INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) PRESENTATION

Slide 1 – International Financial Reporting Standards

Welcome. My name is Nigel Chadwick, and I'm the Vice President of Group Accounting for BHP Billiton.

Today, BHP Billiton lodged with the Stock Exchange, and posted to our web site, a presentation showing our financial results for the half year ended 31 December 2004, prepared in accordance with International Financial Reporting Standards, or IFRS.

We have chosen to present this information now, to assist interested users in understanding what consequences the transition to IFRS, will have for BHP Billiton.

Slide 2 – Disclaimer

Before moving on, the disclaimer on slide 2 contains some important points which I would like to draw to your attention.

The data presented today is our current best estimate of the impact on our results and financial position of transitioning to IFRS.

However, the accounting bodies that develop IFRS have significant ongoing projects, and there are a number of topics that we believe require further clarification and official interpretation. These outstanding matters could affect the ultimate impact on the issues covered today.

Moving onto slide 3, how will IFRS apply for BHP Billiton?

Slide 3 – IFRS for BHP Billiton

Listed Companies are required to comply with IFRS for reporting periods beginning on or after 1 January 2005.

For BHP Billiton this means we are required to report our results under IFRS for the first time for the half year ending 31 December 2005, and then the full year ending 30 June 2006 and thereafter.

Because comparative data also needs to be provided, the results for the six months ended 31 December 2004, which we are about to show you, will be presented as comparative data in our first published IFRS set of results.

Being a Dual Listed Company, we have to prepare financial statements each reporting period in accordance with both UK IFRS and Australian IFRS.

The ability to produce one set of financial statements that meets the requirements of both jurisdictions has been an important objective for us throughout the implementation process.

Unfortunately, the Australian Accounting Standards Board has chosen to remove one particular option that is available in the UK version of IFRS, which affects our transition.

Effectively, it means if we are to meet our objective, BHP Billiton will be forced to adopt the more prescriptive requirements of Australian IFRS. We will cover this in more detail later.

To avoid confusion, we have chosen to present information today based on our transition between UKGAAP and IFRS. However, we have also provided information in the supporting slides to show the differences between AGAAP and UKGAAP.

All numbers referred to are in US dollars.

Slide 4 – Impact of IFRS for BHP Billiton

One of the most important messages we have for you today is that application of IFRS has no impact on BHP Billiton's strategy, cashflows, our ability to fund our project pipeline, borrow funds or pay dividends.

So our cash generating ability, and our priorities for putting that cash to work, and then returning excess cash to shareholders when appropriate, will not change under an IFRS environment.

In other respects, the majority of international standards have no impact on our results as they are reported under either UKGAAP or AGAAP, or the accounting policies which we currently apply.

You can see listed here the main areas where we have identified measurement or recognition differences, and I will cover each one of these now.

Slide 5 – Pension and Medical schemes

IAS19 has a significant impact on our balance sheet.

BHP Billiton currently applies the principles of UK Accounting Standard SSAP24 in accounting for its defined benefit pension plans. We also disclose information about the plans in accordance with the UK transitional standard, FRS17, which has many similarities to IAS19.

Our current policy focuses on the Income Statement, with the objective of recognising the cost of providing pensions on a systematic basis over the years of employee service.

Under this approach, BHP Billiton currently recognises a net asset, reflecting the fact that contributions paid have generally preceded cost recognition.

Under IFRS, the focus turns to the balance sheet. IAS19 requires us to reflect the underlying surplus or deficit of the pension plans as either an asset or a liability of the Group at each reporting date.

As a result you will see a reduction in net assets at 31 December 2004 of US$544 million dollars.

Significant volatility can arise if either returns from investments of the plan and changes in pension entitlements, differ from actuarial expectations.

IFRS allows an entity to make an election on how to account for these gains and losses, and BHP Billiton has elected to recognise these amounts directly in equity.

So you will see two things happen as we move to IFRS:

On the balance sheet – we will de-recognise existing pension plan assets and recognise a net liability equal to the net underlying obligations of those plans, with actuarial gains and losses taken directly to equity.

Then, in the income statement, while calculated on a different basis, we will continue to recognise a regular pension cost and an interest cost.

Moving to goodwill.

Slide 6 - Goodwill

The value of goodwill that we currently report under UKGAAP and AGAAP is different because of inconsistent historical accounting requirements in the two jurisdictions.

In order to transition the two existing GAAP positions to one consistent IFRS position at 1 July 2004, it has been necessary to carry over the goodwill currently reported as an asset under Australian GAAP.

As a result you will see an increase of US$389 million dollars classified as goodwill as at December 2004.

The only impact on net profit for the December half year, has been the reversal of goodwill amortisation during the period, which is negligible.

In future periods, the carrying value of goodwill will continue to be assessed for impairment on an annual basis, along with other Non-current assets.

Slide 7 - Employee share schemes

BHP Billiton provides equity-based compensation in the form of deferred shares, options and performance shares.

There are two key differences between IFRS and UKGAAP for employee share schemes.

First is the difference in the amount that is expensed.

IFRS requires the amount to be based on fair value, whereas UKGAAP is based on intrinsic value

The fair value of share awards is typically lower than their intrinsic value due to the absence of dividend entitlements and the risk of forfeiture, if the long-term performance conditions are not met.

In contrast, the fair value of options is typically greater than their intrinsic value which is generally zero in the absence of any discount.

It is important to remember here that the number of options granted under the Group Incentive Scheme is relatively low.

The second difference is the period over which the shares or options are expensed.

Under IFRS, both the start and end of the 'vesting period' can be different to UKGAAP.

In general this will mean that BHP Billiton will expense its share-based payments over longer periods than we have to date.

So overall, because share based employee benefits are weighted towards deferred shares, and because the period over which the cost is recognised is longer under IFRS, the annual cost will be lower than under our existing policy.

Slide 8 & 9 - Income tax

I would say that IAS 12 has been the most complex accounting standard to deal with in our transition to IFRS and will most likely be the cause of the greatest level of volatility in our accounts moving forward.

It also results in the most significant measurement impact, with a benefit to profit of US$92 million dollars for the December 2004 half year, and additional tax liabilities recognised of US$677 million dollars.

The largest single factor causing these outcomes is the balance sheet approach adopted by IAS12 in recognising and measuring deferred tax. When this approach is applied in conjunction with BHP Billiton's US Dollar functional currency, significant changes arise.

In brief, under the balance sheet approach, deferred tax assets and liabilities are measured by reference to differences between the tax and accounting values of balance sheet items.

This differs from UK GAAP where deferred tax assets and liabilities are recognised as a consequence of the tax treatment applied to items included in the income statement.

A simplistic way to think of this is that under IFRS, deferred tax balances measure future tax consequences, whereas under UKGAAP, deferred tax balances reflect historical tax events.

Therefore, deferred tax balances are recognised on the balance sheet earlier under IFRS, than when they would be recognised under UK GAAP. In general this means that higher deferred tax balances are recognised.

There are three primary effects arising from application of IAS12 and you can follow each of them through by referring to the next slide.

First is deferred tax on Non tax-depreciable assets acquired in Business Combinations.

This arises as a result of items in the book balance sheet which have no corresponding tax balance, such as mineral rights.

As these items are never depreciated in a tax return, no deferred tax is recognised under UKGAAP, and instead they result in a permanent difference when the accounting depreciation is recognised.

Under IFRS, a deferred tax amount is recognised upfront, which reverses as the accounting effect flows through the income statement.

Second, is the impact of foreign exchange fluctuations on deferred tax balances.

To put what is a quite a complex matter simply, deferred tax balances arise in respect of a number of balance sheet items, and each of those are either monetary or non-monetary in nature.

Transitioning from UKGAAP to IFRS impacts the deferred tax balances for non-monetary items, such as depreciable fixed assets, and it does so in two ways:

Firstly, the deferred tax balance reflects the difference between the book written down value translated at historical exchange rates and the tax written down value translated at current exchange rates multiplied by the relevant tax rate. This contrasts to UKGAAP where both the accounting and tax written down values used in the deferred tax calculation are translated at current rates.

Then separately, the exposure to foreign exchange fluctuations simply increases because of higher non-US dollar deferred tax balances recognised under the balance sheet approach.

This is an extremely complex area particularly when we have operations in many different taxing regimes around the world, and we will be providing updated sensitivities to exchange rate fluctuations through our Investor Relations team in due course.

The third significant item arises from exposure to foreign exchange fluctuations on US dollar debt.

Again, this is quite a complex area, which stems from the majority of our US Dollar denominated debt being held by subsidiaries that are taxed in their local currencies.

For tax purposes, these entities are required to revalue their US Dollar loan balances at the end of each period, which results in an unrealised gain or loss.

Using the balance sheet approach for measuring deferred tax balances, this revaluation process results in deferred tax being recognised with a corresponding effect on income tax expense.

While revaluation of debt also takes place under UKGAAP, the tax effect is derecognised using the income based measurement approach.

Slide 10 - Dividend provision

Moving on to dividends.

UK GAAP requires a provision to be recognised at balance date for dividends declared after that date but before results are announced. In contrast under IAS 37, a provision for dividends can only be recognised when formally declared.

Therefore, dividend provisions which existed under UKGAAP relating to dividends declared after balance date have been reversed. In future periods, assuming that we continue with the current declaration and payment schedule, dividends will be presented as a distribution from retained earnings in the declaration period.

Slide 11 - Jointly controlled entities

As I mentioned earlier, in order to align to one set of financial statements for both the UK and Australia we will be required to adopt a more prescriptive requirement under Australian IFRS in some areas. The principal area that this affects is accounting for jointly controlled entities.

While IFRS allows a choice of either proportional consolidation or equity accounting for jointly controlled entities, Australian IFRS mandates equity accounting.

I should point out that this is not a measurement difference on a net profit or net assets basis and the majority of our joint ventures are not impacted. However, Escondida, Mozal and Valesul fit the definition of a jointly controlled entity.

In practical terms this means our share of revenues, expenses, assets and liabilities will be deconsolidated from Group results and replaced with our share of after tax earnings as one line item in the Income Statement, and our share of net assets as one line in the Balance Sheet.

At each reporting period, we will continue to provide supplementary information to show how our results would have appeared had we continued to proportionally consolidate these entities.

Slide 12 - Financial Instruments

And lastly, financial instruments.

The two relevant standards, IAS 39 and IAS 32, are applicable for the 2006 financial year along with all other standards.

As companies may elect not to retrospectively restate comparatives for these standards we have not made any adjustments in the information presented today.

Importantly, IFRS will not result in a change to our risk management strategies.

Broadly, we expect to continue to apply hedge accounting principles to our qualifying interest rate and local currency capex hedging activities.

However, we will no longer seek to apply hedge accounting to our commodity price risk management activities, where we use derivative contracts to bring fixed price contracts to floating price. This will result in these derivative contracts being marked to market through the income statement each period, and will likely cause additional volatility in our results.

So, having covered the principal IFRS transitional differences, let's see what effect these have in the Income Statement and Balance Sheet, formatted as they will appear under IFRS.

Slide 13 – Consolidated income statement

Firstly, the income statement.

Each of the matters we have discussed are depicted in columns on this slide.

As you can see, the main differences are presentational and relate to the equity accounted jointly controlled entities discussed earlier.

Overall, our net profit after tax and minorities increases under IFRS by US$70 million dollars to US$2.827 billion dollars.

Slide 14 – Consolidated Balance sheet

In the case of the balance sheet there is a mixture of:

a) presentational differences - such as equity accounted joint venture entities and splitting UKGAAP line items into their current and non-current components; and

b) measurement differences – such as deferred taxation, dividend provisions and pension schemes.

Overall, our net assets have declined just US$10 million dollars, to US$14.336 billion dollars.

I think you will agree that the impacts on our results and balance sheet overall are small in the context of the BHP Billiton group.

Slide 15 – Other IFRS issues

Before I conclude I would just like to mention one specific matter which we are still working through.

This relates to the presentation and measurement of items such as Resource Rent Tax in Australia or its UK equivalent “PRT”, as well as other government style imposts such as mining royalties.

These have historically been included in operating costs, but it is presently under debate whether these types of taxation are in fact captured by IAS12, the Income Tax standard.

If this turns out to be the case these expenses would be required to be pulled down into income tax expense and measured using deferred tax concepts.

We have submitted a request for an interpretation to the IASB’s interpretive body, IFRIC, and hope to resolve this issue in the very near future.

Slide 16 – IFRS Summary

In summary, I would like to leave you with the following key messages:

Firstly, IFRS does not change our strategy and underlying business operations, nor does it have any effect on our cash flows, our ability invest in our project pipeline or borrow funds or pay dividends.

Second, the vast majority of IFRS have little or no impact on our existing accounting policies. Indeed, our analysis of IFRS that do affect us shows that there is little impact on our reported results or net assets.

Finally, do we expect that our earnings will become more volatile under IFRS?

It is not my intention to try and predict what our earnings will be in future periods, but the simple answer to this is yes.

As is currently the case, we will continue to be transparent in these areas and clearly identify the impacts for you moving forward.

Thank you for taking the time to consider the impact of IFRS on our results.

Should you have any follow up questions, or wish to clarify any of my comments, please contact our Investor Relations department in your local region.

Contact details are provided on slide 18.