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BHP Billiton
Carbon Steel Materials
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Introduction and Strategy

Robert Kirkby

President, Carbon Steel Materials

I. Introduction

Good morning, ladies and gentlemen, and welcome. This is Carbon Steel Materials' first presentation as a Customer Sector Group (CSG) and we are pleased to be able to do it in London. We have varying degrees of freshness in our team; some have arrived just about an hour ago from Australia, but I am lucky to have been here a couple of days and am somewhat acclimatised.

This morning there are four people from the management team of Carbon Steel Materials here in London: myself, and I will be followed by Andrew Offen, the Marketing Director for our group; Graeme Hunt, the President of our Western Australian (WA) Iron Ore business who also runs our HBI plant in Western Australia; and Dave Murray, the CEO of the BHP Billiton Mitsubishi Alliance (BMA), where we are 50-50 partners in a lot of the assets in Queensland, and he also manages some other coal assets in Queensland.

In Melbourne, we have Louis Irvine, CFO of our group; Stefano Giorgini, VP of Business Development for our group; and Wayne Isaacs, President Illawarra coal operations based in New South Wales (NSW). In Johannesburg, where the head office of our manganese business is located, we have Andries Knoll, the CFO of that group. He is standing in for John Raubenheimer, President of our manganese business, who is in China at the moment on some other business.

When we get to the question and answer session, you will have access to all of the people in our group and hopefully we will be able to answer all of your questions. I guess there are people with varying degrees of knowledge here; some will only be interested in the very latest manoeuvrings in the industry and our position, but there will be others with whom we will be starting a bit from scratch. I would like to ask the people who are more familiar to be patient with us as we run through some of the basics of our business.

II. Carbon Steel Materials

1. Diversification

This is the flow chart showing the distribution of EBIT contribution in BHP Billiton last year. You can see that Carbon Steel Materials group contributed 26% of EBIT into the group, and the number will be similar this year. It is one of the two biggest businesses in the group, with Petroleum being the other. Andrew Offen will cover our revenue generation, but we are well-represented around the world.

2. Context

Within the company, Carbon Steel Materials provides a significant – as I have just mentioned – but also very attractive and stable returns in the BHP Billiton portfolio. We do have critical mass in the industry we are in and you will see that we are cost competitive. I do have to apologise for one of the cost curves in the coal; we look as though we have a gremlin in the system and we are going to have to republish the cost curve – but we will get to that as we come to it. However, it does not take away from the fact that we are very cost competitive in all of our businesses.

Current operations are based on long life, high quality resources and we have given some statistics to amplify that. Part of the business we are in – the bulk commodities businesses – is of course transport and infrastructure; moving this product to the market. We have world-class infrastructure, which is an important part of our business. It has been invested in over the years and we have kept it in good shape, and it helps us with our cost position. It is an important part of our business.

Lastly, we have an experienced team of people running the individual units mixed with a recent injection of some newer players to bring new ideas to the group. Andrew Offen and some of the others in my team will talk about how we are bringing in new ideas and new ways to continue to grow our business.

Last but not least, this is a big business. It is in the steel industry, supplying the steel industry, and a lot of people do not equate the steel industry with growth, but we do see opportunities for growth. I will come to some of the ones we have underway at the moment; there are some ideas coming forward where we can continue to add value-adding growth to the BHP Billiton portfolio.

3. Assets

Very quickly, this is a snapshot of where we are based. I am not going to go through this in great detail, but you can see that most of the arrows point to Australia, where our iron ore and major coal businesses are. We also have the manganese business, half-and-half Australia and South Africa. We are also a partner in the Samarco iron ore operations in Brazil.

In our coal business, we are the number one seaborne supplier – Andrew will talk about that. In our iron ore business, we are the number three seaborne supplier. Our other businesses have very good attributes as well.

4. EBIT

These numbers are published every quarter, and I know most of you follow them very closely, so I will not go into great detail. This year's EBIT – these numbers are published public numbers to the end of March - $831 million for the three quarters, versus $663 million for last year for the total of our group. There you can see a breakdown of our various businesses: the iron ore business just under $400 million EBIT contribution so far this year and the coal business $350-odd million. The other businesses are obviously smaller, but are still very significant contributors to our overall effort.

The HBI plant is of course still below the line, and we are working to get that to break-even. Graeme will talk a little bit about that later on.

5. EBIT Return on Capital

These numbers are not published, but we have put them in the presentation to give you some idea of the returns. These are very healthy returns in our sector, as you can see. This year the Iron Ore business is running at 45% return on capital (ROC) – these are EBIT numbers on the average capital employed for the nine months. It is very healthy in Iron Ore and at both of our coal businesses. Many people are familiar with our Queensland Coal business, but you can see that the ROC of our Illawarra Coal business is also very, very good at this point in time. All of these businesses do exceed the cost of capital and are therefore value adding to the corporation.

III. Strategy

1. Customer Focused Marketing

As a quick introduction, our strategy is based around three main themes. First of all, it has to do with customer-focused marketing. Andrew will take us through the facets of that, where we believe we have something different to the other competitors we face in this part of the business.

2. Operating Excellence

We have a large asset base, and generating cash is a key part of our task. Operating these facilities and businesses excellently is something we are focused on. I have asked the two business guys here today to concentrate on this aspect of their task. It is not the only thing they do, but for today's presentation I have asked them to concentrate on that. One of the things Brian Gilbertson talked about recently in his framework was our cost reduction activities. I would like to use this session to show you what we are doing in our group to contribute to the overall company effort.

3. Prudent Growth

Lastly, we believe there are quality growth opportunities there. A lot of them revolve around our existing businesses, although there are some outside that we are looking at. I will talk about those near the end of the presentation.

We follow those three themes and I will ask Andrew Offen, our Marketing Director, to talk about our marketing effort.

Marketing

Andrew Offen

Marketing Director, Carbon Steel Materials

I. Introduction

Thank you, Bob, and good morning ladies and gentlemen. I would like to address three main areas in the time I have been allotted this morning. Firstly, to talk a little bit about the background of our view of the future of the steel industry and the structure of the three markets in which we operate. Secondly, to talk a little bit about our market position and what is going on in some of those markets at the moment. Finally, I will cover our market strategy – what we are trying to achieve as a marketing group over the next period and explain how we aim to get there.

II. Steel Industry

The key message we would like to deliver here is that we very firmly believe that the blast furnace mode of steel production is definitely here to stay. Some time back, there was a lot of speculation about the challenge to blast furnaces posed by the AF sector. Over the last few years, the integrated steel plants have withstood that challenge and are now holding market share around 61% of total steelmaking.

World steel production continues to grow at a healthy rate, particularly in Asia – even more so in China. That is generating quite solid demand profiles for our products. The steel industry is also slowly restructuring and getting its act together. We are a great supporter of steel industry consolidation, as it is vital for us that the steel businesses regain some of their pricing power in the steel market.

There is increasingly tension between the raw materials suppliers and the steel companies on the basis of relative profitability. A healthy, more profitable steel business is something that makes our life a lot easier.

III. Market Structure

1. Met Coal

Met Coal is actually quite consolidated. The top 10 producers account for something like 79% of the total market. Within that, the BMA organisation markets all of the BHP equity metallurgical coal. It is a clear market leader in that market with 29% share in hard coking coal. This is quite significant in that BMA is actually twice the size of the next player, Fording. It really emphasises how much that business stands apart from its competition in that industry.

2. Iron Ore

Iron ore is actually the most consolidated of the three markets we deal in. The top three producers in iron ore account for over 70% of the total market. BHP Billiton is the number three player

behind CVRD, the industry leader in Brazil, and Rio Tinto, the largest player in Australia. We also have some exposure to the Brazilian industry via our 50% equity in Samarco, although that is marketed and managed as a separate stand-alone company.

3. Mn Ore and Alloy

The manganese business is the most complex of the businesses we have to operate in. It is divided into two separate, discrete markets. First of all is the ore market, which is quite well consolidated and quite profitable. There is also the Alloy market, which is almost the diametric opposite; it is highly fragmented, with low barriers to entry, a very difficult market to work in and is very unprofitable.

Samancor, the vehicle through which we own our manganese business, is in effect the BMA of the manganese ore industry. It has 22% of the total ore market, but when you actually divide that into the high-grade segment and the low-grade segment, Samancor carries around 41% of the high-grade market. It is clearly the market leader and the most significant player in the industry.

IV. Market Position

1. Asia

I would just like to talk a little bit about our markets now. There are two key markets in which we operate: the Asian steel industry and the Atlantic basin.

Asia is really our bread-and-butter market. We have very strong relationships with our customers and a terrific market position across all three businesses in Japan, Korea and Taiwan. Over more recent times, we also have a growing and quite exciting market for iron ore in China, where demand is currently growing by something in the order of 20 million tonnes per annum. Graeme will talk a little bit further about the actions we are taking to capture our share of that growth, but the iron ore market story at the moment is really the story of what is happening in China.

It is not something people talk a lot about, but we also have a very important coal position, via the BMA, in India. We have high market share there, growing volumes and an attractive set of margins – it is quite an important business for us.

Finally, it is not shown on the graph because it is still currently one company, but we actually have quite a big business in Australia, with Illawarra Coal and WA Iron Ore selling into BHP Steel in Port Kembla and the ex-BHP assets in OneSteel.

2. Atlantic

The Atlantic really is a coal and manganese story. We have a very large important coal position, particularly in Western Europe. As US coking coal exports have declined over the last couple of years, and the Japanese steel industry has further pushed down the path of high semi-soft coking coal usage, our position in Europe has become much more important to us. In fact, the centre of gravity for the hard coking coal business has slowly but surely shifted towards the Atlantic over the last couple of years.

The European mills are becoming very reliant on the low volatile, high quality hard coking coals and they are becoming a core component of their blend. That gives us great volume security and

stability, and also significant market strength. The European mills really cannot continue to operate with their current coke blend without that significant volume of our coal in it. As German and Eastern European demand grows, we are also able to consolidate that position and, in fact, look for some growth opportunities there.

We also have a growing coal business in Brazil, which will become increasingly important for us in the coming three or four years. Crude steel make is growing in Brazil; there are new coke ovens being built there and there will be some significant growth for us there in the future.

We also have some indirect exposure via Samarco, the 6-7 million tonnes of equity production we have there in iron ore pellets, which predominantly goes into the Western European business.

Finally, our manganese business: we have a significant – although increasingly difficult – market position in the US, with Ferro alloys and also into Iscor with both coking coal and manganese.

V. Revenue by Region

When we conglomerate the positions of all three businesses and assess them over our total market, we come up with the following exposure in terms of the geographic origin of our revenue.

- Japan is still the largest market with 34%.
- 60% exposure to the Asian steel industry, where the growth is currently being generated and something we feel is a core strength we have.
- The remaining 40% comes from a broad spread across Western Europe, Australia and the Americas.

As time goes on, I think we can look to see some slow decline in our exposure to Japan, which will be largely replaced by the growing business we have in China.

VI. Marketing Strategy

1. Goals

So what is our goal? I would like to talk a little bit about the strategy we have as marketers. We are really all about maximising long-term margins; extracting the maximum value that we can from the market position that we have. That sounds a little bit like a motherhood statement, but I think there are some marketers around the place who actually lose track of that one underlying fundamental.

At the same time, that must be balanced with a need to protect our market position – in terms of both our market share, and increasingly and significantly for metallurgical coal and manganese, it is our influence in terms of our pricing power as the market leaders in those businesses.

Finally, we have to look for sustainable growth opportunities. The key word there is really ‘sustainable’. It is very important that we resist the temptation, given the high quality of our assets, to overproduce and flood the market with cheap product. We really need to show some discipline to protect market prices. That is particularly true in coal and manganese, where we are the clear market leader and have to lead by example to an extent. That is very tough when you have assets of this quality, but it is extremely important.

Fortunately, we have some very good opportunities – and I will talk a little bit more about those later, but the real key is iron ore in China and coking coal in Europe, Brazil and India.

2. How we Plan to Achieve Goals

a. Quality Management

How do we plan to achieve those goals? There are a couple of specific targets we are trying to focus on over the next little while as a marketing group. Firstly, and perhaps most importantly, is really focusing our efforts on becoming an indispensable part of the buyers' business. That is all about rigorous quality management. One of the things that is not well understood about the steel industry is that, in many cases, it is not the absolute quality of the product that you supply to them that is important; it is the consistency of that quality.

Steel businesses all run quite complex blending programmes and they can cope with almost any quality coal, iron ore, manganese or alloy that you give them. What is really important for them is that you give them exactly what you say you are going to give them. We have invested a lot of management time and effort over years in achieving that consistency of quality – and also the reliability. Again, the most expensive tonne of coal or iron ore you buy is the one that does not turn up. That ability to reliably supply on time – when we say we will – is a vital part of our value proposition for buyers. Our ability to extract value from them really relies on our ability to deliver value to them, so it is really one of the most important parts of our entire effort.

b. Margin Maximisation

The second key focus is on margin maximisation, which is the key to the game for the shareholders. We need to aggressively manage our customer mix and our product mix to ensure we are capturing the maximum value that we can. A couple of specific examples of what that means and the impact it can have:

Over the last downturn in the metallurgical coal business back in 1999-2000, when the prices really went down, we took a very aggressive view on taking tonnes out of the Western European sector and putting them in Asia.

Over the last two years, as the market has turned up again, prices in Europe have moved up higher than Japan. We have now been reversing the trend and pushing tonnes out of Japan, back into Europe again.

In fact, Japanese prices are now a problem and we are trying to keep the floor under them and push them up. The result has been that we have been able to achieve above-market average prices over that four-year period, and we have been able to make a lot of progress in fixing up the pricing structure over that time as well – take out the worst of the discounting.

c. Product Portfolio Management

We have also been quite aggressively managing our product portfolio. In iron ore, that has been the introduction of Yandi over some period now, and now more recently with Mining Area C (MAC), which Graeme will talk about. That is to meet the Japanese steel industry's need for lower value products and our need to maintain our margin. Both of those products have equal margins to our main Mt Newman brand.

We have also now started to push down the road of grade increases, specifically to meet the Chinese market demand. It enhances our ability to compete inland with the Chinese steel sector that has significant inland logistics cost, and also helps us replace domestic low grade ore in China. It helps us compete with that and in fact grow the available seaborne market.

On the coal side, we have seen the development of South Walker Creek and Blackwater over recent years. Again, it is lower value coal but still with equivalent margins to some of our higher quality hard coking coals, to help meet the steelmakers demand to reduce costs, but still maintain our margins.

d. Being Smarter

The final three points on that slide are all about being smarter. Over the years, the minerals industry has not been blessed with the most innovative of marketing functions. We are working hard to try to turn that around a little bit.

Improving our industry structure means showing market leadership in the markets in which we are leaders. That is discipline in not flooding the market with cheap coal and showing people the way through our actions. I will talk about the Carbon Steel Materials business grouping in a little bit more detail later.

The final point is about being more commercial and nimble than we have in the past. We are doing a lot of work at the moment on improving our risk management skills, our credit management skills, our financial and commercial systems that help us understand our margins and the various components of the value chain and helps us maximise the value we can extract from it.

An example of that is that yesterday and today we have had five of our key guys out on a course teaching them all about value at risk calculation systems, and also some of the more innovative derivatives and pricing mechanisms that people in the energy business have started to use. Again, this is not going to be directly transferable to our business, but we have to get our people thinking about them and we have to get them focusing on doing things differently.

3. Marketing Model

Since the merger, one of the largest changes for us as a marketing group has been the move to a centralised one-book marketing model. It is run out of two central hubs: one in The Hague and the other in Singapore, which is where the Carbon Steel group has been brought together. Prior to July last year, we had the coal group marketing out of Brisbane, the iron ore group marketing out of Perth, and the manganese group marketing out of The Hague. All three of those businesses have been brought together under one team, sitting in an open office environment that is all about bringing people together, a much more transparent sharing of information and trying to get some of the juice out of the three groups being together.

We also have a number of well-resourced regional offices positioned out in the market with our customers. All have local staff who speak the language, who live with the customers everyday, understand their needs and become their friends. We are working hard to beef up that capability in these offices, so that they are not just post boxes and they actually do have their own credible stand-alone capability.

For example, in Tokyo we have 10 Carbon Steel Materials marketers who are a combination of local people and Japanese speaking expatriates. In Shanghai, over recent times we have grown that

office from one individual marketing out of Hong Kong to a team of 20, with a sales team of Chinese nationals, a technical support team, a market research team, and over the next six months we will be bringing in a logistics expert into that group and a risk or credit management expert. We will be establishing a local legal entity so that we can start to operate in-country and do things like consignment stockpiling and move down the value chain a little bit.

We believe that model is unique in the industry and runs a right balance between customer sensitivity and alignment, and the rigour we need to ensure we get the maximum value capture out of our position.

VII. Competitive Advantage

Why Carbon Steel? Why is the Carbon Steel grouping different and what is better out of having them all together than having three separate individual businesses run independently?

I think the first and most important aspect of it is the customer. All three of these businesses sell to the same end user. By interacting with them across all three businesses and coordinating that interaction much more effectively, we really do get to know our customers better and understand their needs and what is driving them. The way to extract value from the customer is to give them value in return. By bringing the three market positions together over the last six months, we have seen a significant increase in the level of knowledge about what is going on in the steel sector and with individual customers.

That also improves our ability to position in the market. We essentially interact with everybody who buys coal, iron ore and manganese. We know what is going on, where we can push, and where we need to back off. That was not something that was captured as effectively in the past, when all three businesses were run separately and were effectively little silos.

It also gives us the ability to leverage off of each other's market positions. For example, in China where we have good market penetration for iron ore at the moment, we are now looking at moving some of our metallurgical high quality coal into some of the Chinese mills. That is something we have never done in the past because of the size and the strength of the Chinese coking coal industry. Interestingly, there are some good opportunities there in the future. Our ability to bring the iron ore and the coal teams together to achieve that is going to greatly help us there.

It also helps us understand what is going on in the steel industry. It gives us a much clearer picture of where things are going and who the winners and losers are out of this round of rationalisation. It also helps us with best practice transfer. By effectively getting the iron ore negotiator and the coal negotiator sitting in the same room swapping war stories about how they have been negotiating in Japan over the last month, it has been a significant value-add and again something that did not happen in the past as much as it should have.

The benefits of scale also help us beef up our technical market support. With BHP Steel being spun-out over the next few months, we are focusing on how we can maintain what we believe is a unique in-house technical ability. Again, when you focus on what that really means, it is all about understanding the value that your products deliver to the customers, with the ultimate objective of extracting the maximum value you can from the customer.

We have the global spread of operations and offices, which we have already talked about, and we are also pushing very aggressively down the path of removing all of the intermediaries from our business – getting rid of agents. For example, just recently we have taken the agent of the

manganese business we have used for many years in the UK out of our business and are now dealing direct with CORUS in manganese, as we already do in coking coal and in iron ore. There is significant value to be extracted from that process.

Finally, we have a very large freight trading group, which is based in The Hague hub. BHP Billiton is now the single largest bulk trader, has the single largest bulk freight book, which enables us to gain a much improved degree of knowledge on the freight business and also leverage from that book. We are doing around 18 million tonnes of freight for both Met coal and iron ore, so we have a significant exposure to the freight market as a result. This really helps us manage that exposure.

VIII. Summary

There are some key messages I would like to leave with you. We have solid demand profile in the blast furnace steel making sector, which is here to stay, and we have a particularly high exposure to the Asian market, where the growth we are seeing is predominantly being generated. We have a great market position that delivers us superior market knowledge and the ability to understand our customers and to meet their needs, and to extract the maximum value we can from that. We have some exciting and sustainable growth opportunities in both coal and iron ore. As the steel industry grows, we can substitute for domestic production. We have a unique platform in the Carbon Steel Materials grouping, where we can try to capture the maximum value from those opportunities that we can.

That is really my part. I would now like to introduce Graeme Hunt, who runs our WA Iron Ore assets.

Western Australia Iron Ore

Graeme Hunt

President, WA Iron Ore and Boodarie Iron

I. Introduction

Thank you, Andrew, and good morning. My task this morning is really to build on Bob and Andrew’s introduction and to flesh out a little bit what we are doing in our WA operations, with a particular emphasis on how we are leveraging our resource position. I will then spend the majority of the time talking about the efforts and results we are getting in efficiency improvement through what we term ‘Operating Excellence’, and then give you a brief update on our growth projects.

II. WA Iron Ore

1. Operations

For those of you who may not be familiar with the location of our operations, they are shown here in the northwest of WA. At the bottom of the cut-out on the left is the area of the Pilbara and mining operations, as shown at the bottom of the slide, centred around Mt Whaleback – the Mt Newman joint venture, which involves Mt Whaleback, Ore Body 23/25 and the Jimblebar operation; the Yandi joint venture, based around the Yandi mine, just down the railway line from Mt Whaleback; and the MAC project, which was authorised in April and is now under construction. I will speak a little bit more about that later.

Those mining operations are linked to Port Hedland by our own owned and operated rail line, about 400 km down to the port of Port Hedland, where we ship about 75 million tonnes of iron ore per year out of those mines, as well as out of the mines of Yarrie and Nimingarra, which are the Goldsworthy operations that have been around for more than 30 years. Those mines will actually close in 2005.

2. Key Statistics

To cover some of the key attributes of our business, I think there are three key messages I would like to leave you with. Firstly, that we have been in this business a long time – more than three decades – and over that period of time we have been able to show sustained growth in both sales and profitability.

Starting with our Mt Whaleback operations based around Newman, we have now shipped over 900 million tonnes over the last three decades. The Yandi project, which is probably one of the most successful minerals businesses anywhere as a project, has grown from zero to 200 million tonnes over the last decade.

Really around this concept of high value-in-use (VIU) ore, which Andrew touched on and I will elaborate a little bit further on later. We are adding value to that project with the adding of Yandi lump project. We have now shipped over 2.5 million tonnes over the last two years and have in fact just completed the expansion of the facilities to produce four million tonnes of Yandi lump.

We have the best resource position in Australia, and certainly a world-class position. The issue here is not just the depth of our resources, but also the breadth. By being able to supply a traditional low Phos Brockman Haematite ore, as well as the high VIU Pisolites out of Yandi and the new generation of the Marra Mamba products, we really are in a position to be able to offer basically everything a steel maker wants – and also cope with the fact that we are seeing different demands for different products in different parts of the world.

Growth in China is based around the Haematite product, which is easier to sinter and easier to use in iron making, whereas the Japanese and Koreans are looking for a lot of cost VIU ore, so the demand for Pisolites and the new generation Marra Mamba ores is higher. We are well-positioned to participate in the demand for those products on a global basis.

All of that is backed-up by good infrastructure in our mines, in our railway – which benchmarks as the best in the world – and in our facilities and stockyards at the port, and increasingly through generating better value from the people that work in the business.

III. Seaborne Iron Ore FOB Cost Curve

We are well-placed on the industry cost curve, although we are not really satisfied with where we are. Over time, our weighted average position on the cost curve will move in the right direction, as the Goldsworthy operations close in 2005 and our position in the market for that product is taken up, at least in some part, by the MAC project, which will be at a lower position on the cost curve.

As I said, while we are in a good position we are not satisfied with that. One of the key focuses in the business is to improve our cost position, productivity and efficiency – both from an operating and capital efficiency perspective – through operating excellence. I would like to spend most of the rest of my presentation on that point.

IV. WAIO Improved Productivity

We have made some dramatic improvements in productivity over the last five years. The bars there show the number of people in the business and the red line is the tonnes sold per employee over that same period. It is a significant improvement in productivity. The small increase in the number of people in the business this year relates to the increase in people involved in the capital growth projects, so they are not really involved directly in the annual operation of the business. If you back those out, you would see a continuing trend downwards in those involved in – if you like – the 'dig and deliver' part of the business.

There is obviously more to the productivity story than just reducing numbers. The key part of it is getting the organisation working smarter and delivering sustainable improvement. Through what we call 'Operating Excellence', we are doing that across the whole of the business. This financial year we have more than 90 improvement projects going across the business, focused on cost, focused on productivity, focused on efficiency and focused on health, safety and our performance in the community.

The Operating Excellence approach uses the six-sigma technology, which many of you would be familiar with. It has been used successfully in manufacturing and other businesses across the world. We have coupled that with networking, benchmarking, performance management and a series of other business improvement approaches to really focus on improvement of the business.

V. Success from Operating Excellence

1. Gross Loading Rate (Nelson Point)

Perhaps one of the most striking examples I can use to illustrate how we have been able to improve our business over the last couple of years is looking at our gross loading rate. This is the rate at which we load ships, and – if you like – is the ultimate bottleneck or late determiner of your revenue line. Assuming that Andrew's guys can sell the ore, what determines how much money we collect is how quickly we can actually put that on a ship.

Over the last two years, we have been able to improve our ship loading performance by 20% each year, year-on-year. We are now operating at above our nameplate capacity, and – if you like – that improvement has given us free capacity. Or perhaps more accurately, capacity that we had paid for but not fully utilised. The story here is not just about cost; it is about capital efficiency, customer reputation – because we can now turn ships around quicker and turn demurrage costs into despatch benefits, based on how we operate better in the port.

If we can roll a video, I would like to try to explain to you how we achieve those outcomes. This video will show our ship loading operations at Nelson Point in Port Hedland. The focus was really on walking backwards – if you like – from the ship loaders here, all the way back up the chain to the mine, to improve the handle-ability of the material.

We have improved the digging rate of these reclaiming machines; the utilisation and their up-time. We have improved the amount of material on the belt, we have improved availability of the belt, and we have improved the amount of time lost through head changes. It was not a single project; there were about 20 or 30 projects involved in this improvement, which has delivered that 20% year-on-year improvement over the last two years.

Another example is shown here, which again relates to getting more efficient use out of the capital we have spent on our business – a lot of operating costs – and getting better alignment out of the people involved in interfacing with that equipment.

2. Loco Fuel Consumption

We have achieved better than 20% improvement in fuel consumption in our locos over the 12-month period. We have achieved that by using the technology to provide, wherever possible, real-time information back to a loco driver as to the fuel efficiency that he is operating. We have used that to provide performance management – activities to ensure that everybody is improving their performance – but also to provide better driving strategies, so that we can continue that improvement process.

We are using similar strategies in our mining area, where we are using high resolution GPS technology to provide real-time feedback to our truck and shovel operators, such that we can continue to get improvement in our operations across all of our mines and – if you like – improve the positive competition between operators to prove who the best operator is. In the past, everybody thought they were the best. In the absence of data, they were probably right. When you provide the data, you can see that some operators are better than others. We are using this competition – if you like – to constructively drive the business forward.

VI. Adopting New Technology – World's Longest Train

Our rail system is already benchmarked as the best in the world, but we are not satisfied with that. In June last year we ran an experimental train, which was the longest and heaviest train ever to run on the face of the earth. It was over seven kilometres in length and more than 100,000 tonnes in weight. We ran it to determine the weak links in the system.

This train was operated by one guy. Up until a few years ago, we were only running trains between 25%-30% of this length; we are now running trains of half this length on a daily basis, with one operator. That is a 33% improvement in productivity just over the last couple of years, and it has also provided us with a great insight into where to from here.

The total running time of ten hours is from start to stop. In fact, we did stop at the top of the hill, where we discovered what the weak link in the system was, so spending a few hours to fix it has given us a great insight into what the weak link in the process was. As always, the weak link was probably the lowest sophistication piece of gear: the drawbar between a couple of wagons. The ability for one driver to control the locos right through that seven kilometres has enabled us to make a further step and we are now running trains half this length everyday.

It is a great example of how you can get maximum value out of the money you spend in capital equipment and how to get the best from your people. It also shows that we are never satisfied, even when the benchmarking shows that we are already the best in the world.

VII. Future Growth Strategy

I would like to move on now and talk a little bit about our future growth strategy. Andrew has already touched on the fact that we have embedded growth options with incremental expansions of our Newman and Yandi mines. We see that there will be increasing demand and, in fact, we have experienced that over the last year or two for our Haematite ore into China, both as a result of the growth of the Chinese steel industry, but also as a result of the relative substitution of domestic ore in China.

The development of high VIU products, which we see as win-wins, where the customer gets a product that is a little bit cheaper and for us, it is also cheaper to produce, so in many cases we are seeing better margins there than we are out of some of our other products where the customer has to work with us to understand the use of that ore.

We have been able to grow our Yandi project over the last decade, from zero up to 30 million tonnes per year. We are now adding to that a lump product and last week commissioned a four million tonne per annum plant for Yandi lump, which was ahead of time and under budget.

Our MAC project – the first generation of the new Marra Mamba ores – is under construction. It was authorised back in April and the attraction to the customer is that it is a low silicon, low alumina product, with high demand in Japan and Korea going forward.

VIII. Mining Area C

Just to give you a little bit of an update on the MAC project, this is an overview of the site. In the middle of the slide you see the bulk sample pit, where we have completed the extraction of five million tonnes of material in order to produce about 750,000 tonnes of bulk sample material which is representative of the life of mine of the C deposit. We were very focused on ensuring that we delivered a representative sample to our customers, such that they could fully understand the implications in their processes.

There is more than 800 million tonnes of iron or in the MAC project in seven separate deposits in Area C. The details of the project were released in some detail back in April, so I will not dwell on those; I will just give you an update as to where we are at the moment. We have completed the bulk sample extraction. In fact, the first material from the bulk sample has arrived in Korea with POSCO.

It was very successful in terms of the handling of that material both on to the ship and off of the ship into the yards in Korea. In fact, the MAC material is the first of the new generation Marra Mamba products in the market. We have beaten our competition into the marketplace by a little bit at least.

The other key feature here is that we are building the mine to 15 million tonne capacity, but there is basis for easy expansion beyond that as the market demand. Also, this project is really underpinned by the relationship we have developed in the joint venture with POSCO. In the POSMAC Joint Venture, POSCO have a 20% part of the project, and it underpins the project with

POSCO being our largest customer for iron ore and for the Carbon Steel Materials group. They will be taking a minimum of three million tonnes per annum over a long-term arrangement and working with us to develop this product in terms of the understanding that there is VIU.

IX. Products and Capacity Expansion Project (PACE)

Supporting the MAC project is an expansion of our port facilities at Port Hedland. Notwithstanding what I said earlier about the improvements in capacity achieved through Operating Excellence, we are running above our nameplate capacity and we do need to expand the port facilities going forward in order to support the growth that will come, particularly out of China.

The other part of the growth projects that were authorised back in April is the Products and Capacity Expansion of Port Hedland and the building of what we call the Western Stockyard. In effect, this is a greenfields development on our Finucane Island lease, which is west of our Nelson Point facility and is linked to that facility by an under-harbour tunnel. The advantages of this development is that we can construct and develop these facilities without a negative impact on our existing business and we will be able to enhance our capacity to just over 80 million tonnes when the first stage is complete, and have the foundation for expansion to beyond 90 million tonnes as the market demands.

X. Boodarie Iron – The Way Forward

The other area of my responsibility is the Boodarie Iron project. I think much has been written and said about this operation over the last few years. At the moment, I think we have good market acceptance for the product and the core process is working. I think you would all be aware that we did have some problems back in March in some ancillary equipment to the process. As a result of a failure in one of the reheating gas furnaces, we needed to take down the plant to change the heating tubes in all of those furnaces.

We were on our ramp-up curve prior to that incident. We are making those changes at the moment and we will be back in production next month. We will be back on the ramp-up curve, with a focus on continuing that ramp-up and with, in my view, a great deal of opportunity for improved efficiency.

XI. Summary

In summary, I would just like to say a few words about our WA business. It is clearly a very good business. While we are the number three player in the world, it is a very consolidated business so 75 million tonnes is not a small player, even at number three.

We have a very strong focus on continuing to improve our performance and we have processes and systems that have delivered that performance over the last couple of years – and a lot more juice left in the lemon yet. In fact, in many cases we are just starting to understand how much more opportunity there is for improvement. I am driving our team to really stretch themselves to deliver on that performance goals and through the concepts of stretch goals and urgency to improve, we have delivered a lot in the last couple of years.

We see that we have opportunities for growing with our market, particularly based around the demand for higher ore volumes into China. We believe we are well-positioned to do that, but we

are also well-positioned to be able deliver what our customers want in the rest of the world, particularly in North Asia, where the trend to more high VIU products will continue.

I think that the future for our business is very good, provided we continue to deliver. Thank you for your attention and I would now like to introduce Dave Murray, who is the CEO of BMA.

BMA – Queensland Coal

Dave Murray

CEO, BHP Billiton Mitsubishi Alliance (BMA)

I. Introduction

Thank you very much, Graeme, and from Bowen Basin, Queensland – commonly known as the Sunshine State – welcome. If it is any consolation, when I left there 24 hours a go it was raining cats and dogs; much like it is here. It is not that much better in Australia at the moment.

Like Graeme, I am going to try to give you a sense of size, what the structure of the Queensland Coal business is, give you a sense of some of the things we are doing about costs – some of the cost improvements that are out there – and lastly, I will briefly touch on two exciting growth prospects for the business.

II. BMA – Queensland Coal

One of the two main ingredients for making steel is coke. To make good coke, one needs good coking coal, both from a purity point of view and from a coke strength point of view. Good coking coal, unlike thermal coal, is only found in relatively few areas around the world. One of them is in the US, although many of those operations are not competitive these days and have in fact ceased producing coal. Another one is in Canada, which is the second biggest producer. The third place where high quality hard coking coal is produced is in the Bowen Basin, where I come from.

Bowen Basin is to hard coking coal what Saudi Arabia is to crude oil. From both a quality and volume point of view, it is absolutely essential to the steelmaking process around the world. Not only are we blessed to be part of that, but BHP Billiton and Mitsubishi – in terms of the alliance – own or operate assets which produce over 63% of the output coming from that region. It is a very, very big business; in fact, the biggest seaborne coking coal export producer in the world. It is a pretty substantial business.

III. Queensland Coal Operations

1. Assets

These assets are spread from just west of Mackay in the north, down to about Rockhampton in the south. It is about 200 km, certainly in the northern part of the operations, from the port of Mackay.

2. Hay Point

The first asset I want to talk about is Hay Point, which is really the envy of all of the coking coal producers in the Bowen Basin, in the sense that it is 100% owned by the BMA alliance. Its throughput is about 34 million tonnes per annum, but the beauty of it is that it is entirely in our control. We can blend coal, can vary the stockpiles; it is ours to play with, whereas all of our other competitors really go through multi-user ports. Of course we do have the opportunity to put coal through Dalrymple Bay, which is right next door, and through Gladstone in the south.

3. Goonyella

The first asset of relevance is Goonyella, in the north. It is an eight million tonne per annum operation producing hard coking coal. It is really a brand name known throughout the world; if you ask any steel producer, he will know the Goonyella brand name.

4. Peak Downs

The second – and I believe the most important – brand name is Peak Downs, just to the south of that. Again, it can produce up to eight million tonnes of hard coking coal per annum, with extremely long life in Peak Downs.

5. Saraji and Norwich Park

Then we have Saraji and Norwich Park, two well known brands of hard coking coal, known throughout the world. All of those operations are 100% open-cast operations using truck & shovel, and dragline methods of stripping down to the coal.

6. Gregory and Crinum

A little bit further to the south we have Gregory, which is a one million tonne per annum operation which is again open-cast. Right next door, in fact both operations are under the same management, is a mine called Crinum, an underground operation producing some four million tonnes.

7. Blackwater

Further to the south we have the newly expanded Blackwater operation, which produces a semi-soft weak coking coal as well as thermal coal. I say newly expanded; in fact, it has virtually completed its expansion this month. It used to be two operations – Blackwater and South Blackwater – which have been brought together under one operation. It is now probably the biggest operation in the Bowen Basin in terms of output.

IV. Business Structure

All of those mines are structured under one alliance. They are structured under what is called the BHP Billiton Mitsubishi Alliance, a global alliance which was formed in July of last year. It is a 50% ownership: 50% BHP Billiton and 50% Mitsubishi. The governance is through an Owners Council, which is tantamount to a Board, where both companies clearly have representation. They look after the affairs within the two joint ventures: the CQCA and Gregory.

On the side, as Andrew spoke about, we have the marketing organisations, which has a head office in Singapore for the seaborne trade and we also have an office in Brisbane which looks after the domestic business.

V. BHP BILLITON-Mitsui Business

BMA management also manages the affairs of two other operations in the BHP-Mitsui joint venture: an operation in the north called Riverside, which is a hard coking coal mine; and we have South Walker Creek, which is a semi-soft PCI operation about halfway to Hay Point.

The shareholding in that joint venture is 80% BHP Billiton and 20% Mitsui. The numbers you see represented here would be BHP Billiton's share of those two sets of assets I have just described.

VI. Queensland Coal Business Structure

The marketing for the Mitsui joint venture is also done through our marketing operation in Singapore, as is the marketing of the seaborne component of Illawarra, which Bob will talk about a little bit later. All of that is housed under a single marketing organisation.

VII. BMA Business

1. Key Statistics

a. Annual Sales

Just to give you a sense of the size of the business and its growth over the last couple of years, I have up there the two columns from year-end 1990 up to 1992. Hard coking coal has grown from some 25 million tonnes up to the 35 that we are anticipating to produce this year, weak coking coal from three to just less than 10, and thermal coal – which is not really part of our business but more a by-product of the other businesses – from 1.1 up to about 5.3. The total increase in output grew in that 12-year period from 30 million tonnes up to 50 million tonnes.

b. Employees

In that same period, through productivity improvements, and through technology improvements, we have been able to reduce the staffing of that organisation from 8,600 or thereabouts in 1990 to just over 3,000 currently in all of those operations.

c. Marketable Reserves

From a reserve point of view, the marketable reserves contained in our current mining plans are about 1.8 billion. I think that is pretty conservative; there is clearly more coal, but at today's economics we have chosen a cut-off at 1.8 billion in our current operations. In these undeveloped operations out there, it is again a conservative estimate in my view of 150 million tonnes, which is out there in new operations should we want to go and mine.

d. Equipment

I do not know how familiar any of you are with mines, but they are extremely large operations spread over those seven or eight mines. We have 33 draglines spread amongst the operations, eight

shovels, 75 huge rear-dump trucks which move waste, 50 coal haulers, over 100 Caterpillar D-11s and some smaller bulldozers, and auxiliary equipment. They are very big operations, well-equipped to do what they are supposed to do in terms of producing coal.

2. Productivity Improvement

In the cost curve of these operations, there will be some changes in the order of the mines. However, what is relevant in this cost curve is where our mines in the Bowen Basin fall in relation to the other producers around the world. At the top-end of the scale, we have the USA as the highest cost producer on average. Then we have the Canadians in the middle of the cost curve and Bowen Basin and other Australian producers at the bottom-end of the cost curve.

We are there because we do have the reserves which do allow for efficient open-cast mining, but we are also there because of the capital and equipment we have injected into these operations over the years. Just to give you a sense of the sort of money we are spending on an annual basis and improving our technology as we go along, we have bought three new XPB shovels this year, have introduced 16 new large trucks, spent a huge amount of money on measurement and control – GPS and tectonic systems to measure performance of draglines. We have introduced a whole range of auxiliary equipment in support of those, such as fuel farms and so on. A lot of money has also been spent on drilling equipment and improving that efficiency.

If you like, that is just keeping pace with technology and improving efficiency as we go along. We also have people out there thinking about step-changes in productivity. Probably the most exciting step-change in productivity is the modifications we are busy experimenting with in terms of draglines.

VIII. Adopting New Technology – Universal Dragline (UDD)

You perhaps cannot see it in the photographs in your booklet, but there is a configuration of what we call the Universal Dig Dragline (UDD). You can see that the bucket is suspended with two cables. The current draglines have one cable, and I will show you in the video clip that is about to follow the benefit that brings about.

If you have a look at the rigging around an old dragline bucket, you will see that it has a huge arch in the front of the bucket, a huge spread about the back and significant chains. All of that adds weight to the bucket. With the new bucket configuration, with two hoist cables, you can in fact do away with a lot of that rigging and put that tonnage into the dirt you are moving, rather than into the bucket itself.

The other very technical things about the new configuration are that you can fill the bucket quicker and you can dump it quicker, all of which improves cycle time. You can dig deeper and dump higher, all of which improves cut configuration.

We believe that those modifications can bring about up to 20% improvement in productivity. If you think that we have 32 draglines operating around the group, 70% of the dirt we move to expose the coal comes from drag lines moving a huge amount of material. If we could get 20% productivity improvement out of each of those 32 drag lines, we can effectively do away with six drag lines. One of our big operations – Goonyella and Peak Downs – uses six draglines. In effect, by doing that modification to that bucket we can free up the equivalent dragline stripping capacity in one of our big mines.

The big difference is that we can do that for a third of the cost. Each of those modifications costs about A$6.5 million – US$3 million at today's exchange rate. A new dragline would cost you around A$100 million. We believe that is a step-change. Because we got there first, that is a skill and technology we will pick up long before some of our competitors will get there.

IX. Success from Operating Excellence

Like Graeme, we also have an Operating Excellence programme running throughout all of the operations. I am not going to cover the same ground Graeme did. What is exciting to me about operating excellence is that it is a bottom-up approach. We have everybody in all of the operations thinking about how to improve productivity.

We have a myriad of little projects run by teams that are enthused about improving their own productivity. There are a couple of examples in Queensland at the moment. We currently have over 30 active projects, each with its own trained team leader and each with its own team, think about the business they are involved with daily. They are thinking about measuring themselves and benchmarking themselves against the world's best.

What is important here is that we have trained people to think differently. We have six full-time coaches, another four currently in training, and a host of part-time trainers – who all have day jobs. They are out there driving a truck and doing other things, but on top of that they have been trained to think differently in terms of improving productivity. It might sound like a small number, but we have banked just under US$10 million to date – that is the BHP Billiton share of it. To me, the important part is the enthusiasm that has been generated throughout the organisation for them to look at themselves.

X. Future Growth Projects

1. Goonyella Underground

Lastly, I will look forward at some growth prospects. One of the most exciting projects I have come across in recent years – if not ever – is what we call the Goonyella Underground. It is very capital-efficient; it is essentially taking a mining area at Goonyella, which up until now was considered sub-economic to mine open-cast. There is a highwall there, so the access to the seam is available.

In the Blackwater merger in the south, there is a longwall which became available through that rationalisation at a mine called Kenmare. That is now available, so it comes virtually 'free'. It is the bringing together of these two assets which has put us in position to very quickly and very capital efficiently potentially create a new mine.

At about US$30 million to US$40 million, we could have on tap coal equivalent of one of our medium-sized operations. When I say 'on tap', I think that is a very important concept. It has to be the next cheapest coal on the block, the next cab on the rank so to speak. Should the market turn up, should there be a demand for that coal, the Goonyella Underground is there and we can bring it to book very, very quickly.

On top of all of that, in the medium and longer term it would be prudent for us to go underground in some other operations. This will be a very good and efficient test bed to test run the idea of

punchwall mining for the rest of the group. I believe that to be a very exciting project which we will be looking at very seriously over the next couple of months.

2. Comet

The other project – Comet – is slightly more long term. With the merger of the two operations in the south – Blackwater and South Blackwater – each had their own infrastructure and each had their own washery. The concept here is to build a new washery, virtually between the two, with new technology; a much more efficient washery that could process a wider range of products, as well as thermal coal.

On top of that, it is to bring a mining reserve in the south to book and put that through the new washery as well. As I said, it is a medium-term project, but there good be substantial growth coming from this project as well.

XI. Summary

In conclusion, I believe the Bowen Basin's assets to be irreplaceable. There is nowhere else in the world that you combine coal of this quality as cheaply. It is well-endowed in terms of the investment that has been put into it and it is well-equipped to mine and do what it has to. It has well-respected brands throughout the world, and has a bright future in terms of projects we can bring, in reasonably short notice, to bear on the market if the market can withstand the new production.

Thank you very much.

Illawarra Coal

Robert Kirkby

I. Illawarra Coal Operations

I am just going to whip through these others. I do not want to demean their value, but we are a bit behind time. I will do this on behalf of Wayne Isaacs, who is sitting in Melbourne. Just having a quick look at the Illawarra coal operations, they are a seven million tonne per year operation, all underground operations, and quite old operations. However, we have been working very hard over the last couple of years to improve these, and great progress has been made. They are very cost competitive now.

We are going to go through a phase of some development here; the Dendrobium mine is a new mine we have started. It has very good quality and will be equipped with new equipment and increase the productivity of these operations. The great advantage is that they are very close to the coast. No other coal mines in the world are as proximate to the coast as these, so our transport costs are lower than all other places.

The other point to make about these is that the Port Kembla steel works at Wollongong is the major customer for these operations. We have just signed a 30-year contract with that group. BHP Steel is of course being spun-out of the BHP Billiton group and this contract will ensure a market for a majority of this coal. The rest of it will be exported.

II. Seaborne Hard Coking Coal Cost Curve

We do have problems here and I am going to reissue and publish on the web a correct cost curve; we had some gremlins in this at the last minute. The point here is that these operations are also down with the best in the Australian group and, in a world sense, are very cost competitive.

III. Optimisation of Operations

What we are trying to portray here is: there used to be five smaller-scale underground mines, which we will gradually phase out to three larger mines, rationalising the operations. Through that means we will be able to reduce the costs dramatically going forward. A lot of that is to do with the opening of the new Dendrobium mine and we will be closing the Tower mine shortly.

Through this means and through the other means that the guys have talked about, we see ongoing cost reduction coming through here.

Manganese

Robert Kirkby

I. Manganese Operating Units

1. South Africa

If I can just quickly turn to manganese and speak on behalf of the people in South Africa, here we have the operations for manganese. The South African mining operations are in Hotazel, and if you have ever been there, that is absolutely true. It is in the Kalahari and the processing alloying plants are in Meyerton, Krugersdorp and Nelspruit – we have three separate facilities there.

2. Australia

In Australia, the ore is mined at the GEMCO mine at the Groote Eylandt in the northern part of the country. The smelter is in the southern part of the country, where we get cheap electricity.

II. Manganese Ore FOB Cost Curve

These operations are also well-positioned on the cost curve. As we said, the ore business is where we make our money. All of these mines are well-positioned and have good life, good potential and good high-grade product.

III. Manganese Ferro Alloy – HCFeMn Cash Cost Curve

In the alloy business, which we use as a pull-through, our South African operations are similarly right down at the end of the cost curve, with the Rand and the inherent position. Similarly, the TEMCO operations in Tasmania are well-positioned. These smelters produce a number of products, and we have just highlighted here the high carbon ferro manganese position.

IV. Improved Productivity

The story in manganese is that there has been a very, very intensive programme – particularly in South Africa in the last two to three years, which is ongoing – where we are really looking at the whole productivity and workflow of those operations. There is a lot of progress being made, particularly in South Africa, in improving the cost position and improving productivity of those businesses. We are all in agreement that there is significant improvement to come out of those businesses.

Samarco Iron Ore

Robert Kirkby

I. Operations

Last but not least, because this is a very important part of our business, is our 50% holding in the Samarco iron ore operations. Our partner is CVRD. This is a southern system, with operations in Brazil, where we are a pellet producer. The unique thing about this operation, in which BHP Billiton has been involved in for a number of years, is that it pipes its concentrate to the coast – whereas everyone else in this area rails it. It is about 25% of the cost for us to get our product to the coast, compared to other producers in that region.

II. Seaborne Iron Ore FOB Cost Curve

When you look at the cost curve, and this is where we have put iron ore and pellets together, Samarco is a very cost competitive producer. It is a good business for us.

I had to skip over those due to the time, but we are happy to answer any questions that people have about it.

Conclusion

Robert Kirkby

I. Cost Savings 1993-2002

I would just like to summarise, because we have talked a lot about cost reduction. Part of this has been driven by the sort of feedback we have been getting about BHP Billiton's enthusiasm for this activity. This is history and this is actuals. We have put out in the market that we are going to achieve 2% real cost reduction. This is ten-year and five-year; in the blue would be a 2% target for those businesses, and you can see what has been achieved. We have well and truly achieved that in both iron ore and met coal over the last five and 10 year periods.

This morning we have tried to show you that there are still quite exciting things underway in our major businesses which we believe will continue that trend. I have no doubt in my mind that we can meet those targets and the people in the businesses we have talked about today will certainly make their contribution.

II. Cost Reduction

For the record, I have put down my view of how you go about actually reducing costs. A lot of people say you get hard-nosed, or you do this or you do that. There are many, many ways to reduce the costs of your business. I have broken it up into sustainable activities and avoidance/deferral activities. A lot of people actually concentrate on the latter, whereas in our business to maintain our margins in the long run you need to be doing things at the top-end of this graph. This morning we have tried to give you some examples – and I have listed some on the right of this – of what is happening in this particular group as we drive to reduce our costs.

We have talked about all of those, but I did put down currency devaluation. The previous numbers I showed you were actually in Australian dollars, not in US dollars. We have driven the local currency costs down. In addition, because our products are sold in US dollars, we have benefited. If you look back over that period, there has been a devaluation in the currency as well, so we have had a double benefit. At the moment it is going the other way, so you cannot always count on currency devaluation.

Doing the things on the top of the page – and we are doing them – you will get cost reduction. There is still plenty of avenues and opportunities we see to be able to do it.

III. Sensitivities – FX Impact on Carbon Steel Materials EBIT

Because the currency issue is an issue in the reported results of our business, we have just put down indicative numbers here on the effect of an Australian dollar change of one cent over an annual period, and also a 10 cent change in the Rand. We are affected, and these are the sorts of impacts on our business as those currencies change.

IV. Prudently Grow Business Value

I would like to talk a little bit about growth. I have talked about prudent growth in our business, and some of the guys have shown you some of the projects they have on-hand. In the last six months or so, we have approved more than US$500 million worth of project expenditure.

That is well underway. Graeme mentioned the Yandi lump project; in fact, we have completed that project ahead of schedule and under budget. Dave did not mention it, but we have a project in South Walker Creek. We are commissioning that project ahead of schedule and under budget. Our three major projects – the building of the Dendrobium mine, the MAC development and our port development – all of those projects are on schedule and will deliver value.

We set ourselves a target of increasing the value of this business by US$1 billion by 2005. Those projects, which are in execution, we believe will develop 50% of that. We do have other projects in the pipeline which are commercially sensitive at this point, so I will not go into them. However, there are ideas we have where we are actively working. We have yet to identify some projects to meet our target, but I am confident we will be able to do that.

V. Conclusion

To wrap up: we have spent a bit of time with the asset people talking about what we are doing there, the great assets we have, how we are managing them and trying to manage them better to extract more value.

Andrew talked about our marketing effort, which is different to that of anyone else in this business. The other major competitors are single commodity groups. We believe we have a leg up; we understand our customer base better. We have seen an immediate benefit by putting these groups together in terms of our understanding and our knowledge, and we are seeing some tangible bottom line benefits with some of the synergies that Andrew talked about.

I very quickly went over the growth projects at the end, but they are in-house. We have looked at and can continue to look at opportunities outside us and we will execute those if they are value-adding. However, we will not do them just for growth's sake.

In summary, what we have here is something that no other mining company can present. Nobody else addresses the steel industry in the same way we do. Nobody has the same sort of balanced portfolio that we have. We have seen iron ore prices go down this year, and the people that are only in iron ore will be impacted by that. We will hopefully see coking coal prices go up this year; we will benefit by a balance in those sorts of things. We have a unique journey, where we are trying to exploit that more than we have in the past. From what I have seen at the beginning of this exercise – we have only been doing it for six months – there is certainly value there that we can deliver to the corporation.

With that, I will close and we will go through a question and answer session. I will farm these questions out to others in our group, so that you can hear some of their answers. I believe we are having questions from here first.

Questions and Answers

Question:

I wonder if you could give us a little bit of the background to the recent iron ore price talks and perhaps talk to the factors that resulted in the fall in prices. I wonder if you could also amplify on your comments on the coking coal talks; that you expect to see prices going up.

Robert Kirkby:

I might ask my colleague Andrew Offen to answer those questions.

Andrew Offen:

I might answer the second question first. Coking coal is going through a fairly significant change in the way we price and the way we negotiate with our customers. We have gone from a quite public, high profile benchmark negotiation system led predominantly by the Japanese a couple of years back, to now where we really just individually negotiate with customer, company by company.

As a result of that, we cannot now reveal the results of those negotiations with the same degree of transparency as perhaps we once did. Ultimately, when we have enough of the business done we will talk about average pricing levels. However, with negotiations currently in a fairly delicate stage – we have done a number of pieces of business and we are quite pleased with the price increases we have achieved from that –we cannot comment yet on the specifics of those deals until we have a little bit more of the business under our belt.

That is for hard coking coal. Semi-soft coking coal, as you probably know, has gone down – particularly driven by pressure from Chinese supply and a weaker thermal coal market. Iron ore was a very difficult prolonged series of price discussions this year. It was really evidence of that tension I talked about building between a highly profitable raw material sector and a steel sector, particularly in Japan and Western Europe, that is suffering profitability-wise.

I think the price we ended up with is a reasonable balance between addressing those needs and reflecting the underlying fundamentals of the market. The underlying fundamentals of the market for iron ore are okay; we have seen demand drop off, particularly in Western Europe and the US, but we have seen China booming along and offsetting that.

I think the relatively small nature of the price decrease for fines was not a bad outcome. The lump decrease was a bit bigger, and that was really driven by the need for lump to retain its competitiveness versus pellets. CVRD's pellet business in Western Europe and the US was hit fairly badly by the downturn. As a result, the pellet price came down more than fines and lump was needed to keep competitive with that so that we did not lose our business. That is a bit of the background.

Question:

We have talked a little bit about China today. It was certainly an important factor in the last year or so in terms of volumes for iron ore. Some of us in the market are worried that we might see a slowing in the pace of consumption in China and that we could potentially see iron ore volumes down in the year ahead. How confident are you about China going forward and maintaining those volumes?

Andrew Offen:

We have been constantly surprised by the strength of Chinese demand. For the last three or four years we have been guilty of consistently under-forecasting the growth we are seeing there. We have gone from 70 million tonnes to 90 million tonnes over the last year. For the first half of this year, we have again seen demand which is higher than our expectations.

We look at these things on a calendar-year basis and things are looking pretty strong at the moment; in fact, the biggest bottleneck is probably going to be the infrastructure – the ability of the Chinese port and rail system to handle the imports, rather than absolute demand. That is being driven by both increases in absolute volumes of steel, but also increasingly by replacement domestic ore with high-grade imports.

In the short to medium term, we are certainly quite confident that China will continue. You are right, it is high risk; you never know, but so far things are looking very positive.

Question:

I wonder if you could talk a little bit about conditions in the manganese market and recent pricing levels as well?

Andrew Offen

The whole manganese pricing process has been delayed because of the prolonged iron ore negotiations. We are really only now just kicking off the negotiations with our Japanese customers. The market has been reasonable; we do not expect big movements either way. I think there will probably be a little bit of pressure there, but we are reasonably confident that the outcome will be okay.

Question:

A question for Graeme: when do you expect HBI to make a profit?

Graeme Hunt:

As soon as possible. The key factors in getting Boodarie into profitability are: hitting the ramp-up curve – it is important we get our volumes up and it is important we improve our efficiencies as we do that, and the price we are getting in the market is obviously important as well. We have seen significant strengthening of the marketplace over the last few months. No doubt we have helped that by not being able to supply in that period, but I think there are good signs of a return to the longer term price trend for metallics, which have been under pressure.

Our target is certainly to get to break-even during our next budget year. That will be determined by the ramp-up, so I am looking for the latter half of our next financial year being where we should be.

Question:

Just a question on the contract between Illawarra and Port Kembla Steel Works: you say it is a 30-year contract and I presume that is just a supply contract and that you will have an annual pricing. If not, what sort of pricing structure is it based on?

Robert Kirkby:

It is a 30-year contract and it is linked to the international price basket of coal prices. That will be done annually.

Question:

Some time ago – I think it was 1999 – when you opened the books to Rio Tinto in what was then a proposal to merge the iron ore businesses. My recollection was that BHP learnt that it was some way behind Rio Tinto in terms of cost structure. Where do you feel you have got to now in terms of relativity in costs with Rio in your iron ore business?

Robert Kirkby:

Maybe I can answer that. There is no doubt that there was a difference. Some of it was due to structural reasons and some was due to efficiency reasons. We believe we have addressed both of those. There are still some structural differences, but as time goes by they change. The sort of thing I am talking there is that more and more of our production is coming from ore bodies that are closer and closer to the coast. For instance, we are ramping up Yandi and MAC, so the relative haul distance of our production is becoming shorter. If you look at Rio Tinto's, it will become longer. There are the sort of structural differences occurring.

The other thing is that, as Graeme alluded to, we have always run the Goldsworthy operation, which is a high cost operation near the end of its life. That will end in 2005, so there will be another change there. I think Graeme showed you that we have done a tremendous amount of work on the efficiency side of things. There are not too many areas where we believe we are behind.

Question:

You have a great industry structure in iron ore, very tight and concentrated. However, you mentioned this problem with the differential in margins between the steel makers and the raw material producers. I think it is fair to say that over the past 20 years there has been something like a 2% decline in real-terms in iron ore prices. Can you comment on whether you expect that decline in real prices to continue? For the industry as a whole, is it reasonable to expect the very favourable margins you get in iron ore to be sustainable in the long term?

Robert Kirkby

We have tried to show that we are driving our costs down in anticipation of continuing real price declines in iron ore. Whether it is 1% or 2%, you can have your bet. We are betting on the fact that it will continue to decline.

On the disparity in profitability between the two industries, our line is that we have at times been subjected to and given in to large decreases in prices in iron ore – and coking coal for that matter. At the end of the day, it does not seem to have made any difference to their long-term profitability.

I do not know whether you read the *Financial Times* today, but there is a big article in there about the Japanese car makers and the Japanese steel makers. The steel makers are asking for a 10%-20% price increase, according to the article. I do not think the car companies are going to give them any relief. The car companies are telling them they have to do something about their structure and reduce their costs – that is our argument to them too. We cannot solve their problems and history shows that we have passed on – for whatever reason – significant price cuts, it does not seem to have improved their long-term position.

We are hopeful that somehow or other they are going to find a way out of this, because there is a huge tension. It is something we all have to deal with every time we see these people. We do not believe we can solve it for them and we certainly are not inclined to give it away.

Question:

Have you been surprised by the strength of the Rand and the Aussie dollar so far this year? What assumptions are you now building into your models for the second half of the fiscal year?

Robert Kirkby:

I do not think we are any more expert at currency predictions than anybody else. If you look at the history of the Australian dollar, it can change 10 cents in any year – and that is done pretty regularly. From that point of view, I guess I am not totally surprised, but still I am not able to predict any better than anybody else. In the back-end of the year – our financial year begins in the beginning of the year – we will be adjusting our forecasts close to whatever it is on the day for both of those currencies going forward. Whether it will go up or down from there, I do not think we know better than anybody else.

On the strengthening of the Rand, I am not as familiar with that. Louis Irvine is our CFO and he is a South African. Louis, would you like to make some comment about the Rand?

Louis Irvine:

The only comment we can really make is that it is more a case of US dollar weakness at the moment. Most of your currencies are currently appreciating against the dollar.

Question:

You do not have any estimates as to how much it might mean in the profitability?

Robert Kirkby:

BHP Billiton has published those numbers; Brian Gilbertson has talked about those numbers. Also, we have put in our presentation the sensitivities from our group, so you can extrapolate it from that.

We should move to South Africa and allow people there to ask questions. If not, there are some questions coming through on the phone.

Question:

I was hoping to ask about Queensland Coal. A couple of years ago we saw big productivity improvements, where a lot of equipment was being parked as the change in work practices came through. I am just wondering whether we will need to have any catch-up in some of that capex as we work through that parked equipment and whether we can look at further efficiencies on the capital expenditure side?

Dave Murray:

In terms of capital replacement, we are pretty much there. There is one fleet that needs to be replaced at Peak Downs and I think all of the fleets around the group are pretty much in their normal cycle. The sort of replacement figure that we need to spin per annum to keep Queensland turning, in the sense of just replacement as they age, is about A$150 million a year, or US$70-odd million. That is the sort of figure we are spending and would anticipate to spend going forward – that is clearly in 100% terms.

We are pretty much up-to-date in terms of increasing stripping capacity required for increasing depth. That was largely the result of the two new fleets we purchased. Will there be ongoing efficiencies? Absolutely, as we get better with the bigger equipment that we have got and with the dragline, there will clearly be productivity improvements. That is probably downside on that expenditure number.

Question:

I have a follow-up question with respect to port and other auxiliary facilities. Do you need to spend money there to ensure reliability your customers and to account for growth, particularly out of the Blackwater expansions?

Dave Murray:

In terms of the port, there are cleverer things we can do, in Hay Point in particular, before we need to spend money. We can reduce the grades, we can reduce the blending that happens at port and therefore increase the throughput capacity – those are the things we will be going after before we contemplate spending more capital. In fact, there is an exercise on the go there at the moment to see how far we can push it without spending capital.

Ultimately, we would have to spend. The next level we could take Hay Point to would probably be in the order of 40-42 million tonnes throughput. That would be the next step up. In the south, in terms of Gladstone, they are considering an expansion right now. We are looking at what it would mean for us and whether we would participate in the expansion. Participation does not mean we would spend any money; we would put up our hand and say we would then have an agreement to

utilise *x* percentage or *x* million tonnes throughput. We are involved in that as well. We are also talking to Queensland Rail to see what there possibility there is for increasing rail volumes in the foreseeable future. All of those things are ongoing.

Question:

With respect to the cost reductions, are the management of BHP Billiton and the employees being incentivised any differently to the past in terms of trying to get those cost reductions to come through?

Robert Kirkby:

I think all of us have had some component of incentivisation attached to reducing costs in recent times. The new parameters for bonuses are being considered at the moment. They will be applicable in the new financial year and there will again be some component of that attached to achieving these cost targets. Whether it will be different to last year or not, I cannot say at this point in time. However, I can say that there will be something there and there has been in the past.

Question:

Just two quick questions. One, just to clarify on HBI. You said you are looking for break-even for the next financial year. Are you talking about break-even by the end of the financial year or break-even for the whole year? Secondly, on China: can you just indicate what sort of growth projections you have for your share there and what sort of growth projections you have for the market? We understand you are currently behind Rio, CVRD and even the Indian producers into China. What sort of strategies do you have for increasing your share there?

Graeme Hunt:

What I said was: in the course of the ramp-up, we clearly will not be in the black in the first half, so we are looking to be hopefully reporting black numbers if not in the third quarter, then in the fourth quarter. For the full year, we would still be expecting – unless the price improves from where it is – to probably report small red numbers for the full year. That really depends on whether we can beat our ramp-up objectives and whether the price in the market is better than what we think it may be at this point in time.

Andrew Offen:

We are currently positioned at around 14% market share in China. You are right: CVRD, or the Brazilians, and the Indians have had some significant growth over the last year or so. That has not been at our expense; we have also actually been creeping our market share up over the last few years. Going forward, we are not looking to rapidly grow our share of that market. The market is growing enough that there is enough potential there for everybody to continue to enjoy some of the benefit of it. We will really be looking to just maintain our share, or creep it a little bit here and there, around the fringes; essentially, stability in terms of share in a growing market.

Robert Kirkby:

Thank you very much.