitions and disposals in the current half primarily relate to the demerger of BHP Steel.

At the time of the merger we announced a target of $270 million in merger benefits by the end of the current fiscal year. I am pleased to report that we have delivered this target six months ahead of schedule. Merger benefits of $285 million, before one-off costs, have been achieved. This is comprised of $220 million achieved in fiscal year 2002, and an additional $65 million of additional savings achieved in the first half of this year.

Examples of improvement initiatives include Worsley, where the team improved the chemical process for sulphate removal for the corresponding reduction in caustic soda usage. The value of that one was about half a million dollars per annum. They increased mud throughput capacity and reduced variability in mud loading within the circuit by 15 percent. The value of that is $3.2 million per annum. They reduced the seed thickener overflow solid by a hundred tonnes per day, valued as $4 million per annum. And they reduced heater tube usage by 30 percent and lowered erosion related repairs at a value of $1.1 million per annum.

Some other examples: a project which increased amperage at Hillside allowing capacity creep, $13 million of value. At Escondida initiatives include cleaning circuit and reagent changes increasing recoveries, improvements to the truck fleet tyre life, improved trucking efficiencies and reduced mine entrance times. Total value of all of those at Escondida, $13 million.

In Stainless Steel Materials an ore supply review has increased the capability to process a wider range of ores, thereby winning nickel and cobalt that previously went to waste. Value of that, $10 million.

When we delivered our Strategic Framework to the market in April of last year we announced a unit cost reduction target of a further $500 million by the end of fiscal year 2005. This is in addition to the $270 million of merger related benefits already delivered.

So in effect our total targets are now $770 million of improvements by 2005, compared to the 2001 base period. Our overall aim is to move ourselves down the total unit cost curve for our commodities.

We have achieved $70 million in savings in the first half of 2003, on the road to our incremental target of $500 million by the end of 2005. Operating Excellence is our global way of doing business. It utilises the Six Sigma methodology which has now been deployed across all of BHP Billiton's minerals businesses. We've now trained over 450 black belt coaches who are the leaders in these process improvements, and that's an increase of 125 coaches within this period, within this half.

You will see set up around the room, in the room here and out in the foyers, some examples of projects which I invite you to review at your leisure after the presentations this morning.

Examples of projects underway: at Metalloys in the Carbon Steel Materials CSG, a project focused on reducing the proportions of fines produced has resulted in the elimination of a need for secondary and tertiary crushing. The value of that is about $6 million a year. At the Optimum Colliery at Ingwe in South Africa a project focused on process plant screen downtimes reduced maintenance costs. That was worth about $2 million a year. At Ekati a project reduced the time taken to sort and value rough diamonds, worth about $3 million a year.

And a couple of smaller ones. At Saraji in the Bowen Basin a project increased the average tyre life on the Cat 793 fleet by 58 percent. That's worth about $350,000 a year. And at Nelson Point in the Pilbara a project increased the net reclaiming rate on reclaimer number 6, the value of that a quarter of a million dollars.

So in the current half we saw savings of $32 million from Six Sigma and other operational cost improvements. We also saw our portfolio management activities contributing to lower costs in the half. Transactions such as the PT Arutmin disposal and the Dia Met acquisition have pushed our average unit costs further down the cost curve, which is obviously critical in our industry.

So overall we have started down the road of delivering the extra $500 million in unit cost savings. We look forward to keeping you up to date with our progress as we go forward. I'll now hand you back to Chip in London.

MR GOODYEAR: Thank you Chris. What I'm going to do next is walk you through each of our CSGs, and give you an idea of current issues in the business and some near-term items. You will see on these slides comments that I will not address directly, but they will certainly give you an idea of what is happening in the business.

The first one that I would like to talk about is Petroleum. Bass Strait, as you all noticed, is certainly into its natural field decline. The infill programme, which was highly successful, has come to an end. But that natural field decline at Bass Strait is not a surprise, Phil talked to you about that in his presentation in November, and we do expect that to continue. It has been a very successful operation there, and it will still be a very important asset for the company, but it will be subject to the laws of mother nature.

What you can expect to see in that business in the months ahead, the Bream Gas Pipeline, as we talked about, has come online. In addition in this quarter we've sanctioned the Boris 1 project, which is a tie-in to Typhoon in the Gulf of Mexico. In addition, we had some exploration success in the last half year, including Neptune 3, Shenzi 1, Vortex 1, and then of course recently on the announcement of the Atlantis 6 well, all of these in the

Gulf of Mexico.

The focus in Petroleum in the months and quarters ahead is going to be around the efficiency of the existing assets. Next it's going to be around delivery of the substantial projects that are underway. They include Ohanet and ROD, as well as the projects in the Gulf of Mexico. Then also exploration. We will continue to be pursuing our substantial lease position around the world, but particularly in the Gulf of Mexico.

The next business is Aluminium. The Aluminium business performed quite well in the last half year; a 40 percent increase in EBIT due to improvements in cost and the end of a pot relining programme in the prior period in Hillside. We expect to see continued good performance in the Aluminium business. We'll see Mozal 2 come on later in this financial year, and early in calendar '04 we'll see Hillside move forward.

Just to make a comment on price in that business, it's obviously been somewhat lacklustre on an LME basis. But physical premiums for the aluminium product have been quite good.

The focus in this business is around delivering those expansions at Mozal and at Hillside, around capacity programmes in smelters and refineries around the world, and then obviously benefitting from our alumina long position, filling the demand in China in particular.

The next business is Base Metals. As Chris mentioned, the Base Metals business continues to deal with the voluntary production cutbacks at Escondida and Tintaya. But with those cutbacks and with some of the demand in China, we're seeing a business or an industry that's relatively in balance at the current time. We're actually seeing some inventory reduction in that area. We're seeing benefits in the last half year and certainly as we go forward from Escondida Phase IV, which has ramped up very successfully. And also from Tintaya Oxide which commenced production in June of 2002.

With regard to the situation at Escondida and Tintaya and production levels there, we're due to review that in June. We'll obviously be taking a look at the supply/demand situation at that time to determine production levels at those assets. But let me just say we are well placed to benefit from upturns in the copper market if and when they do occur.

The next business, Stainless Steel Materials, is broken down into several areas. First of all, in iron ore, we saw record production and shipments in the iron ore business. Demand in China continues to be very strong and we essentially are shipping all the iron ore that we can. The MAC project, continues to be scheduled for delivery later in the year.

Our plan in this business is to continue to build capacity, to meet the demand for our products while maintaining our market share. That's what the MAC and PACE projects are about. Again demand is quite strong, and you may see us move that PACE project forward a little faster than we might have otherwise.

In the coking coal business production was flat year on year, but we have seen a move in the mix to a lower grade of coking coal than we had in the prior period. Again, the spread between the lower and higher grades of coking coal has reached its widest margin, and that's certainly of interest, but we have seen improvement in costs, particularly in the transportation area in Queensland. So again, business is performing relatively well given the current situation.

Manganese had certainly a good result for the half year and the quarter. That's despite higher Rand costs. The Operating Excellence programme has performed very well in this area. We've noticed that a number our competitors have had difficulty here, but keeping our business up and running in both ore and alloy has created benefits for us. We are seeing low inventories in this business, and as I mentioned our competitors have had various problems which has worked to our favour with regard to demand.

In addition, we've seen sales into China for the first time. We're seeing that on the back of our iron ore relationships, and here you are seeing good cross selling between the iron ore business and the manganese business. We talked about that at the time of the merger, and we are seeing that coming through.

I just want to mention at this point that China is a huge factor in the Carbon Steel Materials business. Steel production in China in the last month was at an annualised level of about 180 million tonnes. In addition they're taking in steel from other parts of Asia. Japanese production is expected to be in the order of 106 to 108 million tonnes this year. You're seeing continued business activity in Taiwan and South Korea that's serving the Chinese market. I'll talk more about China in a few minutes.

The next business, Diamonds and Specialty Products. Chris mentioned that production in that business was up due to efficiencies in that area, but prices were down, again due to product mix. We brought on a new pipe there, and obviously that's impacting the price or product mix issue. But we continue the move to create an excellent diamond business from a very good diamond asset. We are pushing our initiatives in Falcon and the way we fund our exploration. Falcon is an excellent tool to identify kimberlite pipes, and we've set up various joint ventures with companies around the world to do that. But again it's using that technology which will assist in moving that to an excellent diamond business.

The industrial minerals business continues to be a challenge. Stock inventories are relatively high, and we're seeing inventory levels of producers around the world being higher than we'd like to see. We would expect to see some cutbacks at Richards Bay as a result.

In the Integris business, which is our distribution joint venture with Alcoa in North America, that business is benefitting from synergies of combining those businesses. That was done in November 2001. But we are seeing lower volumes due to economic conditions in North America. So again, good synergies but lower volumes in that business.

The next business, Energy Coal. Chris mentioned a variety of items that have impacted Energy Coal on a period to period basis. Price is certainly one, asset closures are another, asset sales and so on. But that has disguised some good results in Energy Coal. We've seen increased production at Ingwe in South Africa, we've seen increased production in the Hunter Valley in Australia. Those assets are performing well, but again, relative to last year some one-time items certainly have changed.

In future periods you'll see benefits from the San Juan underground project which has commissioned. In addition, we've commenced domestic sales from Mount Arthur North. We expect to see a full commissioning of

Mount Arthur North later this year when we will begin export sales from that asset.

The Stainless Steel Materials CSG is the next one. Stainless Steel Materials has seen a significant turn-around from last year. Chris mentioned that prices are up. Production is up also. At Cerro Matoso we are continuing to see the ramp up of the second phase of expansion there. In addition, we restarted some ferrochrome furnaces, meeting additional demand for chrome product.

In general there's tightening scrap supply, Chinese demand is good, and we're seeing production problems with some of our competitors. As a result there is certainly an improving outlook in this business. The Yabulu Ravensthorpe project is in its pre-feasibility phase, and we continue to look at that in regard to timing of bringing that project to full sanction and ultimately to development.

The next area I want to talk about is marketing. As you all know, marketing is one of the six value drivers that we announced last year. I recently went to The Hague and was very encouraged by what I saw there. We see a very good focus on the marketing approach to our products. We're no longer dig and deliver. We're putting our products in the hands of people whose job it is to maximise value. We're also seeing an excellent approach to customer relationships. The customer drives our business. We can no longer just figure that somebody else is going to service our customer, because if we don't watch out, they will, and those customer relationships are critical to us.

I expect three things from the marketing organisation. First of all is maximum penetration by cross-selling across various CSGs and various business units.

Second of all, we need to determine what the needs of our customers are, what products they're looking for, and how we can best service that. That is where our third party aggregation comes in, where we buy or somehow trade products from others to make sure we have a full suite of what's necessary.

In the third area we need to know where our customer is going, what's their near term plan and how does it impact our mine plan, what's happening in the next year or two, what does that mean for our business and our focus. Then finally in the long term, what's happening with their strategy, where are they putting money, and what does it mean for our capital investment and our focus. That's what our marketing organisation needs to deliver.

In addition, we are seeing other benefits there. We have a much better understanding of our exposures. That's critical for us. We understand where our product is going. We understand what exposures we have to those customers.

We've also aggregated our break purchasing activities. We move about a hundred million tonnes of bulk product a year. We now aggregate that essentially through that marketing function. Most importantly, we have got our marketing experts sitting in The Hague and Singapore who can benefit from working with our assets, by creating a central point where we benefit from being the world's largest diversified player and producer of resources. So the fact that these experts sit together and understand how that works is a great benefit to us.

Now you're not going to see that in financial results immediately. This business is still quite small with regard to that, but you will see it over time in terms of prices for our product. You will see it in terms of market share, where we maintain or expand that market share, and in product penetration, moving product into new customers, and then in customer quality. By centralising our credit issues we understand where we are seeing customer quality issues. So just a brief comment on marketing. It is an important area for us. It is something unique for us. It is small, but it has really grown in a prudent and appropriate way.

The next thing I want to talk about and update you on is our inventory of growth projects. You will be used to this slide - I know you've seen it before - but what we've done is added calendar year 2006 and taken off Escondida Phase IV, the project at San Juan, and the Bream Gas Pipeline.

We have 13 major projects which have been approved and are under development. Those projects are circled with the relatively heavy line here. By "major" I mean projects that are over $100 million of commitment net to us. These projects are all on time and on budget and that's a critical focus for this management team. There are projects on this chart which are not yet sanctioned. That is a function of where they stand in our investment review process, as well as timing around market demand. You've seen Mozal and Hillside move forward, consistent with our prior communication. Atlantis, as we mentioned a couple of weeks ago, has now been fully sanctioned, and that project has now been moved into the third quarter of 2006, and finally Spence has moved out slightly as a result of us looking at that particular project.

There are three new projects which are coming up on your screen at the moment. One of those is the CDC expansion. It's a relatively small expansion, but it moves production at that asset from 23 to 28 million tonnes. I would say that our investment review process has had an impact here in terms of getting very good financial results as that project went through the process.

We've also added on the Klipspruit project which is in South Africa. It's a coal project. And the Escondida Sulphide project which is coming on line in the year 2006. Again, that project and Klipspruit have not yet been fully sanctioned. In general these projects have returns that are between 15 and 25 percent nominal after tax. We think this is an excellent way to put your money back to work. You will see details of these projects in the appendices to this presentation.

The next area I want to cover is a review of our strategic process. This is a quite simple diagram. Some of you have seen this before. Very simply, what I look at here is a pyramid. At the base of that pyramid is our large low-cost high-quality long-reserve life assets. These assets are the fundamental underpinning of this company. They put us in the lowest quartile of the cost curve in many assets, and generate very high margins. Again, it's the cashflow out of these assets which present opportunities to reinvest and returns to shareholders.

The next area is cost savings. It's within our control, it's critical that we deliver on that. As many of you know, we see long term real price decreases in our products, modest of course, but cost savings has to be a way of doing business. We talked about a target through '05, but I can assure you that will continue on in the years ahead. We simply must do this. Again, it's within our control and I think we've got a track record, but we can do more.

The next area is the growth pipeline. Again a distinguishing feature for this company relative to peers. We have the opportunity to put a lot of money back to work in Brownfield and Greenfield projects. I think that's something that's quite critical. We run that strictly - it's value driven through an investment review process.

I also want to put in here marketing. Understanding where our customers are going is critical, and things like Falcon and the way we fund exploration. These are non-traditional ways of thinking about growth in our business and being efficient in our business. Again critical value drivers. I would add that these three items are within our control.

The next area is something called bolt-on acquisitions. These are acquisitions of partner interests, maybe acquisition of mines that are adjacent to mines that we have or oil fields that are adjacent to things we have. We know the infrastructure, we know the asset. We can get the most efficiency out of these assets, we're the ideal buyer. Our track record there includes CZN in Colombia, Dia Met in the diamonds business and others that we've acquired from time to time in the past. Again, these things we have to focus on and be prepared to take advantage of, and we certainly do that.

The final item I have here is M & A. This is essentially public market and merger activity. It is also an important part of our strategy. We look at everything. We look at everything you hear about and we look at a lot of things that you don't hear about. But you can be sure that we are very active in this area. Now, you've got to recognise it's a very competitive M & A market place out there and many of our competitors are very fully financed, and shareholders have certain expectations around value.

So are these going to play a role for us? You bet they are. But it's going to come at value and you're going to pay full price. The key is, what do we bring or what do they bring to our situation, do we have the capability to make it happen, does it fit with us in some particular way? It is a value story.

If on the other hand I took this pyramid and turned it upside down and told you we were going to build a business by going out and buying cheap public market M & A, pursue public market M & A activity that were trading at discount prices, I think you'd have to look at that in a pretty sceptical way. Because you can be assured that we, as well as others, are going to make sure that fair value is paid. Again, what we bring to that story will bring this from time to time into a part of our strategy. Let me say that every one of these pieces of the pyramid fit into the BHP Billiton strategy going forward, and you'll see us execute in each of one of those in the years ahead.

The next area is China. This will be the last major area that I cover. China, in a simple way, has a huge impact on the demand for metals and bulk commodities. We've seen in China significant infrastructure spending, government-led primarily. It has been something that over the last ten years has continued to push up raw material demand in that market. Recently - that's over the last three to four years - you've seen increased foreign direct investment driven by high local growth, as well as relatively cheap labour, which then exports that end product to the outside world.

We expect this to continue. It will continue to be an important driver and the world trade organisation entrance by China will continue to push that along.

In summary, we've seen over the last ten years aluminium demand grow by about 11 percent, nickel demand by 9 percent per annum, copper demand by about 13 percent, iron ore around 16 percent. What we're showing on our chart here by the way is a map of China, but the 60 or so dots represent our current iron ore customers in China. You can see a broad spread and deep penetration in this area.

But the growth in China is not just a China function; we're selling product in Japan, Taiwan, and South Korea, which ultimately ends up in some form of product - certainly steel's an important one - going into the Chineses marketplace. But let me caution, China will not be straight line up to the right, there will be bumps along the way. But I have to say that with the Beijing Olympics and with the Shanghai Expo in 2010 you can be assured that they will both be showcase events and they will certainly be looked at as an opportunity to showcase the infrastructure that will be built in China over time.

Now what are we doing in that area? First let me talk about our staff. We have about 50 people in China. Most of those people in Beijing and Shanghai - most are in Shanghai - 85 percent of those people are Chinese nationals, 92 percent speak fluent Mandarin. In that area you will see us very much tied into this marketing model that I talked to you about earlier. We get very close to our customers in that business.

Over the last six months, as you see on the slide, we've sold about $430 million of products in China. We are one of the largest sellers of resource into China. Our marketing team would like me to tell you they're the largest - it's a big place with a lot of things going on, so I am going to suffice to say one of the largest.

Our six months sales there in alumina, about 30 percent went into China, and about 20 percent of our iron ore went into China. We've moved from doing business with China to doing business in China. That comes in two ways. First of all, you'll see very soon that we're developing the opportunity to actually trade and own our own product in China. Traditionally, business with China is done on an FOB basis through intermediaries. With this we'll have the opportunity to own product, service customers directly, on the spot in partial loads and work around freight situations there.

The second area: Because of our marketing activity we'll be able to not only move the raw material in, but take product out, and this could be some intermediate stage metal. We can go through tolling arrangements, we can decide to sell that intermediate product internally, or export it, again giving us more flexibility in that market place.

I will mention two other things. One is growth. Carbon Steel Materials has seen their business grow 24 percent in that market period on period. The oil business for BHP Billiton is up a hundred percent period on period. The Aluminium and Stainless Steel businesses are up over 300 and 400 percent period on period. So our marketing organisation and our structure there is certainly having an impact.

One other item I might mention is that our board is planning its June board meeting - our June strategy session in Beijing. You will find with that how important that market is for us, that we're having a three day board meeting in that market place. Our focus in China is around iron ore, copper concentrate, alumina, LNG, nickel, and to some extent manganese ores and high quality coking coals. Again we focus there on products that we believe they are short of, and we believe those are areas where we have the key competitive edge.

Finally, in summary, let me say that it is a difficult economic environment out there. We see around the world a difficult geopolitical situation. That situation is certainly impacting consumer demand. It's impacting business demand. We're seeing weak equity markets and high oil prices which, although they benefit us, have an impact on economic activity around the world. While that uncertainty is in place it's going to be difficult to be excited about what's happening in the future with regard to economic activity, and raw material businesses.

Having said that, you have seen an excellent illustration once again of the stability of this portfolio. Our cash generation capabilities, EBITDA and EBIT performance, not only are strong but consistent again, particularly in this time. You have seen our merger benefits being delivered ahead of schedule. You are seeing us make progress around the 500 million June 2005 target. We continue to work forward on our project pipeline. We commissioned our three projects this half year on time and on budget. We have 13 in development, all approved, all moving forward on time and on budget. Structure and strategy remain in place, and you should expect to see this management team deliver the strategy and the targets we talked about last year in the quarters and months and years ahead.

So with that I will open for questions.

QUESTION: Can you tell us what's creating the delay in deciding Brian Gilbertson's payout, please? Secondary to that, shareholders have been told to expect, through the media, around 24 million. What should be their expectation in that regard?

MR GOODYEAR: I'm afraid I can't provide much information with regard to the quantum of payment or the timing. But the company has said that immediately upon determination of that amount they will inform the market place, and its constituencies of what that amount is.

What I would say is that the agreement with Brian was put to shareholder vote last year and did receive approval, and I would add on top of that that Brian has worked for the company for quite some time, I believe he has 32 years of pensionable service, and I think you'll find that most of what he would receive would be as a result of that pensionable service and the appropriate compensation around that. So again I'm not involved in that aspect of the situation with Brian, but I would just make those two or three comments.

QUESTION: Two small questions. We were pretty excited by the marketing strategy that was announced about 12 to 18 months, and Chip you go into some detail here on the marketing strengths of The Hague and Singapore. However, in terms of revenue and value enhancements we don't have any price, or we don't have any actual dollars and cents indicated there that the marketing strategy will contribute, in the same way that you've got synergy benefits of $275 and you've got ongoing cost reduction of another $500 million, surely the value and price enhancements will deliver greater benefits there? Instead of just getting some words, can we get some actual numbers that you would expect that excellent initiative to achieve?

The second question, just quickly, is in aluminium, where you are quite strong. If you look at your competitors, Alcoa, Alcan, both upstream and downstream, they're also quite strong and moving into China as well, etcetera. There was talk that you would have to expand your aluminium business in some way. Is there any way that you could elaborate on how you'll expand and compete better in the aluminium business, please?

MR GOODYEAR: Sure. Let me first start with the marketing question. In terms of tangible benefits, Chris did show you some merger benefits that came from the marketing activity. This comes again in the form of benefit.

Things we do there is remove some of the agents in our business and remove some of the intermediaries. Chris has quantified that for you. That shows up in the customer sector groups, and I think you'll see in a number of those groups you're seeing improvements in margin. But visibility there is obviously limited, because these are huge businesses and this is very early in the process. I would say that over time we will continue to update you on where we see benefit there.

But getting a new customer, being able to move manganese into iron ore customers - one of the things that's great about marketing, and a good example, is that in China we can send out one person to market iron ore, manganese and coking coal as opposed to sending out three.

Now how does that show up? Obviously it eventually shows up in margin, but, China representing 20 percent of iron ore, it is something that you would see. You can be sure that we will bring you up to speed on that from time to time and try to quantify that. But it won't be just the dollars and cents gain.

With regard to aluminium, I have to say I think our aluminium business is - I'm going say one of the finest in the world, but only because I'm being modest. The cost position with regard to our smelters is superior. The expansions we've undertaken there are good examples of how we're growing that business. Worsley is at the very bottom of the cost curve, and we continue to see capacity creep there. We're getting good results in some of our businesses in South America. So I see us focusing more on the alumina side of our business, the long positions that are there, and I think on the smelter side we are a very low-cost producer. There are other competitors in this area, but I can guarantee you they'd love to have the assets that we have.

So we'll look for good value-added opportunities, but I don't feel that we are at a significant disadvantage where we are today.

QUESTION: My question is in regards to the surplus funds that the company generates. I guess this is probably the third result we've seen where financial performance is very stable. How do you reconcile that very solid financial performance with the way the company returns capital to shareholders? I do notice that you are a little bit out of step with some of the really pre-eminent peers in your sector, so it makes it very difficult for us to basically actively forecast dividends. Can you give us an insight into the board's thinking on returning capital?

MR GOODYEAR: Sure. Let me just say a couple of things. There are three ways we've said we use cash. First thing is to reinvest in our business. We talk about growth pipeline, and we talk about this year, about 3.3 billion - that includes exploration costs - and 3.4 if we look at next year. That's probably around where we're going to be. As I said 15 to 25 percent nominal after tax returns. We think in this market, given our price expectations, not a bad place to put money.

The second thing we do with that money is make sure our capital structure is in line, and as Chris told you, we're heading right to that solid single A credit. I think we've gone a long way, and in fact essentially met most of that.

Third is to return it to the shareholders. If you look at our business, and certainly if you look at our debt levels, we're at the right level but you didn't see a big decrease in that number in this half year. Again, we'll be spending money in the next half year.

So the question is which one of those do you want us to give up? Do you want us to give up the returns in reinvesting in our business? Do you want us to give up our strong single A credit? I think the view is that's not the thing we should do at the moment.

But if you look at it over time you are absolutely right. I am going to say you're right as I read all the research too. There is more generation, or at least you're showing more generation, and opportunities for us to reinvest. Progressive policy means we'd like to see that dividend continue to move up over time as we generate the growth, and you're seeing a whole bunch of projects come on in the next year to 18 months or so.

So again, in good times and in bad, you ought to see us try to move that dividend up. You're right, it's quite a stable generator of cash. But I do think that it's important that one, we reinvest in our business, two, that capital structure and our rating is very important to us, and then returning it to the shareholders in dividends or buy-backs. We had buy-backs in both companies. We did increase the dividend, and that's very consistent with the strategy over time.

QUESTION: Just wondering with iron ore if you could say what sort of price increase you might be looking for there this year? Also, there's been a bit of speculation that coking coal prices might go down in these current negotiations and I just wondered if you could comment on that?

Another thing on another matter, in mergers and acquisitions you say you'll look for value opportunities there. I wonder if you see any merger and acquisition value opportunities amongst other companies in the Australian market at the moment?

MR GOODYEAR: Certainly, let's see. With regard to both iron ore and coking coal, I don't have any comment there. Those conversations and negotiations are under way, and with iron ore we'll obviously release that when we execute the appropriate pricing arrangements. With coking coal, once we reach agreement on more than 50 percent of those sales, we generally move forward with some sort of announcement. That hasn't been achieved yet, so again no comment on those items. But I did make general comments about demand for those products, and around the spread between the high and low quality coking coals.

Your next question was around value opportunities within the public market, M & A opportunities in Australia, and I'm going to assume you're talking about resource companies as opposed to other companies. With the resource area, again we make no comments on rumours or market concerns about particular M & A opportunities. I would just tell you that certainly we expect any M & A opportunity to be one of a situation where there'd be challenges, there'd be competition for it. From time to time it will work for us. But with regard to specific opportunities, we don't comment on those.

QUESTION: Congratulations on the result. You've made it very clear how you're thinking. I have three things to ask you. Firstly on South Africa, secondly dysfunctional assets, and thirdly on inflation.

Just on South Africa, can you let me know with the money bill coming out on Wednesday what you would anticipate, and just in terms of your sensitivity, what assets are involved and what one percentage point of royalty does to the business in South Africa in terms of revenue hit or EBITDA hit. On dysfunctional assets, both in Base Metals and HBI and Carbon Steel Group you've got loss-making businesses I think totalling about $80 million of EBITDA. What is on the agenda for those businesses to either turn them around or divest them or whatever you make on the agenda. Thirdly, inflation - your cost cutting, whilst impressive, was well below the inflation that you booked for the half. Are you doing enough, can you achieve enough, and where do we go from here in that regard?

MR GOODYEAR: Let's see if I can get all those. First of all in South Africa. As you mentioned, there has certainly been discussion about the score card and the money bill there. We don't have any comment on that at the moment. It's under review, so we don't have an anticipated impact. When

we get there we'll comment on that. In the half year about 10 percent of EBIT came from mining assets in South Africa, so again I don't have a specific number with regard to a 1 percent sensitivity, but I'm sure we can come up with something.
Your next question was around HBI and other assets you see as underperforming. I would say on HBI that we continue to see improvement in that business. It actually ran quite well in the half year and has continued to run well. It was impacted by the Australian dollar and its appreciation over the period, but we continue to believe that we're going to see that business be cash break even by the end of the fiscal year, so heading in that direction is important for us.

I would also say it's quite integrally related to the iron ore business - and we saw very strong demand there - and trying to tie-in how those two things work together. It's an important thing to think about. So just running out and selling HBI is perhaps easier said than done. But as I said, we are targeting cash break even at HBI for the end of the year.

Inflation moves as we see significant moves around the Rand particularly, and around the Australian dollar. The ability to react to that in one quarter is difficult, but there's no doubt that we see maintaining our competitive position in our business requires that we continue to focus on cost. So are we doing enough? We always have to do more with regard to that, but just looking at one half year I think is a little bit harsh.

QUESTION: Chip just on the base metal assets, Selbaie and I think it's the US assets?

MR GOODYEAR: With regard to the Base Metals assets, again we look for assets that are, as we say, world class, and from time to time we'll look for opportunities to divest those. Again we want to do that for value, and the difficult environment we've seen in copper over the last year or so has made that more difficult. There are no specific plans, but we do from time to time look at portfolio rationalisation. Again, these are relatively small assets in the scheme of things.

QUESTION: My question is three parts also. The first one is that Chris mentioned that you had hedged in the exchange rate of the capital commitments at MAC, PACE, and Dendrobium. Could you please let us know what sort of rate you achieve for that?

The second one is there's been a lot of volatility in the Rand and I know we're all experts in retrospect. We like it when it's going down, but not when it's going up. Has there been any change to your strategy that Rand is a depreciating currency and you're happy to hold debt in it?

The third part of my question is on China. You've mentioned that 30 percent of your sales on alumina are into China. What proportion of that is spot versus the longer term and at the moment lower price contract sales?

MR GOODYEAR: Chris, why don't you handle the question on the capital expenditure hedging.

MR LYNCH: We've achieved in the low 50s. I'll get you a precise number, but it's in the order of about 53 cents. This decision was taken once the board had approved the capital amount and the commitments had become firm in Australian dollars. But it's around the 53 cents figure for those projects.

MR GOODYEAR: One of your questions was regarding the Rand. We certainly consider that from time to time. Nobody's an expert on currencies, but I would say that strategically we still believe that over a long period of time US dollar revenue and certainly soft currency costs is the place to be. Again, we will get bumps along the way, but strategically we still think that's the right place to be. So no, we have not changed our view on that.

Within China, most of the sales into China are spot sales. So we do benefit from that with regard to those sales.

QUESTION: Morning Chip. Just a point of clarification. On those new projects you talked about I think you said about a 20 to 25 percent asset tax return or something? Can you just clarify that?

My second question follows on from the previous question on divestments. Aside from some under-performing assets, you've also got a lot of good assets that are non-core, things like diamonds, industrial minerals such as nickel and manganese, those sorts of things, what is your attitude towards China on that. You talk about China and how some of those will be positively influenced by that. What is your attitude to the smaller non-core but good businesses?

MR GOODYEAR: If you look at those projects and look at our price expectations, and again real price declines in those areas, we see in the pipeline we showed you, returns on a nominal basis, after tax, 15 to 25 percent. Now there are some that are higher than that. Zamzama was 150 percent, but that's a very small project. So in general those are the returns that we see. It's not a target. It's not a hurdle rate. It gives you an idea, in Brownfield and in good Greenfield, opportunities where we see the returns in these areas.

Then with regard to the other assets, there are certainly a variety of good assets, whether they're core or non-core. As I mentioned in particular things like diamonds, we recognise that's a superior asset, but we need to make that a good business. There’s the activities around Falcon and our joint ventures there, and the key thing strategically is we want to turn it into a good business first. If we can't, we'll have to take a look and see what we do.

The same will be true for some other businesses. And again if we get into an environment where it's more valuable to somebody else and we can't strategically make a run of it, we'll certainly consider that. But the biggest asset that we dealt with recently was BHP Steel. You can see now that, with the management team focused on that business, they're doing an excellent job. And One Steel, I know people didn't like One Steel, but it's one of the best performing equities over the last 18 months or two years. So you get a management team on that.

So we've done a lot of clean up fix up there, and if we find that we can't operate a business in an efficient and value accretive way and somebody else can do it, then we'll do it. But I don't think we're there with a number of those things. But who knows, from time to time there are restructuring opportunities and we will see what happens.

I do encourage you to wander around the room and look at those operating excellence items. It's often we get a lot of questions about, what do you mean by "operating excellence"? What you need to do is go look at the wall and go visit some assets, and talk to the people that day-to-day make that stuff happen. And it's a mind set. It's something that comes when people get rewarded for thinking outside the box and applying their skill and knowledge. It happens. It doesn't happen in $50 million chunks, it happens in hundred thousand and million and $2 million chunks. But again you get 38,000 people thinking that way and you've really got something going.

QUESTION: I find it very interesting you have not mentioned anything about the Minerals Charter in South Africa at all in this presentation. Specifically, does Hillside come under the legislation? Generally, what transactions have you done? What are you preparing to do? Could you give us some indication of how you feel you are doing at the moment on the basis of the scorecard?

MR GOODYEAR: Those are all very good questions and I am going to give you a relatively short answer for most of it. Let me try to answer your questions. I was down in South Africa about four to five weeks ago. Very good visits down there; it was obviously my opportunity to meet various government officials, industry officials, investors, and so on.

The Mining Charter and the scorecard associated with that are under development. I know there has been some discussion about that. We are currently evaluating the impact on ourselves and what that means. We continue to have confidence with regard to the Charter itself and support many of the initiatives there. How that is implemented is a critical issue for us.

What I would say is that we have that under review and I think our progress with regard to many of the expected scorecard items is actually quite good. With regard to Hillside, Hillside is not under that. This is around the mining assets – they represented about 10% of our EBIT in the last half-year. So it is a little bit early for us to come out and make any definitive comments about it, but I can assure you that we are looking at it quite closely. Again, I had very good meetings down there. I think the issues we see are being able to make sure that there is capacity to respond to some of the transition issues from the government side as we prepare our ways to go forward with that. Thanks for your question.

QUESTION: Congratulations on achieving your merger benefits ahead of both time and ahead of budget. I think that is a credit to the whole management team; especially your former chief executive, who once again delivered for shareholders. Given both the merger performance and your comments on mergers and acquisitions, I find it remarkably hard to understand why your former chief executive is no longer with the Group. I wonder if you or another member of your board might like to give us a little bit more detail on irreconcilable differences.

MR GOODYEAR: I did see your research last week and I was prepared for that question believe it or not. I would simply say that the board has said all it is going to say on that. I cannot add anything to that. I was not included in the meeting in early January where that was discussed. I was called in later and informed of the decisions around that. Unfortunately I cannot add anything to that.

I would say though that there is no doubt this is a team approach around strategy, structure, and the merger benefits. I think you will find that to say any of that was a one man show would be a discredit to the rest of the people in the organisation. There are 38,000 people that work here. I would say Brian would tell you the same story. Integration activities obviously begin at the top but they flow through the executive committee. Mike Salamon obviously took a primary role with regard to that, but credit belongs all through the organisation.

You are going to see that continue. We are going to have cost savings targets forever and the people who delivered the first set are going to deliver the next set also.

QUESTION: Two easily reconcilable questions. Firstly, the group EBIT margin is now around 20%. Clearly you benefited from divesting low return assets such as steel. You put in the cost reductions and that may add another 3% going forward. Your industry peer Rio Tinto has current margins of around 25%. At the end of all the growth pipeline, where do you see BHP positioned in terms of targets for EBIT margins? You mentioned that you have very predictable, stable cash flows. I just wonder at the EBIT level, where do you see your long-term margins? That was question one.

MR GOODYEAR: I think if you took a look at our numbers and adjust for two things. The first is trading; for instance, Integris is considered a trading business. Distribution is a notoriously low margin business. We do break that out in the report so make sure you do that. We then comment on the impact of the legacy hedges at BHP: the old legacy Australian dollar hedges. Take that out and then ask your question again. I think you will find that our margins are quite consistent with the other company you mentioned. I think it is important that we have to make sure we manage our assets correctly, but when you make those adjustments I think you will see that we are a lot closer than those two numbers might indicate.

I would also just make one comment about that. We will always make more money on our equity tonne – a tonne of coking coal or iron ore – that we produce ourselves, but does that mean that trading tonne is not a good investment? The answer to that is: absolutely not.

Coking coal is an excellent example. We obviously sell a tremendous amount of coking coal, but we can also – because we are a big player – buy from others who do not have the infrastructure to sell into Japan or other places.

We have no capital tied up: a little working capital, yet we make $5 per tonne. Now that is not nearly as much as we make on our equity tonne, but is that bad business? Absolutely not. That is where we think about capital employed, not just EBIT. Make sure you look at that. We can spend a fortune and drive our costs down, but we have got to make sure we are efficient in the way we do that. We have all the numbers and we would be glad to help you on those margins.

In the long term we will continue to see good progress down that line. Again, I think we are in good shape now but we are never finished on the cost savings line.

QUESTION: The second question, which you have touched on, is the legacy Australian dollar hedge book. I think the losses were running at $300 million a year at one time. It clearly looks as if it is about half that level now. Could you just talk about how these contracts mature and the impact over the next few years as they unwind?

MR LYNCH: You saw the reduction this year and you are right - they have been above the $300 million range per annum in prior periods. What we are seeing here is a twofold effect. One is that the amount that is actually exposed to the hedges is reducing and also that the Australian dollar has strengthened. There is a twofold effect there. We will see them dropping out of the mix in 2004. They will be a thing of the past as at the end of fiscal year 2004.

MR GOODYEAR: If you look at the last page of the press release we break it out by quarter for the next four quarters. You will see that there and they are decreasing quite substantially. May I go to Johannesburg?

QUESTION: I wondered if Chip could give us insights into the merger benefits. You have already exceeded what you set out to by $15 million. Are we expecting to see more merger benefits coming through? How does it tie in with your US$500 million target? At one point I imagine you move from merger benefits into cost savings and efficiency improvements.

The second question is if you can give us an indication in terms of your capital expenditure for the full year? You only spent $1.2 billion in the first half.

MR GOODYEAR: I will go ahead with the merger benefits and with the relationship to the US$500 million. You are right: at some point in time you decide, 'Is that a result of the merger or is that a result of Operating Excellence and the way of doing business?' It is not a science, but we have generally said that if the project was identified prior to the internal identification of this 2% cost savings – the US$500 million – we have considered that a merger benefit issue. If it is something that has been identified after that point, it becomes part of Operating Excellence and the target to the US$500 million.

Chris did say that the way to think about this thing is US$770 million by June 2005. That is how you ought to think about it. I do not think there is any great magic going forward saying, 'That was a merger benefit and that is to the US$500 million additional.'

With regard to capital spending, the budget this year is about US$3.3 billion. That includes the following: exploration at about $300 million, and some of that is charged to profit by the way, but it fits in that number; next is maintenance capital at about US$800 million; and then finally the balance being growth projects at $2.1-2.2 billion. We will talk about our 2004 financial budget later, but we would expect it more or less to be in a similar range.

QUESTION: Given your comments regarding Richards Bay Minerals that there is going to be a cutback in production, does BHP Billiton have any interest in partnering WMC Resources in their titanium project in Mozambique? Thank you.

MR GOODYEAR: What I did say was about Richards Bay. I do not think your question was about Richards Bay; if I missed that, just ask it again. Interest with regard to Corridor Sands; we do not make comments about any acquisition situations. But what I would just say is obviously we see difficult trading conditions in this business, and Mineral Sands are in the industrial minerals area, and so as a result we certainly have to build that into any consideration about investment activity.

QUESTION: I would just like to ask two questions. First of all, interest cover has moved up to 12.3 times. You were very comfortable with eight times at the bottom of the cycle and I take it that we are moving just off that. Given interest rates have come down the way that they have, what is your comfort level now?

The second question is: one of the things that we saw on one of our trips to Australia was the dragline project for the different method of dumping. Obviously that would be a key component of these savings. Can you give us an update on that please?

MR LYNCH: The interest cover issue is one of our metrics. Obviously this is one where we have had the fairly low threshold of greater than eight times. We also take that in line with our net gearing and we take account of the future cash demands to provide capital expenditures in way of the growth pipeline, our dividend policy, and so on. It is one of the metrics we look at regularly. It is on the conservative end of our range, but I think it is one we are comfortable to leave the eight times carriage in place for now.

MR GOODYEAR: With regard to the dragline, this is an item we have instituted in a number of our draglines. We have reduced the weight of the bucket and the associated infrastructure, which allows the more efficient use of that dragline itself. That has continued to show the same kind of performance that we saw when we initially identified this opportunity and it is being implemented across our businesses, mainly around the coking coal business but also into the energy coal business. So that is certainly progressing on schedule.

QUESTION: On the cash flow statement, there is a very substantial US$394 million working capital outflow. Is that something which is a seasonal phenomenon and will swing back your way in the second half? Can you give us a bit of a clue on the components to that and its direction?

Secondly, I am a little bit confused about the FX impact. If I look at slides 8 and 9, the total FX impact looks to be about US$36 million debit, including the EBIT through the interest line and tax. The sensitivities you gave with your first quarter figures would suggest that would be about US$100 million higher than that figure. Also, I note you have the exchange impact on tax as US$8 million debit, but through the mark-to-market it is US$60 million. Where is the other $52 million?

MR LYNCH: The fundamental issue between the US$8 million and the US$60 million is really to take account of the permanent differences that come from the taxable treatment of the exchange losses themselves, particularly the exchange losses on the interest line. Bear in mind these exchange fluctuations occur as a result of revaluing our monetary liabilities in currencies other than the US dollar. For instance, if you take the South African Rand by way of example, we pay the tax in Rand, the liability is in Rand, but in this current period we required more US dollars in the restatement to make that. That extra US dollar is not tax deductible. It is a series of that type of adjustment that changes the US$60 million into the US$8 million.

My view on the working capital would be that there is a seasonal element about that. There is also an element of some volume growth in some of the businesses, but I will leave Chip to finish that one off.

MR GOODYEAR: To take a look at these financial statements in relatively few minutes and say, 'I understand it completely,' talking to Mark, Alison, or others we will certainly make sure we can walk you through that. With regard to working capital, as Chris said, there is some seasonality. In Queensland this is the rainy cyclone season there, so we build stocks at the coking coal business and in the nickel business. In addition, some of our partnership arrangements – particularly at BMA, which is the coking coal business, and some of our petroleum business – the timing of when we collect and give cash changes. So we will look to see some of that reversed. I can assure you working capital is a cost that these businesses have to pay. You can be sure they are focusing on that.

QUESTION: You might have partially answered my question there. I was going to ask if you could elaborate on the Queensland coking coal performance. The EBIT was down almost US$50 million in the half-year, yet you alluded to the positive price impact and very strong Japanese steel production so I was wondering why the earnings are down. Maybe it is to do with that working capital, but I wonder if there are any operational issues there.

Also, longer term in the coking coal business, do you have any comments on the consolidation underway in Canada? You are the industry leader in this business; it looks like you will get a much bigger competitor from Canada.

MR GOODYEAR: What I mentioned earlier was the spread that has occurred between the high quality and the lower grade coking coal, and customers shifting to the lower cost product. It is costing them some efficiency but they are seeing economic value to do that. Where you are seeing price up for the high quality coals, you are seeing a shift in mix. That is why you are seeing the impact. In fact, operationally it is generally heading in the right direction and, as I said, transportation costs in that area are certainly improving.

Longer term, again I cannot comment specifically. Generally we were aware of that combination and will watch with interest, but we do not feel that is a negative for our industry by any means.

QUESTION: Getting away from the numbers briefly, I noticed on your Greenfield projects chart you have precisely one non-petroleum project going out for the next five years. Is that something that you are comfortable with? If not, what would you like to do about it? Also, up until very recently as I understand it there was a 'no primary precious metals' policy; is that still the case?

MR GOODYEAR: We would love to find new Greenfield opportunities in metals, but you just have to remember it is tough. There are minerals geologists that go through their entire career and never find anything. Finding that commercial resource is difficult. I do think we are going about our exploration in the right way. Again, I encourage you to come to Marcus Randolph's presentation. He will review that with you. We get a lot of leverage in the way we put FALCON to work and the way we fund that business, but we would certainly love to fill in that chart also.

In terms of mix around the ultimate EBIT contribution, we feel quite balanced in that. We look at our portfolio model to do that, so we do not see a balance issue there. Also, given the resource we have in minerals and the high quality there, the Brownfield opportunities tend to show up. Elephants move in herds; they look like expansions – like Norte, Sulphide, and Phase IV – but those are very economic and it is hard to compete with them.

What I would just say there is that precious metals in our portfolio it is unlikely that we would get a premium value for that. We are a diversified company obviously across petroleum, base metals, so gold multiples do not necessarily show up in our trading. Deep level gold mining has an HS&E component to it which is quite difficult for us. If I gave you some of our statistics around the improvements in that, you would indicate how important it is.

That is tough, but if we did find a disseminated gold deposit somewhere or some other precious situation – obviously we have diamonds – we could go ahead and develop that. We have the expertise to do it; whether in the long term it stays in the portfolio, who knows? If it is worth more to someone else in that case, it may head off, but we have the technical capability to make that work. It is just a question of whether it makes the most sense from our value proposition.

QUESTION: Just looking at your cost savings going forward, you have had the US$70 million. It is kind of split portfolio and efficiencies. Can you give some guidance of where you see that split going forward? Within that, obviously Escondida is going to be a big part when you actually allow the ramp-up to kick in. Can you give us a bit of guidance on how much of the US$500 million is Escondida and Tintaya coming back?

MR LYNCH: This $500 million is going to come from a variety of projects and a variety of places. You have mentioned Escondida in terms of the unit cost as we go back into the full phase of production there. That is obviously one area that will benefit. I mentioned in my speech about 450 trained black belt coaches. Just to give you a bit of an indication, each of those coaches have to have projects to work on as they are trained and as they train other people.

As at the end of December 2002, the aluminium business had 29 different projects underway. Base Metals had 57 projects. Iron ore had 32 projects, and so it goes. There are going to be a broad range of projects coming at this and they are going to vary in size. I tried to give an indication of this: some of these can be US$10-15 million projects; others might be as low as US$150,000. It is going to be a mix like that, but bear in mind we are trying to get ourselves down the cost curve for our commodities. Essentially down the cost curve; in some cases, like diamonds for instance, there may be an issue of margin enhancement. It is not going to be all Escondida, it is not going to be all iron ore, or whatever. It is going to be a range of projects, wherever applicable.

As we go further in time it gets a little bit harder; the lower fruit will be taken earlier on. This is going to be a constant challenge for us, but there is a lot of projects underway, there is a multiplier effect from the training of the coaches, and I think if you get the chance to look at the case studies that are around in the foyer I think you will see the flavour of the types of activities that are included. Also, if you have a close look you will see photographs of teams that are empowered to go after these types of things. Most of those guys then go and lead another team which brings together other people that work on other projects, so there is a great multiplier effect. It is going to come in a range of sizes, it is going to come in a range of locations, but it is going to come from all angles.

QUESTION: On the WA HBI, it seems to be moving in the right direction – at least the parts of it seem to be moving now. Are you on track for the target of breakeven by mid-2003? Are you likely to take any action in the event it is not there? Also, on Mount Arthur North moving towards export, is there a chance that the export timing might get pushed out given there is a bit of surplus there in the thermal coal market?

MR GOODYEAR: With regard to HBI, again from an operating point of view that plant seems to be doing quite well. We occasionally have our hiccups that come along. In the last half year, interestingly demand was so great for iron ore fines that we adjusted some of our feed in there that worked less well than fines do. So it is an interesting situation with regard to iron ore, particularly if you know the history of HBI. We are still comfortable with the year-end breakeven. We are seeing HBI prices at about US$163-168 a tonne. That is up from a US$95-100 a tonne level. As I mentioned, we do continue to expect to be at breakeven or heading towards breakeven at the middle of this calendar year.

On thermal coal, once a project is building up it is unlikely we are going to build inventories around that. Again, we will try to do that in a reasonable and market-sensitive way, but I do not expect we would simply not produce it or produce it and leave it on the ground.

QUESTION: My one question on Boodarie iron has been answered, but looking at your leverage with the FALCON technology you are spending about $24 million on exploration in the diamond area, looking at the numbers. Can you tell me how many JVs you have got with the FALCON and what your leverage is and what the total exploration spend is likely to be in the next year?

MR GOODYEAR: Marcus can give you the exact number of joint ventures, but I would say the number could be from 40-50 joint ventures. I would also say that we look at our overall exploration budget at about US$50 million, as you mentioned. We think we get leverage of something like two to three times that. We think we are seeing exposure to a substantially greater portion than our direct dollar contribution.

The way we do that is that we end up contributing funds, those joint venture partners in turn contract for FALCON generating at least breakeven and in many cases a profit for us, and we maintain the right to move back into a tier 1 deposit and a majority position with operatorship. Again, stay tuned and certainly listen to what Marcus has to say on that in March.

QUESTION: Petroleum is already your largest customer sector group. If I look at the inventory of projects that you have outlined, there is every probability – particularly if you also include the exploration successes in the Gulf of Mexico – that will increase further. Can you perhaps update us please on your current philosophy on balancing the different customer sector groups?

MR GOODYEAR: Let me start by adjusting some of the views about Petroleum. Remember: I think the oil price in the quarter we were at US$28 dollars and today it is obviously higher, but that is not our long-term projection for oil. If it is hallelujah but we expect oil price to decline. I am always interested to watch the stock price trade and somebody say, 'We have got to out because the oil price is going down.' Well, we expect the oil price to go down and we build that into the economics. If it stays up where it is, I can guarantee you that range of returns that I gave in the project pipeline move out.

With that decline in price and with the growth of things from Mozal, Hillside, Escondida, and so on out in the pipeline, we actually see the contribution in 2006-07 to be more in the line of 25-30%. You have to balance out good growth there, but recognise lower price and good volume growth in the other businesses. That is generally where we would see that. By the way, everybody is going to have a different view of price.

In terms of how we look at it, we use our portfolio model when we look at significant projects. We try to take a look at the cash flow risk in the portfolio, the value at risk that comes with that, and then try to understand what contribution the incremental project brings to us. Not only what is the median value, but what is the range of values in our portfolio? When we do that we measure risk-adjusted return on capital to understand what happens there.

Again, the last time I think we went through the market with that was maybe last January or February, or perhaps March in Johannesburg. In any case, at some point in the future we will update people around that. We do look at it that way; what we do not do is sit back in a room somewhere and say, 'Let us put $1 billion dollars into Petroleum, $500 million into Base Metals,' because that leads to bad decisions. That forces someone to go put it into a business that may not deserve it. We look at all these opportunities and trade them off on capability terms and on economic terms. We can look at a nickel project versus and oil project and turn it into financial terms once we do that. It is very important that we do not tell people, 'You have the opportunity to go spend $750 million.' We do not want to do that.

Very good. I know we have gone over time and I appreciate your attention. We covered a lot of subjects in my talk today and in Chris's area. Obviously around currency we hope to continue to bring that up and educate you all on that. Thanks for your attention. I do encourage you to walk by those Operating Excellence issues and obviously Mark and Alison here, and Michael down in South Africa, and Andrew and Tracey in Australia would be glad to answer your questions and we can get back to you. Thanks again.

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