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Quarterly Results Conference Call

29 October 2003 at 09:00 Hrs (GMT)

Questions and Answers

Question

Good morning Chris. The question relates to the South African operations. We've all seen some very strong coal prices up on the screens and I am just wondering to what extent BHP Billiton is seeing those in their operations, given that the results out of South Africa weren't probably as high as one might have expected.

Chris Lynch

Yes, the issue for us for the coal prices are that we are generally sold forward probably three to six months – that varies by customer a bit – but we have an expectation that we'll see the benefits of the higher coal prices starting to come through in the second quarter on our data. There is a lag on those prices flowing through to us based on the proportionate fix.

Question

Just a few months ago we were discussing the carry forward tax losses in the petroleum division potentially producing an effective tax rate of around 29%. Today you mentioned 31-32% – what has changed versus where you were thinking three months ago?

Chris Lynch

That's not quite correct. In the annual results presentation I gave guidance of about 32% including the benefits of the US tax losses. So I think the guidance I'd now give you would be sort of 31-32% in that range, but I don't think you have the right number from the annual result.

Question

Hello, I had a further question on coal and it does seem to be capturing people's imagination at the moment in terms of where the prices are going. As a company you said you sell forward three to six months. Is the demand still coming through from the European utilities? Do you get any sense yet that demand has peaked.

I also had a question on Iraq. We had some comments from Fluor Corp last week, talking about developing the West Qurna oil field in Iraq and they said that yourselves and them and AMEC and

Lukoil are currently in talks for that development. So far they are the only ones to confirm; I wondered if you could tell us anything about that and what your interests are in Iraq?

Chris Lynch

I think I can give you an answer on the first question, but I don't think the second question is appropriate for this sort of presentation today, so perhaps that one might be better directed to our petroleum division and you could get a more meaningful answer there on that question.

With regard to coal, we are still getting strong interest for coal in Europe, and I think the next couple of months really will be the key with that, as the winter season takes hold. There is a weather effect in coal, so we need to see how that goes through for the rest of season, but we're not seeing any fall away in demand at this stage.

Question

Can I take it from that comment then that you don't expect any collapse in prices any time soon?

Chris Lynch

That would be a logical conclusion, but I think it's better left for you to draw it than me.

Question

Just a follow-on question with China. Obviously we are seeing strong imports into China; steel production is still going very strongly. Our own China economist has some concerns about a potential slowdown with a slowdown in the extraction cycle, but I really wanted to ask whether the high freight rates we are seeing now into China – do you expect that that will start to impact steel producers' demand for products, given they are now in many instances paying more than the value of the product itself in freight?

Chris Lynch

Just a couple of data points for us. Last year we sold \$1.2 billion in total products into China. That was actually a 126% increase on the prior year. This quarter we have sold \$446 million, so if you annualise that, that is up to about, let's say \$1.7-1.8 billion, which is getting close to a further 50% increase on the 126% increase of last year. So we are selling very strongly into China and the growth rate continues.

With regard to freight, yes, the freight market is tightening. That on the one side could be a problem but on the other side could be an opportunity. It's a function about what gives the customer the best landed cost for the product. We're not seeing any slowdown in demand for our products – quite the contrary. So far we haven't seen the effect that you're referring to.

Question

I've got two questions. The first one relating to the base metals business unit, where you have got these continual losses on the other businesses, and I notice in this quarter that they've gone up. Can you give us some guidance in terms of when these losses will eventually fall away? And the

second question is with regard to your other businesses in your diamond and speciality products division - I know you don't give separate earnings on which are, say, minerals and the distribution business. Can you give out some indication in terms of the metals distribution business? Can one assume that it was either break even or in a loss-making position?

Chris Lynch

The other businesses you see in base metals, some of that is actually overhead and development type activity, which should always be seen as an expense item coming through. In the current period we have about \$6 million attributable to the costs of running the South West copper assets. We have some development expenditure in there of somewhere around \$12 million in total. The marketing overheads are in there and there's \$2 million loss on Selbaie. That number is a little bit high in the first quarter, and we'll get a bit more guidance on that at the half-year about where we think that'll finish the year.

With regard to Diamonds and Specialty Products, the key issue here is that diamonds had quite a good quarter. They were about \$50 million of EBIT versus \$23 million last year, and the overall Richards Bay Minerals was down strongly. It did make a contribution but nothing like the prior period. Whilst it was still in positive, it was not loss-making. Integris had a small profit – a very small profit.

Question

They both had small profits, in other words.

Chris Lynch

Yes, but diamonds was the main driver in that business.

Question

Just a quick question on the industrial minerals side of the business. You just said Richards Bay – another weak performance coming out of there, there is not the end market demand that we were seeing. Is that just a structural thing through there or are we seeing some of your customers drawing down their stockpiles? Just wondering if we could get a bit more flavour on what was actually happening through the quarter and really where you see that business going over the next 12 months.

Chris Lynch

Well, you're probably aware we do have some restrictions about how much we can talk about Richards Bay based on partnership agreements and so on, but the short answer to your question is that it was a combination of both of the two factors engaged in your question. There's some softness in the overall market, but there are also some inventory rundowns on major customers.

Question

How long do you think those draw downs are going to be lasting for? Have you got any sort of gauge on that side of the equation?

Chris Lynch

Well, probably through this financial year.

Question

Chris, without taking up too much time, I'm just struggling a little bit why your EBITDA numbers should drop by \$38 million just because you're breaking out the depreciation in the EBIT and the EBITDA contributions for joint ventures and associates where previously you didn't. Is there something in there that you can talk about now or is that an issue that should be left for us to deal with individually?

Chris Lynch

It actually goes up by \$38 million, not down. And I think the key issue with that really is around that it gives you a better guide when you start to talk about margin comparisons with us and the general market. We're basically coming into line with the rest of the resources industry with that one. We haven't done that in the past; we've probably punished ourselves a little bit on that one.

Question

Just quickly Chris, I know you don't put balance sheets out, can you give us an indication of where gearing went to and what net debt was at the end of the quarter?

Chris Lynch

Well, we don't do that on the quarters, but it's not a big stretch to sort of continue on pretty much with where we were at year-end. That would probably be the best guidance I could give you there.

Question

Chris, the dividend was increased somewhat, I suppose, predictably, given the balance sheet issues etcetera. Can you give us some sort of guidance beyond that – maybe even in terms of what they sort of said at the time of increasing that dividend internally?

Chris Lynch

I think what we have established is a pretty good track record of demonstrating our progressive dividend policy. The first thing that we apply the cash to is the robust pipeline of great projects that we have, and we continue to do that. We've continued to deliver on those projects, and we've got a very robust pipeline there that will add significant shareholder value in due course as we go forward, so that's the first outlet for the cash.

The second thing then would be to get the balance sheet in order. We think the balance sheet's in pretty good order and the gearing's staying fairly conservative. Our EBITDA to interest cover is 12.8 times in this period – it's been about that over the last 12 months. So our balance sheet's in pretty good order.

Then the process would be to distribute value to shareholders and we did that last year with the Steel spin-out, and we've progressively increased the dividends over the last several declarations. So I think that's the basis – we have a progressive dividend where we aim to at least maintain and maybe increase the dividend as we go forward, so that's the basis of that and the discussion went along those lines.

Question

In comparison against your peer group, did they ever come into the discussion or not?

Chris Lynch

Well, the Board does take a lot of things into consideration with those sorts of things, and considers a range of activities – one of which would be competitors.

Thank you very much for coming in on the call.