BHP BILLITON
STAINLESS STEEL MATERIALS BUSINESS
ANALYSTS BRIEFING
MONDAY 26 SEPTEMBER 2005

Chris Pointon

Good afternoon ladies and gentleman, and welcome to those in London and those joining by telephone.

It's a pleasure to once again present a briefing on BHP Billiton's Stainless Steel Materials business. As we shall see, the business has changed significantly in the past couple of years. We have acquired WMC Resources, we have sold Samancor Chrome and our major project at Ravensthorpe is now well advanced.

Let me first introduce the members of the team who will be speaking here today. Stephen Williams has recently joined us as Marketing Director, formerly he was running BHP Billiton's freight operations and with him is our market analyst Gautam Varma who will talk about China and stainless steel markets. Brendan Gill will cover our financial results and Chris Campbell who was previously our marketing director and more recently has been the integration manager for the acquisition of WMC Resources is now back with us as our Chief Development Officer. He will talk about future challenges and options for adding further value to the business.

Also in Sydney today are I think or will be Jimmy Wilson, President of Nickel West; Marcelo Bastos is here, President of Cerro Matoso; and Bruce Farmer, President of QNI.

So let me start by setting the context with an overview of the business and the strategic opportunities we see developing. Prior to the acquisition of WMC Resources, our nickel business was already a strong performer. We ranked high in the industry in terms of EBIT per pound of production. We were focused on our stainless steel customers. Our safety performance was amongst the best in the industry. We'd also aggressively grown our business from equity production of around 15,000 tonnes per annum to 80,000 tonnes per annum at a very competitive capital cost of around US$7 per pound and that in just eight years. The acquisition of WMC Resources represents a delivery on a major strategic objective established when we entered this business seriously in 1997. That objective was to become a leading player in terms of cost, margin and market share. We are now without doubt a leader in the nickel industry in terms of market share of around 15 per cent. We are cost competitive and we have a good balance of products and operations. And Stainless Steel Materials is now a core business of BHP Billiton.

Looking forward, the focus of our business will be to optimise and enhance the performance of the existing assets and to grow profitably both in the short term and with an improving longer term project pipeline. We believe the nickel market will be balanced to tight in the medium to longer term. It will undoubtedly continue to be volatile as well.

We serve robustly growing customers in stainless steel which is the fastest growing major use of metals. We need therefore to rise to the challenge of meeting these long term needs and to achieve this we will seek to optimise and enhance and expand the excellent portfolio of assets we have in Nickel West. We embarked on a major expansion through Ravensthorpe and the expansion of Yabulu and we're developing a pipeline of early stage projects to ensure we can achieve further prudent and capital efficient growth as the market requires it longer term.

This will assure that our competitive position can be maintained and our key customers supplied with nickel for stainless steel growth continues in the medium to long term.

So what's different with Nickel West? Well, this business is not about size although we have increased our market presence like all BHP Billiton's businesses we are driven by value. And it's about therefore increasing the robustness of our nickel business platform in terms of resource availability, in terms of asset quality, in terms of the people that work with us, our products and our production flexibility and our future growth options, and hence it brings not only upside but overall lower risk.

Specifically, in terms of our production and products, we've got a more diverse portfolio with two coastal refineries that are expandable and can handle nickel oxide and sulphide feeds. We've got a nickel smelter that can handle feeds from our own mines and from smaller ore and concentrate suppliers. We've got an operating presence in three key nickel provinces – the Asia Pacific, Western Australia and Latin America. We have a more robust product mix. We've got a significant market share particularly of our core market in stainless steel where we stand at around 25 per cent. We've got an improved customer offering through LME deliverable metal in addition to our FeNi and our nickel compact. And we have matte sales which provide us with a strategic delivery medium into the Chinese market. We are thus well positioned to take advantage of the growth in stainless steel and to create additional value.

With that as an introduction, I will handover to Stephen Williams and then to Gautam Varma to take you through the markets.

Stephen Williams

Thank you, Chris. Good evening and good morning to those overseas. In this section of the presentation, Gautam and I would like to take you through an overview of the WMC Integration, the expanded product range and our developing global sales footprint. The aim of the integration from a marketing perspective was to remould and strengthen BHP Billiton's SSM marketing group in a way that 1) maintained the customer focus on one hand; and 2) allow brand managers to optimize the portfolio within their scope.

The two organizations have an expansive global presence and we took the decision to consolidate the various marketing offices into the existing BHP Billiton hub offices of Singapore and The Hague, supported by our existing network of regional officers. We exited the former WMC Toronto and London offices and also relocated our marketeers from Brisbane to Singapore. In addition, we were able to secure the employment of a small number of experienced and enthusiastic WMC staff while others in WMC are assisting with transitional issues.

In line with our 90-day integration target, the SSM team has been relocated and is now established in the new locations.

The addition and integration of WMC has increased our refined metal output as well as supplementing and diversifying our product line of nickel intermediate products in the form of matte and concentrate. WMC also bring further volume of cobalt products. You could see this breakdown on one of Chris' introductory slides.

As we increase the range of products on offer, we are able to optimise our distribution channels and build in more flexibility by operating a number of assets worldwide. We have completed a series of initial workshops bringing people together from our operating assets and marketing to explore further opportunities across a broad range of areas. With the chrome marketing agreement in place, we continue to have a premier supply position to the stainless steel market sector plus a product range that allows for diversification.

With this slide, I would like to highlight the growth of stainless steel consumption in China which averaged 32 per cent per annum over the last six years. While global stainless consumption grew by 6 per cent in the corresponding period.

It is important to note that while China consumed 22 per cent of global stainless in 2004, it produced only 11 per cent. In 2004, Chinese production growth accounted for 26 per cent of all stainless growth. This year, because of the new capacities coming online and because of cutbacks in many parts of the world, China is set to account for close to 100 per cent of melting growth. The essential point being that Chinese production capacities are rapidly increasing to satisfy Chinese consumption needs.

Moving to nickel, the rate of growth in Chinese nickel consumption whilst not as high as Chinese stainless growth has been a very substantial 23 per cent per annum over the same six year period. While global nickel consumption growth was 3.7 per cent per annum during this time. The Chinese nickel consumption represented 12 per cent of global consumption in 2004, increasing to 14 per cent in the first half of this year. The chart at the top right includes our production of nickel intermediate and as this demonstrates, our sales portfolio is well placed into the dominant growth sector and market. We are well placed to tap in to the Chinese growth story and with that, I would like to hand over to Gautam to continue that. Thank you.

Gautam Varma

Thank you Steve. Good evening ladies and gentlemen. Possibly, the key fact in the Chinese stainless steel story is that China is more a market for stainless than a producer. 70 per cent of the stainless consumed in China actually stays in China. It is not exported. Chinese consumption has broadly three pillars of demand that together make up over 90 per cent of stainless consumption there. The first pillar is the industrial usage sector which takes in about 35 per cent of the stainless. This is a major user of 300 series, the nickel bearing stainless. It's relatively non-substitutable. Substitutes are generally far more expensive, for example titanium. In a major industrial project, the cost of the stainless and the differential between 300 and lower grade is a fairly minor component of the total cost. For instance, in a chemical plant, the stainless steel cost is only about 5 per cent of the total cost of the plant. The other pillar is consumer durables which also consumes about 34 per cent of stainless. It's the main export driven sector. About three quarters of stainless steel in this sector is exported. Within consumer durables, 90 per cent of stainless steel and flatware is exported. 60 per cent of the world's flatware demand is met by China.

Construction consumes another 25 per cent of stainless in China. The driver for the construction growth has been and continues to be urbanisation which is expected to increase from 38 per cent now to about 65 per cent in the next 20 years. This is also a sector where there has been very aggressive usage of 200 series. We estimate that over 60 per cent of stainless consumed in this sector in 2004 was low nickel bearing stainless. Going forward, there is an upside risk of 300 series usage as the effect of 200 series becomes a little bit more visible.

We estimate the compound annual growth rate of stainless consumption in China for the next 10 years at about 9 per cent. The chemical sector dominates the industrial usage with a share over 60 per cent. A significant part of the chemical industrial growth is driven by the end use sector of textile and clothing.

Transportation, which we did not cover in the previous slide will also be growing very strongly in the next 10 years, but from a very low base. We estimate that this sector consumed only about 172 thousand tonnes of stainless in 2004, however it is a sector that does not utilise any substantial nickel bearing stainless, and we don't expect that picture to change significantly.

So all in all we are looking at stainless consumption in China to increase from 4.6 million tonnes in 2004 to 8.1 million tonnes in 2010, and further increasing to 11.7 million tonnes in 2015. A very healthy growth story.

Translating the stainless growth into nickel leads to this graph. 2004 Nickel consumption was 146, 000 tonnes. 2005 estimates are currently around 190,000 tonnes. Our estimates for 2010 place nickel consumption at 382,000 tonnes, about double the 2005 level. Stainless is expected to be the key growth driver, with its share of primary nickel usage increasing from half to about three quarters.

A point to note is that these numbers do not consider China becoming a net exporter of stainless, therefore this growth is essentially new nickel requirement rather then any displacement coming to China.

The nickel market is quite tight, therefore the last couple of years have seen demand adjusting to supply through the mechanism of higher prices which has led to substitution.

200 series now comprise about 9 per cent of stainless production, from a fairly negligible level only a few years back. This year we are seeing a stabilisation of 200 series growth and even a bit of decline. The substitution trend is in the long term a healthy phenomena, as it builds elasticity for discretionary uses of nickel and provides availability for nickel's core applications.

In the long term the nickel market remains structurally tight, the paucity of investment in the 90's is now showing the constraints of supply to meet demand. The growth of Chinese stainless production in the coming next two years will substantially raise the import of primary nickel units into that country, and as we can see from this graph provided by CRU there is a lot of opportunity for the nickel industry to grow in this positive demand environment.

Thank you very much, now I would like to give it back to Chris.

Chris Pointon

Thanks Gautam. I think that gives a very good background to the growth potential of this business.

I'd now like to take you through developments in the Ravensthorpe and Yabulu expansion project, and in our three producing businesses.

First then the Ravensthorpe and expansion of Yabulu. This photograph shows the current site, the atmospheric leach plant, the foundations for the acid plant, and the beneficiation plant which is quite well advanced.

Both projects are on schedule, with key dates as previously announced. First mix hydroxide product ex-Ravensthorpe in quarter two 2007, and first new metal ex-Yabulu in quarter three of that year.

Total project forecast cost has however increased from 1.4 US billion dollars to 1.8 US billion dollars. Let me stress how we've approached this project, and then I'll comment in more detail on the cost forecast.

Firstly we've rigorously applied the BHP Billiton project management systems, which have consistently delivered good results. They have delivered 24 projects with a total capex approaching US$6 billion, and most of these were on time, on budget or better. Secondly there have been no significant scope changes, and thirdly neither have we compromised on things like materials selection.

The forecast cost increase is significant, but it is entirely due to changes in external factors since 2003 when we completed our feasibility study. This reflects a phenomenon which is affecting project development worldwide. Price and cost trends for raw materials, for labour, and services, have deviated significantly from the normal, historical escalation projections which we had prior to 2003. And also the Australian dollar underwent significant revaluation in 2004.

There has been a lot of comment in the press, and there has been some insightful assessment from analysts about the levels of cost escalation being experienced in major projects in Western Australia and elsewhere. It is clear that this is a worldwide phenomenon, and it is related to the unexpected increases in demand for raw materials.

We have discussed the situation in China, but similar trends are visible elsewhere. If you cross reference data on Ravensthorpe you'll find that the sort of increases we are looking at here are at the lower end of the scale, and this I think is entirely due to our experience and our processes in project management.

There are four key areas which are affecting all projects in Australia and indeed worldwide, and these are particularly serious in western Australia because of the large number of major projects which are being undertaken there and the state's limited resources in terms of people and services.

The first is the strengthening of the Australian Dollar, which is significant for a project with 85 per cent of its costs in Australian Dollars, and a budget in US Dollars. The second is the serious shortage of engineering skills and other services which we refer to here as contractor margins. The third is the increased cost of raw materials and while BHP Billiton is of course a beneficiary of this it does affect our project costs. And the fourth is the shortage of and hence the increased cost of construction labour, and that seems to be mainly an Australian phenomenon at this stage.

Let's analyse these in more detail and indicate how we are going about mitigating them. Out of a total cost increase of 400 million US dollars approximately. Foreign exchange accounts for 22 per cent, contractor margins 27 per cent, raw materials price is 33 per cent and construction labour 18 per cent.

You will recall that our feasibility study as I said was completed in 2003 and was based on prices, trends and forward curves at that time. The paradigm shift in costs really did not get under way until quarter three of 2004.

Firstly looking at the foreign exchange segment: our feasibility study was based on an exchange rate of approximately 71 cents to the Australian dollar. We only hedge non US dollar costs at the time the expenditure is actually committed. Our average exchange rates on cost to date in the project is around 73 US cents, compared with current rates of course of around 77 US cents.

For Ravensthorpe we were able to order equipment and services representing about a third of the total Capex within around four months of project sanction, however the Yabulu expansion has been more seriously effected as its development schedule is offset by about a quarter from that of Ravensthorpe. Its procurement is only now past the 33 per cent mark. Our re-estimate essentially follows the forward curve of June 2005, and the effect on the US dollar project budget is around 90 million dollars.

In the contractor margin, segment demand for fabrication facilities and contract services in the project markets is tight worldwide, and the shortage in Western Australia and Queensland is extreme, and I am talking about contractors providing onsite services such as civil works, steel erection, piping and mechanical and electrical installation.

Their order books are full, many are completely over-stretched, and in such a climate prices for many work packages escalate well above the impacts of higher commodity prices and direct cost increases. It really is a sellers market.

The project teams have reduced this impact significantly by maximising offshore fabrication, and by taking steps to minimise the amount of onsite work where the contractual margins are higher; and doing things like sizing vessels so they can be fabricated offshore, and modularisation. The effect on the forecast cost is around about 110 US million dollars.

The major sector is raw materials and commodities. Now the shortage of raw materials effects both prices and delivery schedules. Even if you are willing to pay top prices supply is short. Titanium deliveries for example in 2003 were just 12 weeks. They are now more than one year, and we hear of some suppliers, fortunately not to us because we have already secured our titanium, but some suppliers indicating delivery periods of 24 months, rather than 12 weeks. And the cost of our titanium, and there is a graph in the back of your packs, in the appendix, is about 20 million US dollars higher then we'd predicted in 2003.

Now we are mitigating this by using our full weight in procurement, by procuring early, which I think is one of the keys, and by offshore fabrication again. We are also deploying full time expediters, and where necessary will use air freight rather then sea freight to transport parts. Now in this way we can maintain the schedule which is where the value really lies, but at some additional costs.

We will not however compromise on the quality of material specifications, because we know this has led to serious issues with similar projects in the past.

The shortage, especially in Australia, of skilled engineering of other services means that contractors take longer to assemble their teams, and that wages are higher. So we are doing a significant amount of the engineering offshore where there is less extreme pressure on resources, and we are subcontracting some discrete packages. But the effect of this whole thing on the project cost, this whole group of things, is around 130 million US dollars.

The last category is construction labour. Now constructors and subcontractors have difficulty in getting sufficient quality personnel, and as a consequence labour rates have escalated well beyond the pre-2004 trends. Productivity is also generally lower as less experienced workers are attracted to the industry.

To offset this again we maximise offsite fabrication, and our contractors are also recruiting interstate and internationally. The industrial relations situation in Australia is also frankly a major concern. In our mitigation strategies we are providing the highest possible standard of accommodation, we are also offering shorter rosters to attract quality people. We've strengthened our supervision significantly because of the need to employ less experienced workers, and we've invested heavily in training for the less experienced workers working for our contractors.

The effect of this on the forecast is around 70 million US dollars.

The project status at the end of August was as follows. Ravensthorpe was overall 35 per cent complete, engineering was at 64 per cent and procurement at 70 per cent. Physical construction was 20 per cent complete, and we spent just short of a billion Australian dollars, sorry we've committed just short of a billion Australian dollars.

In the Yabulu expansion we're about 18 per cent complete, with engineering at 60 per cent and procurement at around 30 per cent. Construction 5 per cent complete, and we've committed about 200 million Australian dollars.

The projects as I said are on schedule, and we expect the projects to deliver the first mixed hydroxide in quarter two 2007, first new metal in quarter three 2007, which is in line with our original announcements. Capital costs as I said are now forecast at 1.8 billion US dollars, which is an increase of around 28 per cent.

Let me turn now to Nickel West. In June we acquired WMC Resources, and their nickel assets now form part of BHP Billiton stainless steel materials. This has been a major step, more then doubles the size of our Nickel business, and for us it creates a whole raft of strategic options. Places us firmly in the top three nickel producers, with a consequent change to the underlying industry structure.

We now have an excellent resource base, and people, in Western Australia, and together with Ravensthorpe and additions to the resource base in Cerro Matoso we are looking at a robust business extending several decades into the future.

As most of you know Nickel West is a largely integrated business comprising mines at Mount Keith and Leinster, the smelter at Kalgoorlie, and the Kwinana Refinery. We have a concentrator at Kambalda which processes ore purchased from third parties.

Overall production is 105,000 to 110,000 tonnes per annum in Nickel in matte, of which some 67,000 tonnes is refined to finished metal, and the volumes for last year are shown on the chart.

The key to the business is the smelter at Kalgoorlie. Optimisation is focused on maximising output from that smelter, because this is essentially a fixed cost business unit. And then extending the life of that smelter campaign beyond its scheduled 10 years, thus postponing the next rebuild beyond 2008/9. Hence we have to optimise the feed to the smelter from our existing mines, and from new projects such as Cliffs and Yakabindie, and also from third parties.

In order to do this we may have to make some changes to the planning at Mount Keith and at Yakabindie to ensure we have the optimum phasing and the most robust go forward position, and at that these two operations actually fit well and compliment each other, however this is very much work in progress at this stage.

To ensure the right combination of feed from third parties we will work selectively with partners in the medium scale mining sector to assist them to discover and develop reserves, and we will continue to buy ore and concentrate from them.

This slide gives you a view of the trend in Nickel West's C1 and C3 costs since 2000, up to approximately the time of acquisition. C1 costs have risen by around 1.50 US dollars a pound over that period, which is in line with the industry. The main impact is the stronger Australian dollar, which accounts for around 53 US cents, the other key elements are additional stripping at Mount Keith and price linked costs for purchased ore.

However, there has been a trend of increasing costs over the past couple of years and this for us is clearly a target for improvement, I think we can do more to offset increasing external costs and this is where we are going to put BHP Billiton's business excellence toolkit to work. The focus areas will be maintenance, planning, and procurement.

In a few moments I will show you what this has achieved at Cerro Matoso, and I'm pretty sure we can make significant efficiency improvements at Nickel West as well.

I would like to comment on our initial strategic priorities for Nickel West, and I will show you three similar horizon diagrams for the other assets as well.

Our first priority is to ensure we have robust business foundations - and that's safety, that's people, that's business excellence and that's win-win relationships with business partners.

Fortunately we have acquired not only a great set of assets, but also a great group of skilled people. In fact Horizon One has been under way since well before June, thanks to the terrific cooperation we had from WMC Management in the lead up to acquisition, which enabled us to have our plans ready when control passed in June.

The focus is on improving safety, maintenance and operational efficiency, and we are also simplifying the organisation and making it a self sustaining business in the BHP Billiton model.

In Horizon Two we are focusing on the incremental development of the existing assets, and the strategic objectives are those I have just mentioned – maximising smelter life and extending smelter life. Those initiatives include the integrated development of Mt Keith/Yakabindie and related open pit resources, and that may require as I said, additional stripping and revised planning at Mt Keith and the revised phasing of Yakabindie.

We are also embarking on a feasibility study on the extension in depth at the Leinster mine. We are focused on Brownfield exploration and local joint ventures or alliances to secure the additional low magnesium feed for Kalgoorlie to enable its optimisation, and we will look for further optimisation of the assets through business excellence.

We will also be planning for the next smelter campaign, post rebuild, and selecting the appropriate technology and configuration. The recent major shut down which we have just completed, looks to have been very successful and we hope to be able to extend the life of the current campaign beyond the scheduled date of late 2008, possibly as far as 2010 to 2012.

Longer term we will be working towards beneficiating the low grade and the talc ore stockpiles, and replacing depleting mines and expanding our resource base and future pipeline, and Chris Campbell will talk a little bit about that following this.

Turning now to Cerro Matoso. Cerro Matoso is probably the lowest cost pure nickel producer in the world. Despite declining grade which is now 2.1 per cent nickel, it achieved record production, 51,260 tonnes in FY05, and it maintained its controllable operating costs.

The key issues for Cerro Matoso are firstly maintenance of the reserve base for the existing operation, secondly business excellence programmes to counter the effects of falling grade and increasing energy prices, thirdly mining lease tenure, and here I am pleased to tell you that Cerro's mining leases which were held – I think some of you will recall under a fairly complex system in the past – have been successfully converted under the new mining law in Colombia, so we now have straight forward tenure to 2012, with a right of extension to 2042. The fourth issue is exploration for new resources, so that we can extract further value from the infrastructure and the team we have in Colombia.

One of the good developments in Colombia is that under the government of President Álvaro Uribe Vélez, the security situation has continued to improve, and our sustainable development programme which we run in partnership with our host communities, has been recognised as world's best practice, and we are particularly proud of this. It really is an excellent example of the BHP Billiton charter at work, with outcomes which are positive for our host communities, recognised by them, and good for our own business as well.

This slide shows how geological work in the existing mining lease has maintained the resource base. Indeed it has marginally increased the remaining tonnage net of that mined since 1998. Average resource grades have inevitably, however, decreased, from 2.1 to about 1.6 per cent. Current resources for Cerro Matoso are 77 million tonnes at 1.6 per cent nickel, with reserves standing at 45 million tonnes at 1.8 per cent nickel. Cerro Matoso has a history of very good reserves, resource to reserves conversion.

I mentioned the need to explore for further resources around the Cerro Matoso area, and you may recall that under an agreement with the Colombian government at the time of privatisation in 1997, Cerro Matoso had priority rights over a large tract of land some 80 kilometres long by 10 to 20 kilometres wide for potentially prospective ground, a long strike from the mine.

We have just flown this area with Falcon, just completed, looking for shallow ultramafic bodies which could host further nickel mineralisation. The survey areas shown here in the red square. It totals some 2,200 square kilometres. Results from that survey are pending, but as you can see we have already claimed some priority areas as exploration leases under the new mining law, and already selected some targets, and in fact we are drilling in a couple of locations already.

Cerro Matoso has maintained its C1 costs in real terms since 2000. This is despite a grade increase of nearly 15 per cent from 2.4 to 2.1 per cent nickel. There has also been a net increase of energy costs which represents eight cents a pound on our production costs, so this achievement really is a tremendous success for Cerro Matoso, and I think significantly it is also one of the best performing assets in BHP Billiton in terms of safety.

The results to my mind really demonstrate the power of our business excellence processes. You will see that there is an increase in C3 costs, and that is mainly a result of price related royalties, although there is a small component there from additional depreciation for line 2.

We have a number of projects in Cerro Matoso to maintain production and control costs, and these include energy, not only projects aimed at improving our energy efficiency but potentially alliances with generators and coal suppliers to provide Cerro Matoso with dedicated energy suppliers, at least for part of its requirements.

We have another project at this moment in feasibility which is to recover four per cent of the metallic nickel which is not currently recovered from the slag. The historic slag deposits contain in excess of 70,000 tonnes of recoverable nickel according to the test work which we have completed over the past three years, and we hope to see that project go forward to implementation in the near future.

We are also conducting some pre-feasibility studies on using heap leach to treat low grade resources, and other ores which are not easily treated by the pyrometallurgical operation at Cerro Matoso. I think there is an exciting future there for the Cerro Matoso operation.

Turning to QNI. This slide shows the effective continuous improvement we are running. I wanted to show how a focus on safety has enabled us to improve the volume performance of the business over the years. We exceeded 32,000 tonnes of nickel production in 2004, but last year, and probably for the next two years, we expect to run about 1,000 tonnes short of this because of tie-in activity associated with the expansion.

This slide shows how the C1 and C3 costs have varied over the past five years, principally as the cost of external factors like oil price, nickel and cobalt prices and the exchange rate have changed. C1 has increased by US$0.63, of which around US$0.50 is external.

The increased ore supply costs, which are related to nickel price, interestingly have been partly offset by additional cobalt production, and this is a result of improved recoveries, because actually the input grades of cobalt in the ore that we buy have actually declined over the past three or four years.

The main impacts are the stronger Australian dollar and oil prices as you see. The refinery is particularly sensitive to oil price, and here the conversion to coal seam methane gas, which is scheduled to be completed early in financial year 07, will make a major contribution. To give you an example, at US$40 oil, the cost reduction we calculate will be around 23 cents a pound, at US$60 oil it would around 34 cents a pound, and the gas costs will be fixed in Australian dollars.

Key issues for QNI are the completion of the expansion without major interruptions to production, on time and within the revised forecast, and delivering on the continuous improvement programme to address that 13 cents a pound real terms increase.

This slide summarises the three year horizon strategy that QNI has. Stabilise the platform, further cost reduction and eventual substitution of imported ore. That cost reduction programme includes the conversion to gas I have mentioned, but also a major review of maintenance, which is a high cost area for QNI. It also includes feasibility studies on a dedicated mine in the Philippines, which would be operated by a local partner.

When the expansion is commissioned, and including the gas conversion, we would expect to see the C3 cost reduced by about 93 cents a pound, and the C1 costs come down by around US$1.45, and if you were to calculate that on nickel prices in say the US$4 a pound range, you are looking at costs of around US$2.30.

That concludes the section on the assets, and I would now like to hand over to Brendan to take us through the financial performance for last year.

Brendan Gill

Thank you Chris. It's been two years since I've had the opportunity to present the financial information of Stainless Steel Materials to you. In that time we have grown our nickel business significantly, and significantly restructured our portfolio to become an even more significant contributor to the BHP Billiton financial performance.

Over the next few minutes I will explain the year on year changes in our EBIT and cash flows, our position on the nickel industry cost curves, and our earnings sensitivities. This waterfall chart highlights the key movements in our EBIT result from the 2004 financial year to 2005. The average realised nickel price increased by 23 per cent in the 2005 financial year to US$6.75 a pound, and was clearly the key driver of the improved financial performance.

This benefit was partially offset by our price linked costs for Yabulu ore and Cerro Matoso royalties. In the coming period we will have an additional exposure to price linked costs through our purchase of third party feeds and royalty payments for the Nickel West business.

Exchange rates also eroded the gains from increased prices due to the strengthening of the Colombian peso and the Australian dollar. As you would expect, headline inflation also had an unfavourable EBIT impact on our performance in the 2005 financial year. In addition to the headline inflation, we had a net deterioration in costs of US$15 million. This represents an increase of one per cent over our cost base. This increase in costs comprises three key elements.

The first of these is the above headline inflation cost increases incurred by our businesses. The most notable of these are oil for Yabulu and the use of more expensive maintenance materials and contractor services. Chris discussed the impact of these types of increases on our major projects and they also apply to operations.

In addition, we made a conscious decision to invest more in the future of our business. In our EBIT result we include the investment in European Nickel as well as the costs associated with our early stage development activities up to and including pre-feasibility. These include the Yabulu gas conversion studies, as well as Cerro Matoso's metal recovery from slag, heap leach studies and the significantly expanded Colombian exploration programme.

The costs I have just described were significantly higher than the US$15 million shown in the chart, and were offset by a continuous improvement in business excellence initiatives resulting in real cost decreases. These initiatives are both generated internally as well as leveraging across the BHP Billiton networks.

In the coming period we will continue to drive further cost reductions, and will apply the full capability of the networks to our recently acquired Nickel West business.

Looking further at the chart, our EBIT declined by an additional US$15 million. This was caused by having only 11 months of chrome performance in financial year 05 compared with 12 months in the prior year. This was more than offset by the US$22 million profit on sale of part of our Acerinox shareholding and the addition of one month's operating performance of Nickel West.

It is important to mention at this point that we are currently working to allocate the fair value of the acquired WMC assets, and this will result in a significant uplift to our amortisation charge for the coming year.

One particular aspect of this piece of work is that inventories were re-valued to their fair value amount as at acquisition date. A consequence of this approach is that profit on the sale of these inventories will be calculated against their fair value at acquisition, and not their historical cost. This will reduce our expected EBIT historic value by some US$20 million in 2006. The fair value work is expected to be substantially complete by December, and we will then be in a position to update you on the EBIT impact.

Finally, we had a significant increase in EBIT from exceptional items, which is primarily the sale of our chrome operation. The major remaining chrome assets we have are the Wonderkop joint venture and the associated mining leases. We expect to conclude a sale of these assets to Merafe and Xstrata in the coming months for US$83 million.

This chart shows the cash flow variance before tax for 2005. I have excluded the Nick West acquisition to provide a clear picture of the cash generation from our former portfolio. Cash working profit increased by US$162 million as a consequence of the EBITDA variations I described earlier. From the cash generated we used an additional US$221 million to fund our Ravensthorpe and Yabulu expansion projects, as well as investing an additional US$38 million for sustaining and minor improvement capital. The net cash available after funding the capital programme was US$374 million. Additionally, we generated US$457 million from asset sales being primarily chrome. In total we contributed US$831 million to BHP Billiton for the year.

These graphs show the weighted average cost of our nickel production, including Nickel West, on the industry cost curves. On a C1 basis, Stainless Steel Materials sits as a mid cost producer, yet on a C3 basis we are clearly in the second quartile. This is consistent with our view that we have been one of the best performing nickel businesses on the basis of EBIT for pound over recent years.

If you consider that the bottom end of the curves generally include businesses significantly driven by by-product credit, then our achievement is even more impressive and reflects our focus on continuous improvement and capital efficiency. Our continued drive to reduce unit costs through our operational excellence programmes has been effective. In 2005 record nickel production was achieved at Cerro Matoso, while Yabulu production was over 31,000 tonnes, which was a strong result given the planned production interruption for the expansion project tie ins.

In our Nickel West business we will be using the techniques proven during the merger of BHP and Billiton to deliver on the synergies. The procurement function is being established at Nickel West as part of our integrated business model. This will enable more effective procurement services while at the same time leveraging the BHP Billiton Group's global and WA regional supply contracts.

The BHP Billiton Global Maintenance network has already been engaged along with our processing and mining networks and operating efficiencies are planned. Finally, we expect that both the C1 and C3 positions for Stainless Steel Materials will continue to move to the left of the cost curve as we implement the Yabulu extension and Ravensthorpe projects together with ongoing business excellence initiatives across all three of our businesses.

This chart shows our key EBIT sensitivities which have changed given the inclusion of our Nickel West business. It is no surprise that nickel price movements have a significant impact on EBIT with a US$0.25 per pound movement resulting in a US$99 million EBIT change.

Looking at the fourth bar from the top, you can see that the same price movement will result in a US$17 million offset due to our price linked costs, these being Yabulu and Nickel West third party purchases and royalties at both Cerro Matoso and Nickel West.

The Nickel West acquisition has significantly increased our exposure to movements in the Australian dollar. A 10 per cent movement in currency will impact our EBIT result by US$88 million. Whilst the exchange rate and nickel price movements are driven largely by external factors, the same cannot be said for nickel recoveries. We continue to use our business excellence methodologies across our operations to increase recoveries or mitigate potential declines in recoveries as well as drive our cost reductions to ensure we deliver strong financial results in the future.

Thank you, I will now hand over to our Chief Development Officer Chris Campbell.

Chris Campbell

Thanks Brendan. As Chris has said, the acquisition of WMC Resources had a bigger impact on the Stainless Steel Materials CSG, than merely increasing our size. We are now a more balanced nickel business with a pipeline of near term and early stage projects in place which will continue to deliver value for the next few decades. This provides a solid platform already with a number of options in place for us to focus on securing additional prospects to deliver the nickel the world will need in the decades thereafter.

With the addition of Nickel West, with the assets, technology and people that came with that business, the Stainless Steel Materials CSG is a more rounded nickel business. A top three nickel producer with a competitive cost of production and importantly extensive exploration, operational, technical and project management skills enable us to secure and extract value from any nickel containing deposit. By leveraging off the strength of the BHP Billiton organisation around the world, we have the capability to access and operate deposits in most locations. In doing so, we remain committed to working closely with our host governments and communities to ensure mutually beneficial and long lasting relationships. Indeed, a core value of the BHP Billiton charter requires us to act in a way which results in communities in which we operate valuing our citizenship. Our existing operations and projects I think bear testimony to our track record on this.

The acquisition also presented an opportunity for us to expand and improve our global nickel exploration activities substantially from what we had been doing previously. In Western Australia, this exploration activity is more focused and in addition there, we are leveraging off our existing relationships.

Our global exploration activity comprises a combination of a centralised BHP Billiton exploration organisation, the excellent team that Ian Maxwell has put together from the previous BHP Billiton and WMC Resources teams which will focus on Greenfield activity. And a combination of this team and our existing asset teams for Brownfield exploration in an integrated manner. This approach ensures that we deploy the best professional for the job in the right area and in the most effective manner.

Our focus for this exploration activity is clearly to increase the life of our nickel resource bank past a two decade horizon. This will ensure that we can continue to deliver consistent growth and value from the existing position for the long term.

Our technology portfolio, which we believe is a critical component of the ability to optimally secure and process any nickel deposit, is both robust and extensive. Importantly, it will allow us to process a spectrum of nickel containing deposits. However, our focus with technology is applied with a clear view that the real value comes from the effective application of the appropriate technology to resource rather than from that technology itself. We also have the benefit of working closely with the BHP Billiton marketing organisation which Steve earlier outlined. This assists in the identification of opportunities around the world. And very importantly the effective management of our relationships on a local level in the various locations were we operate. Southeast Asia, China and South America are examples where we currently apply this integrated approach. With all of this, we believe that we now have the capability and optionality to effectively continue to add value to our nickel business for the decades to come.

Chris has already touched on a number of issues around the Nickel West business. One of the keys to success for us during the next few years will be the successful delivery of existing projects, although potentially in a more optimised manner. The optimisation of Mt Keith and Yakabindie to enhance the value for Nickel West is an example of this.

On exploration, Western Australia is still, in our opinion, one of the more prospective nickel provinces in the world or as the exploration people would like to tell me probably the most prospective nickel province in the world. I am confident that over time we will make further discoveries in this area.

There are a number of existing opportunities which we’ve identified and are currently pursuing. As an example, there is in excess of 50 orphan drill holes from historical exploration activity on current leases in Western Australia grading between 3 per cent and 10 per cent nickel which have yet to be followed up.

In addition and as we communicated at the Diggers and Dealers conference earlier this year, we will seek to work with local partners in Western Australia to maximise discovery and delivery of nickel for processing in our assets.

The area of nickel containing intermediate products, including us potentially trading these products to maximise value through optimising feed supplied to the smelter, is one which we will actively pursue as we see a number of value opportunities there.

As I have indicated, in order to increase our nickel resource bank for the future, we are placing greater emphasis and resourcing on exploration. Apart from areas where we have established positions, for example, Southeast Asia particularly the Philippines and Indonesia, Latin America on the basis of the Cerro Matoso operation, Australia, now both East and West; and also the joint venture and long relationship with Jinchuan in China which Nickel West had in place; we are also actively pursing other prospective areas globally for both laterite and sulphide deposits.

The areas highlighted on the map, in the light green, show those locations of potential interest for us and as you can see there is lots of work for us to do there. Whilst most of this activity is to be carried out by the BHP Billiton exploration team on our behalf, we will also work with third party partners around the world where there is an advantage for both parties. Our position with European Nickel in Turkey and the Balkan area is just such an example of this approach.

Although the increase in effective global exploration activity has taken place fairly recently, it is somewhat premature for me to discuss anything concrete with you today. However, I remain confident that we will have something interesting to present at a future forum. In other words, watch this space.

And in closing, this slide shows the key development areas we are focusing on at present. I have already explained our position with respect to exploration so I won't go into any more detail on this. With Nickel West, there are a number of short term initiatives which we will deliver to meet the near term strategy requirements including managing the iron/magnesia balance in the seat of the smelter. Integrating and optimising Mt Keith and Yakabindie, although as Chris has referred to, this may be at some point in the future that we will reach final conclusion on this, as well as delivering solutions to extend, pushing out the timing for the next smelter rebuild. At Cerro Matoso, we have plans to apply the learnings gained from a heap leach alliance with European Nickel to investigate the extraction of nickel from a stock pile of previously mined lower grade ore. From initial test work carried out, we have positive indications that lead us to the view that this ore is amenable to such heap leach processing. However, I would caution that there are still a number of technical challenges we need to resolve, some specific to this area of high rainfall. These include heap integrity, a potential dilution of solution in periods of high rainfall. Chris has already covered the key areas of development activity for Ravensthorpe and the associated expansion of the Yabulu refinery. Our other development efforts in South East Asia should also provide future options for QNI and the Yabulu refinery. With respect to potential M&A activity, as in the past, we will consider all opportunities which we believe can add value to our business, as well as those which provide us an option to potential value creation in the future. With this, we believe that we have a robust programme in place which will deliver value both in the near term as well as continue to provide us with adequate opportunities to feed the pipeline for the future and in doing so, will ensure we retain a balanced and robust nickel business. And with that, I would like to pass to Chris to sum up and conclude the presentation.

Chris Pointon

Thanks Chris. In conclusion, nickel remains fundamentally a highly attractive industry with growth underpinned by stainless growth in China and supply relatively constrained. We are now a stronger nickel player with a sound competitive position. We are focused on value. We have a broad set of operating skills which are absolutely essential in such a technically complex business. These give us the ability to extract value from high quality ore bodies even if their mineralogy is complex. Our marketing presence is global and focused on the growing markets for stainless steel. We are using our developing position in intermediate products to increase optionality where this makes commercial sense. We'll continue to add value through this business through business excellence and through our capability to secure future production options.

Ladies and gentlemen, that concludes the formal part of the presentation. I am now happy to take questions and perhaps I could start with questions from here in Sydney and then we'll move to London and elsewhere.

Question:

Just a couple of questions, firstly, the revised estimate. I just wonder if you could talk a little bit about your confidence level in that now and the contingencies that you've got in place that you built in to that US$1.8 billion. And then, I think secondly, just wondering how, given what's happening to your environment, capital costs, operating costs, etc, if you could talk a little bit about how that has changed your thinking process on pricing as well both on the short, the medium and the longer term as well.

Chris Pointon

On the revised estimate, we've used the best possible projections that we can from the experience we've had and, we are obviously right into the market in all aspects here. We have included in that estimate contingencies which are based on significant escalations continuing, because we firmly believe that this is a step change, and that these increased costs will pertain for some time. I am confident that that is a reliable forecast, and I have no reason to believe that that it's in any way fragile. I think, as I said in the presentation, when you look at this in a few months time, and if you triangulate it, I believe you'll see that this is actually at the lower end of some of the escalations that we're going to see in projects around the place currently.

Turning to your second question, I think the way one has to look at projects is really on probabilistic basis. As I think you know, we use sort of three scenarios, and those scenarios not only affect the input prices but they also affect the revenue line. I think that at least for a while we probably are moving in the higher scenario, and that basically means that input and output elements move up together. My personal belief is that, in the long term, we'll see a return at some stage to decline in real terms prices, but not for a while, I think, while we have these heated markets.

Question:

Can you just go over those C1 and C3 estimates for Yabulu at a US$4 nickel price please? Secondly, when you say you expect increases in cost at Yabulu/Ravensthorpe to be at the lower end of cost increases, are you talking about capital projects in the nickel industry at the moment? Is that what you're comparing it to? You're not specifically referring to other nickel projects?

Chris Pointon

I'm referring to resource projects in general. It's across the board. It affects steel, it affects labour rates, anything in the construction project development side, but particularly these big resource projects which are very intensive on construction activities and services, and both specialist and non-specialist, if you like, materials. So everything from carbon steel to titanium.

In terms of the Yabulu costs, I think what I said here was that, if we looked at nickel prices – again, approximately in the US$4 range, and these obviously are very rough things, so don't hold me to the cent – but we're looking at about a US$2.30 a pound at nickel prices around US$4, something of that sort.

Question:

Is that a C1 or C2?

Chris Pointon

That's a C1. Do we have perhaps a third question from here before we move to London?

Question:

You mentioned the BHP Billiton approvals process and obviously the fact that I think that process has actually enabled you to control the controllable. What I'm interested in is how do you think the Yabulu Ravensthorpe project would stack up today if you put it through the same process with these capital cost pressures, given obviously the influence of price mentioned, but also the fact that the cost is significantly high to develop this project? I guess what I'm asking is, do you think this project would be approved today?

Chris Pointon

The project remains pretty robust in the base case. I mean, you're asking a hypothetical question, and I can't really give you a hypothetical answer, but the project remains pretty robust. Brendan, I don't know if you've got any other comment to make?

Brendan Gill

Look, we do follow the processes. If that project was up today, we would still follow the BHP Billiton approvals processes. We would have the probabilistic modelling, the rigour in our process, but as Chris said, it is hypothetical of where we'd end up through that process. But it is a robust project still, and I guess we'll continue it through to completion and delivery of value from it.

Question:

My question relates to the comment about industrial relations issues in Australia still being a problem. I think the comment was made in respect of the Yabulu construction. I'm just wondering if you could – I think it was Chris Pointon – if you could expand on that? I'm asking the question: are we seeing or are we likely to see completion of some of these projects put at risk by industrial relations activities?

Chris Pointon

I hope not, and I believe not, but as you're probably aware, there is quite a bit of tension around the industrial relations scene in Australia at the moment because of new legislation which is being mooted. That's really the reference I made. I outlined the mitigation that we are undertaking in order to be able to attract the best people and to keep and maintain a stable workforce, and we're working pretty hard on that. Labour is a market in which we have to compete fairly aggressively, as I'm sure you'll understand from the explanations I gave. So, really, the reference was based on tensions around that new legislation. At the moment we're not seeing our own projects affected by that, and I hope that that will continue to be the case. We actually have very good and traditionally excellent relations with a unionised workforce in QNI, and we signed I think a very useful and positive agreement with a major construction union in Ravensthorpe just a couple of months ago, and I think that bodes well for the project.

Question:

Two questions: one just on Ravensthorpe, on the C1 cost. I think previously you may have mentioned numbers of less than US$1.50 a pound or so, based on, I don't know, US$10 cobalt. Can you give an update on what your projections are for C1 costs at Ravensthorpe? Secondly, Chris Campbell didn't make much mention of Cuba. I know that both Western Mining and BHP Billiton had development projects in Cuba. Have both of those been dropped? And Gag Island – there was no mention of that either. Is there any progress there?

Chris Pointon

Let me answer the C1 question first. We still believe – and we have no reason to change – that US$1.50 rough estimate for the long term C1 cost of Ravensthorpe. I think if we look at our long-term scenario, it still works out to be at that level, no reason to change that. Cuba and Gag, Chris, could you perhaps answer that?

Chris Campbell

Thanks, Chris, yes. Jim, you're correct, with respect to Cuba first, the Cuban Government has elected to proceed without us, which is a decision for the Government to make. With respect to Gag, I think many of you will be aware that there was a decision passed down or judgment by the Constitutional Court earlier this year, I think in May, and our legal opinion of that is that all 13 companies which are listed in Presidential Decree 14/2004 are entitled to mine in Indonesia. One of the 13 of those is PT Gag Nickel. We currently do not have any firm development plans for Gag Island. We are basically evaluating our options, working with the stakeholders on Gag to decide what will happen.

Chris Pointon

I gather we have callers on the phones, so if there are any coming in, if you could put those on the speaker, thanks very much.

Question:

I've got two questions. The first one is the inventory cost increase at Western Mining. Does that represent, or the inventories that you picked up there, do they represent normal operating inventories, or were they actually holding more, and if so, why were they holding more in a strong market environment? Secondly, just on your exploration costs, are you looking to increase those in relation to your expanded nickel group, or are you increasing it beyond that?

Chris Pointon

Okay, thanks very much. The first question, I think, is for you, Brendan, if you could take that?

Brendan Gill

Look, firstly, the inventory holding was at a normal level. Under I think UK GAAP and IFRS accounting, we're required to value those at fair value at acquisition date. Fair value of finished goods is somewhere close to the nickel price, less the selling expenses. So the point I was trying to make was that, when we sell those in the first few months after ownership, there will not be a significant return on those inventories. But certainly there was no abnormal build up of inventories.

Chris Pointon

And Chris on the exploration costs?

Chris Campbell

Yes, they have increased. I think the second part of the question was, will they increase? The answer to that question is a little bit dependent. We're essentially focused, and we're leveraging the spend that we have, with partners in some cases, as well as Brownfield and Greenfield Exploration that we carried out ourselves. Now, where we have success, we are very prepared to increase the spend in and around that success however we define the success to increase the exploration spend. I know that's a slightly vague answer, but in terms of formal plans to increase next year and thereafter, other than what we have currently planned, no, but we have the capability to increase that spend dependent upon the results that we come across.

Chris Pointon

Yes, I think, Chris, if referring to past years, there has been a very significant increase from roughly US$5 million we were spending on nickel exploration to several times that factor this year and next year.

Chris Campbell

Correct, and I think maybe I'm being a little bit harsh, but I think the effectiveness of that spend has also increased.

Chris Pointon

Yes, it's a bigger programme. By way of explanation, we have a base line exploration effort. Success is then rewarded by draw down of funds from the centre, and the objective of that is to ensure that the funds were spent really on in the ground effort, in the ground activity, drilling, assays, geophysics, the like. Certainly I feel very comfortable with the exploration effort at the moment. Not only has it expanded, but we're seeing a very high proportion of those funds going directly into the ground through both the direct and the leverage programmes that we have.

Question:

Good day, Chris, a couple of fairly parochial ones for you. With the Ravensthorpe project, you mentioned the fact that obviously there have been some concern in terms of IR and some skill shortage. Can you quantify what impact industrial stoppages and industrial relations issues might have had on the project so far? Secondly, in light of the current cost increases and skills shortages, does that weigh against WA when you're making investment decisions on your global business now?

Chris Pointon

In answer to your first question, I think the point I was trying to make was that so far we've had a very good relationship with the workforce in Ravensthorpe, and the amount of stoppage time has been insignificant. Obviously I'm sure our workforce, and we, hope that that will be the case. It's a lose-lose deal for everybody if that changes, and I think both we and the workforce and their representatives are working very hard to make sure that doesn't happen. So things are actually very positive at the moment, and I wouldn't like anybody to draw a contrary conclusion.

In terms of the skills shortage, one of the things about resource projects is that it is where it is. We can't actually move Ravensthorpe to South Africa or wherever you might wish to move it where there's not a skills shortage at present. So, it's really a question of how do we deal with the reality of the current situation in Western Australia. Now, the Government is doing quite a lot, and it's bringing in people, and we are following the mitigation routes that I indicated – offshore fabrication, using offshore engineering services to complement those that we can get in Australia. I think if you go back to the points I made in the presentation, it's really about how do you effectively use the strengths of BHP Billiton and our project teams to adapt to and to deal with the situation which has really caught I think nearly everybody in the industry by surprise with this large number of coincident projects in a population which is relatively short of skills, construction and engineering and related service providers.

Question:

Just three questions. The first one, you talked about US$1.50 long term operating costs but you also talked about commodity prices being potentially at the upper end at the scenario range of this for a period of time. Can you give us any indication what your operating costs would be if indeed we do have prices at the upper end of the range for commodity prices?

The second question, I guess you are a big nickel player now and one of the things we've previously seen in the copper industry when the market was going to over-supply was you shedding some production at Escondida, I just wonder if you have any strategies that you would follow in this, if say the nickel price returned to US$2.00 a pound for a while, what would your strategy be in that sort of situation.

And the third question, the capital cost escalation of 28 per cent of Ravensthorpe, you talked about that being at the lower end of what resource projects potentially could do going forward. I guess that leaves the door open seeing as BHP Billiton has got the biggest amount of projects going forward, I mean do you see that occurring at other BHP Billiton operations, particularly in Western Australia?

Chris Pointon

The first question first. Ravensthorpe is relatively robust against the sort of commodity price increases that we've been seeing, they have mainly affected capital goods items and I think if you look at our major cost inputs, which would I guess be principally labour and sulphur, and possibly diesel. In diesel we would have some exposure, I think in sulphur the global outlook is that there will be more sour gas production, and sour crude production, so that the sulphur price, although I wouldn't like to be predictive on this, but my guess is that the sulphur price is more likely to decline, and certainly doesn't represent something that is likely to escalate strongly from today's levels.

So I would see that that price is relatively robust long term, and that was why I said we really had no grounds on which to revise that.

You talked about a low nickel price strategy. I think there is a possibility that at times of low demand we would flex production, but I wouldn't like to make any commitments in that regard, but obviously taking maintenance shuts and easing up on production when markets are soft and prices are low is always an option that producers have. And we would certainly review the situation in the event of a low price scenario coming to fruition.

In terms of the capex, I can only refer you really to published information, and I know a number of your colleagues have looked at projects and have commented on announcements of capital increases on projects. That was really what I was referring to in that sense.

Question:

Just a question on the Nickel West production targets across the trade matte and refined metal production in '06 through to '09, can you just flesh out a little bit more detail there, and just the role of Yakabindie in those production targets please.

Chris Pointon

We wouldn't give forecasts over the next five years, and indeed in this particular case as I'm sure you can appreciate we are currently reviewing all those plans, so even if I could I wouldn't I suppose, or I would I couldn't. So no I really wouldn't be in a position to give you any outlook figures on that.

Question:

Can I ask do you see it as a growth area for you or is it stage worth in terms of production levels?

Chris Pointon

Medium term we would certainly look to be stretching the smelter. The extent to which we can do that at this stage I'm not sure and I'm not sure of the timing of that.

You will appreciate that it is only a couple of months since we were able to start work on these things, and there are a lot of ideas around, it's just a question of taking our time and being very prudent, and being careful to select the safe and sound options going forward, and not leaping to any early conclusions.

Question:

I'm just wondering about Cerro Matoso's operations, about cost reductions, in amongst those you mentioned an energy strategy, I'm just wondering if you can elaborate on some of those strategies and alliances, and wondering if there could be any cross border movement of energy to an even more energy rich neighbour next door.

Chris Pointon

I was commenting on two things, one were internal operating excellence or business excellence projects which will make ourselves more energy efficient, reuse of wastage and all that sort of stuff that one looks at.

In terms of when I mentioned alliances: Colombia has a free energy market, very similar to what was developed in the eastern states of Australia, and essentially one can buy electricity from designated generators under long-term contracts. That electricity is wheeled through the grid, and essentially you pay wheeling charges and other things, so a proportion of your electricity cost, which is effectively your generating cost, you can fix. You can't fix the wheeling charges and the other charges because they are essentially established by the government and government agencies.

Now we currently have contracts with generators in Colombia and we have been very successful at securing very competitive rates from those generators because we are if we take away urbanisation, the city of Bogotá and things like that, we are the largest single energy consumer in the country and we pay our bills on time, and we represent a very strong customer for any generator as a base load customer.

What we have not yet seen developed in Colombia is the sort of energy generation situation which you see for example in South Africa, and here in Australia, where you've got coal mines directly feeding power stations. If that were to develop then we could represent a very attractive base load customer for a low cost generating project of that sort.

Now we don't have that yet, but we would very much like to be able to provoke that to happen, we would not ourselves be investing in power generation, but we could I believe, by being a preferred customer we could perhaps induce such things. It is only a small step for Colombia has followed the electricity market model of the most societies, and it is no reason why they shouldn't go that extra step.

The cross border power is something that we would simply not be involved in in Colombia and I couldn't comment on that. I would think that would be very difficult in the current political circumstances, but it wouldn't be part of our business.

Question:

Have you been surprised by what you've seen in Nickel West, and where are the easy places that BHP Billiton can apply its expertise to take costs out of that business?

Chris Pointon

Thanks very much for that. I think the positive surprise has been the people. There really are some terrific operators in there, and the operations are basically well run and the other positive surprise has been the openness of the people operating the assets to accept additional things, and I know something that is probably close to your heart as well as mine, but if I take the safety example we have a slightly different approach to safety than Western Mining did.

We tend to be much more penetrative down to first line supervisor and operator level. And we've found, again slightly surprising I suppose, that the safety systems are very well developed, but perhaps the deployment in depth was not what we would have aimed for and the openness and the acceptance of what we have asked them to do, and to push this down further, and the rapidity and the genuineness of that, has been superb.

The same applies to what we call business excellence, what we used to call operating excellence, and we're finding that the people there are extremely keen, and very welcoming. They are already participating. I sponsor the global maintenance network, which is our sort of centre of excellence for maintenance, and that is just a network of people mostly deployed in assets. Just seeing the communications, guys asking for help, asking for best practice, "please come and see us", we've had diagnostic teams from our business excellence, centres of excellence, going around and looking and seeing what can be done.

The main areas, to answer your question more specifically are procurement. Procurement in WMC was centralised and was offsite. We have a principle in BHP Billiton that we do global, where it is global, local where it is local, regional where it is best regional. But the ownership of that procurement effort is within the business, because the business is accountable for its bottom line. I think one of the things that we have already done is establish a very effective procurement and inventory control operation based in Western Australia and owned by the asset, and I think that is going to be a real payback in terms of efficiency, industry management, and the like.

Maintenance I think we can do a lot because we have spent a large part of the last five years in BHP Billiton, and prior to that in BHP, working very hard to generate maintenance best practice, and there is a lot of fairly simple tools that we can actually cut and paste into the organisation, and that is low hanging fruit, there is no doubt about that, simply because we have more resources available, and more experience available.

I guess those would be the main low hanging fruit items, and I can't quantify that at this stage, but I gave the example of Cerro Matoso, I mean there is a huge amount to do. Once that machine starts to work, so I am very positive on that one.

Question:

Chris I was wondering if you could please flesh out the Philippines mining project in a bit more detail, current status there and the sort of parameters.

Chris Pointon

Chris could you take that?

Chris Campbell

The Philippines is an area for us where we have many years of experience, has been a supplier to the Yabulu refinery of ore for many years. We've leveraged off that position, we have an exploration project in place there. It is looking encouraging, there is still some more work that we need to do. We are looking for around 1.3 per cent nickel, decent quantity of a deposit. Results at this stage are encouraging, but there is still some more work to be done, so I wouldn't want to oversell it at this stage.

Chris Pointon

I think the questioner is also interested in ACT as well, which is an oil supply project very much smaller.

Chris Campbell

That is in final feasibility study. We have to have an answer on that later this year, this calendar year, and again that is looking positive at this stage.

Chris Pointon

It is pretty small; it would produce about a million tonnes of ore a year for 10 to 12 years, maybe a little bit more. It has some upside but that is all we've defined at the moment, and that would be really controlled ore supply for Yabulu. So that is really quite a small project and as I said I think would be operated by a local partner who has been with us on the journey to evaluate that for the last couple of years.

If we have no further questions then maybe we should close.

Thank you very much ladies and gentlemen, and I hope to be able to talk to you again soon.