BHP BILLITON
CARBON STEEL MATERIALS
BRIEFING
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MELBOURNE
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MR NAIRN: Good morning everyone and welcome to the Carbon Steel Materials CSG briefing. I would like to welcome also people joining us in Sydney at the Sydney venue via the video link, and also people joining us on the telephone via the dial in facility, and remind those on the telephone that the presentational material associated with today's briefing is available on our website, that's www.bhpbilliton.com and it's on the investor centre page.

Today's briefing is the second in our series of Customer Sector Group briefings for this year. It follows on from the Aluminium briefing held in April, and today we will be focusing on Carbon Steel Materials.

Just some dates from our investor relations programme going forward. The next event will be the Energy Coal CSG briefing. That will be on the 9th of July and that will be held in Sydney. After that the next event will be the full year results which will be released on the 7th of August, and we will return to Melbourne for that briefing. Just a note that both of those events will start at 6 pm local time to enable us to link those in to centres off-shore. Following that in the second half of the year we will complete our series of CSG briefings with Base Metals in October and Petroleum in November.

But today our focus is on carbon steel materials, so I would like to introduce the President of Carbon Steel Materials, Bob Kirby.

MR KIRKBY: Thanks very much Andrew, and may I also welcome everyone here today. Those in Melbourne where we've got a full house which is pleasing, and in Sydney, and of course the dial in people.

This morning we have with us the whole senior management team, with one exception, Steve Keogh, our HR vice president's not here, but we have be on the dias in Melbourne the team which I would just like to introduce. Andrew Offen, who is the marketing director for our group, and Andrew will be following me in the presentations. Graeme Hunt who many of you know is the president of our Western Australian iron ore business and also has the joy of running our HBI business in Western Australia these days. Dave Murray, Dave's the CEO of the BMA, which is the BHP Billiton Mitsubishi alliance which runs all of our Queensland coal operations these days. They manage also the BHP Billiton Mitsui coal properties as well, so he has responsibility for all of the Queensland coal business. Next to him is Louis Irvine. Louis is the CFO for the group. Then Stefano Giorgini who is the VP of business development for the group. Wayne Isaacs who's the president of our Illawarra coal business. And John Raubenheimer who is the president of our manganese business based in Johannesburg. John is based in Johannesburg, Wayne's based in Port Kembla. Dave's in Brisbane, Graham's in Perth, Andrew's in Singapore, and the rest of us are from Melbourne.

So we've got everyone here today, but not all of them will be presenting as we only have one hour, so there will be four of us presenting, but the others are here to answer questions. So if I could get under way.

Just by way of introduction these are pie charts showing the contribution of the various CSGs, Customer Sector Groups and BHP Billiton's EBIT. And you can see there that these are the nine months year to date for this year, and Carbon Steel Materials is a big contributor to the company's EBIT, right at the end of this nine months we and Petroleum had 30 percent each contribution to EBIT. And those two businesses are the bigger businesses in the group.

We've also highlighted here the geographic distribution of our income sources for the whole of BHP Billiton Group, and it's a global company obviously, diversified, and the carbon steel materials sector similarly, as you've heard we have people based in various countries, and our income comes from various parts of the world.

What's our role in BHP Billiton? Well this business obviously is a big business. I will show you some of the financial numbers and we will talk about the size of this business. But it does offer very significant returns, very attractive returns to the company, and it's a relatively stable profit earner for the group, for BHP Billiton. We have critical mass in the business that we're in, we do get a seat at the table, we do have a good franchise, we're well-known, and as we'll talk about today we do have a very good cost position in all of the segments of the business we're in. Our resource base is of high quality and very long life, and of course this is an important part of being able to operate well and generate good value in returns.

A lot of our effort is also in delivering product to our customers and infrastructure in our business plays an important part in that. For us to be a reliable supplier, to be cost competitive, we need world class infrastructure. We have that, we continue to invest in it, and it's a key part of our task in maintaining our value and our profitability.

The people that we have working at our operations, we have a good experienced group of people running all parts of our businesses. But in the last year or two in particular, with the merger, we've injected a number of new people with new ideas, and we'll talk about some of those aspects today. Particularly you'll see in marketing where we have, we believe, a new initiative that nobody else has really grasped in this business previously, and it's requiring new skills, new capability, and we're bringing new people into that.

The other aspect of our contribution to BHP Billiton is that we can contribute to the growth ambitions of the company. There are value adding growth opportunities in the carbon steel materials sector, particularly in iron ore and coking coal, less so in manganese at this stage, and I will outline some of the efforts that we've got underway to add to the growth ambitions for the company.

Many of you know our position and our assets and our business, and I don't intend to go into this in any great detail, but just to highlight, a lot of these arrows do lead to Australia. Our group is head officed here, I'm here, and many of our people are here. We also have a significant business in South Africa of course, in the manganese - a greater part of our manganese business is in fact generated from South Africa, and we operate in Brazil with the Samarco pellet operation where we're a 50 percent partner with CVRD.

On this slide we've tried to highlight that we have high quality resources, they're long life, and you can see our position in the various sectors. We're the number one seaborne supplier of coking coal in the world, we're the number three seaborne supplier of iron ore in the world.

Our HBI business and our pellet business in South America are very well positioned. Similarly our manganese business, where we're the number one supplier for ore in the world, and of course the Illawarra business which is a niche business supplying the Port Kembla steel works. And this makes up the current portfolio of our businesses.

I have only got one slide in my presentation, because of time, about financials. They are published and I know all of you follow them quarterly. Suffice it to say that we have year to date EBIT at the end of the third quarter was US$831 million compared to last year of US$663 million. So the business is running well this year. You can see that our two big businesses, the Western Australian iron ore business with an EBIT year to date of almost US$400 million, and the Queensland coking coal business with an EBIT of over US$350 million, both running strongly and very big contributors to our profit performance.

Our other businesses are of a smaller scale but nevertheless very important to us; Samarco contributing over US$40 million profit EBIT year to date, the Illawarra coal business over US$55 million year to date, and manganese business in total over US$75 million year to date. So those smaller businesses are still big businesses in their own right, and very important contributors to our effort. The HBI business, still below of the line this year, but Graeme will talk about that. We're making very strong efforts to get that to break even.

So, this particular year our group and the individual components of our business are all performing strongly. I'll just comment on Samarco there below last year's performance. The pellet market has been in over supply and all pellet producers are posting lower returns. I'm Pleased to say that Samarco business is still EBIT positive.

We don't normally publish this material, but capital efficiency, and here we've measured it by EBIT over average capital employed, EBIT ROC, is something we work diligently at ensuring our capital is employed to the best way possible. You can see the returns here are very very healthy for all of our businesses. All of them are well above of the cost of capital for the corporation.

The coal businesses, both of our coal businesses are near 50 percent, over or near 50 percent returns. The iron ore business in the mid-40s, these are very healthy returns and this year particularly so. But throughout the cycle these businesses generate very very good returns.

I will just spend a minute on our strategy and I have asked the people who follow me to concentrate on these three points. But we've built our strategy around three main thrusts. One being a focus on the market, understanding the customer base, understanding what's happening in the segment, in the carbon steel industry, and focusing our efforts on servicing that and understanding the trends and extracting the maximum value we possibly can in that area. Andrew Offen's presentation, who will follow me, will go into that in some detail. We believe that we are one of the leaders in understanding the carbon steel sector, and we certainly hope to build on that in the coming years.

Secondly we do have a strong operating activity, and extracting the maximum value out of our large assets is also a key area for us. Cash generation for the corporation is a key task. We are contributing to Brian Gilbertson's cost reduction activities that he published recently in his strategic framework, and we have a large proportion of effort on operating excellence.

I have asked the business unit heads, Dave Murray and Graeme Hunt, to focus on this aspect during their presentations. It's not the only thing they do, but given the time that we have I've asked them to emphasise the work that's going on there where we believe we are also being very progressive with good results.

Last but not least we use the term prudent growth. There aren't unbridled growth opportunities in this sector, but there are still very good opportunities for value adding for growth, and a number of those we can secure from our existing operating base, and I will talk about this at the end. We have those under way.

Talking about growth, I mean the supply to the carbon steel sector and the steel industry itself isn't going through explosive growth. Everyone knows that. But it's such a big industry that even small percentages of growth result in large absolute numbers. And so we see good opportunities there to add real value to this corporation going forward. And I will cover those at the end of this presentation.

So with that introduction I would now like to hand over to Andrew Offen, who will talk to you about the exciting things I think we're doing in the marketing area.

MR OFFEN: Thank you Bob, and good morning ladies and gentlemen. I would like to cover three main areas in the time I have available today. Firstly a little bit about the background to our view of the steel industry and the structure of the three markets which we operate in as a business. Secondly to talk a little bit about our market position and what's going on in some of those markets. And finally talk about our strategy, what we're trying to achieve as a marketing group over the next period, and how we're going to get there.

As most of you would probably know, us humble marketers could talk the legs off an iron pot, but I am under strict instructions to keep it as brief as possible so I am going to skip fairly quickly through the first two of those subjects and try and spend a little bit of time on the last one.

Firstly, steel industry. The key issue here for us really is that we believe the BOF route for steel making is here to stay. Some time ago there was a lot of talk and a lot of speculation about the inroads that the EAF sector were making into the steel industry, and I think over the last couple of years it's safe to say that the BOF route has really withstood that challenge. It's holding its market share and we believe the future will continue to see that same trend.

World steel production is actually reasonably robust, it's continuing to grow at a healthy rate, and that's particularly true in Asia, and it's even more particularly true in China. And it results in a fairly solid demand profile for our products.

We're also seeing increasingly over the last couple of years efforts for the steel industry to restructure and get their act together. We're strong supporters of that trend because it's vital for us that the steel industry regains some of its pricing power on its product side. A profitable steel industry is a much easier group of people to deal with, and if they can get back to a more profitable situation it will relieve some of the tension that we currently see between suppliers who are making money at the moment, and the customers who aren't, and relieve some of that tension.

Just briefly to look at met coal, I think the key take away out of this slide is the overwhelming position that the BMA (BHP Billiton Mitsubishi Alliance) group has in the metallurgical coal business, particularly at the hard coking coal business. The BMA's over twice the size of its second best competitor, so it really stands alone as the clear market leader in that segment. That delivers with it some obligations but also some opportunities.

The iron ore business is the most consolidated of the businesses we deal in. The top three exporters account for over 70 percent of the total market. That's CVRD at number one, Rio Tinto Group at number two and ourselves coming in there with 16 percent at number three.

The manganese market is probably the most complex that we have to operate in. It's divided really into two separate sectors. There's the consolidated and quite profitable ore market, and then there's the fragmented, very difficult, and quite unprofitable alloy market. Samancor on the ore side is really in the same position as BMA is in metallurgical coal. We're 22 percent of the global ore position, but when you further divide that down into the low grade ore market and the high grade ore market, we actually are 41 percent of the high grade business. So again that puts us into a very strong position of market leadership there and it delivers those same obligations and same opportunities as we have in metallurgical coal.

To talk a little bit about our market position, we will deal really in two key markets; Asia and the Atlantic basin. Asia really is our bread and butter. It's where we do most of our volume and where we generate a significant proportion of our EBIT. We have very strong relationships with customers and a terrific market position across all three businesses in Japan, Korea, and Taiwan, and we also have a growing and exciting market in China where we're seeing iron ore demand grow at a rate of about 20 million tons per annum. Graeme will talk a little bit further about what actions we're taking to capture our share of that growth in China. We've also got an important coal position in India, which escapes a lot of people's attention. But there we have quite high market share, growing volumes and attractive margins.

Just to impress you with our colour coordination these slides are actually colour coodinated. Black is coal, orange is iron ore and grey is manganese.

In the Atlantic basin we've got a large and important metallurgical coal and manganese position, particularly in Europe. As US metallurgical coal exports have declined over the last few years and the JSM have further increased their semi soft usage, the coal position in Europe for us has become increasingly important. In fact, if you look at the trend in the market over the last couple of years, the centre of gravity of the hard coking coal business has really starred to shift from Japan to the Atlantic basin. European mills are very reliant on our low volatile high quality hard coking coal as a core component of blend, and that gives us great volume security and also stability and some significant market strength. As German and East European demand grows, we're also seeing that position get stronger and stronger, and there are some growth opportunities for us there.

We also have a growing coal business in Brazil, and we also, as Bob mentioned, have a position there in Samarco, which delivers iron ore pellets indirectly, because we don't manage that business, it's done independently, but that has a significant volume of iron ore pellets into Europe.

What that - when you agglomerate that position and look at in terms of revenue exposure it comes up with this split: Japan's still obviously the largest market we have at 34 percent, but if you look at the total Asian exposure there it adds up to 60 percent, and that's something we're quite comfortable about because that's really where the majority of the growth is being generated in the steel industry. The remaining 40 percent comes from a broad spread across Europe, Australia, and the Americas. As time goes on we expect the Japanese exposure to slowly shrink and China to increase in importance for us.

So now, turning to the main thing I'd like to cover today, which is our market strategy. After the BHP Billiton merger we undertook quite a fundamental restructuring of our marketing effort. And that caused us to sit back and look at what we're doing and how we're doing it, and really take a fundmentals, bottom up look at our business.

The three areas we believe are important for us to focus on are firstly maximising our long term margin, which really is about extracting the maximum value we can from the market position that we have. That sounds a little bit like a motherhood statement, but I think in the minerals industry we've seen in the past a marketing function that hasn't necessarily kept that in the forefront of their minds. A lot of people become very volume focused and just accept what the market delivers to them in terms of price. That's something that we really want to try and move away from as we get a bit smarter about our business.

Same time as maximising value we really need to be - to balance that off with a need to protect our market position. And that's both in terms of market share, but also perhaps more importantly in terms of influence and pricing power.

And finally we've got to look for those growth opportunities. The key word here though is sustainable. It's important that we resist the temptation to over produce, and show some discipline to protect market prices. Particularly in the coal and manganese business where we're the market leaders. It's tough when you have assets of our quality, but it's really vital that we do exercise that leadership and that discipline. The growth opportunities we have, primarily for iron ore in China, but also coal in Europe and Brazil and India.

How are we going to get there is the real key question for all of us to answer. And the most important for us is really pushing into position of being a pre-eminent supplier to the steel industry. Our ability to extract value from our customers relies on us delivering value back to them. That translates into very rigorous quality management, and it translates into a great emphasis on reliability of supply, and of responsible market leadership.

One of the things that the steel industry values very highly is consistency of quality. In fact, that's probably more important than the absolute quality of the product that you deliver. Most of the steel industry run very complex blending programmes, and for them they can cope with a great variety of different ore types, coal types, alloy types, manganese ore types. And it's more important to them that you actually deliver to them what you say you're going to deliver, rather than that you've got the best hard coking coal in the world or the best quality iron ore in the world, it's that you'll give them what you say you'll give them when you say you'll give it to them, and that's something that the steel industry does value significantly.

The second point is optimising our sales mix to maximise margin. That's really the key to the game. Margin maximisation. We need to aggressively manage that mix to ensure that we're capturing our maximum share of it.

Some examples of what we've done over the last few years in that area are, firstly in coal, where the downturn that we've come out of, '99/2000, we've quite aggressively reduced our position in Europe and Brazil to try and shore up the market price structure there and we moved that tonnage into Japan where margins were better. Now as the market's moved into the next up cycle and the European dynamic has changed, we're pulling those tonnes out of Asia and we're putting them back into Europe. Again with the attempt to put a floor under the Japanese price and to maximise our margins in the higher margin market.

The result of that has been average prices which are probably higher than the market average, and also we've been able to manage the price structure of those markets much more effectively.

Second example would be in our product mix in iron ore we've introduced over the last number of years Yandi to meet the Japanese requirement for high value lower cost ore. MAC is the next step in that, Mining Area C is the next step in that programme. And we're now also moving to increase our iron grade, our Fe grade in the Newman product to better match the demand of the Chinese buyers. Particularly to compete inland and replace domestic low grade Chinese ore.

On the coal side we've made a major effort with South Walker Creek to provide the mills with a low volatile high value PCI product, and we've expanded the Blackwater project which again aimed at Japan the same way Yandi and MAC has been.

The final three points there really are all about us becoming smarter art what we do. Improving industry structure means showing market leadership in the markets we're leaders in and not flooding the world with cheap product. In other words, showing the way to our industry.

And finally the last point there is all about being more commercial and nimble than we have been in the past. As I said before, marketing in the mining game hasn't been the most innovative of disciplines. We're really trying to focus on learning some of the skills that our other businesses have, risk management, credit management, financial systems, and there's a lot of effort going on in that area. In fact, we've just sent three of our key marketers to a course to learn about the price risk management techniques that are used in the energy business and the petroleum business. Whether that's directly transferable to our businesses at the moment is questionable, but we're starting to really look hard at those things and think about them.

One of the major changes we've gone through since the merger is on the marketing model. Previously we used to run three separate businesses with three separate marketing groups. We had coal based in Brisbane, iron ore based in Perth, and the manganese was based in The Hague. Since the merger and the formation of the carbon steel business we've brought all of those teams together in Singapore. I'll talk a little bit more about what benefits that we anticipate and we're working to deliver out of that move.

We also have a range of well resourced regional offices with local staff who speak the language of the customers, who live with the customers, who understand their business, understand their needs, and really work hard at really being the customer's friend. We're making a lot of effort now to actually beef up that capability. In Tokyo for example we have ten Japanese speaking ex-pats and locals who market our products to the Japanese steel industry.

In Shanghai we've over the last number of years moved from one individual marketing out of Hong Kong into a staff now of 20 based in Shanghai. We've got a sales team of Chinese nationals. We've got a technical support team, we've got a market research team, and we're now bringing logistical expertise and some risk management, particularly credit risk management expertise into that office. We're establishing a local legal entity there so we'll be able to operate in country and do things like operating consignment stocks and that sort of thing.

So there's a major effort in making these regional offices more than just post boxes. They're actually capable stand alone operating groups in their own right. This model really is quite unique in the industry, and it runs the right balance between being sensitive to the customer as I said before being their friend, and the rigour that we need back in the hub in Singapore to ensure that we get the maximum value capture out of our business and our of our market.

Just to talk a little bit about carbon steel materials and what makes the CSM grouping different. In other words why it's better than having three separate businesses operating in three separate offices. The first really is in the area of a customer. The commonality that these three businesses have is that their end user is the same end user. And we interact, interacting across all three businesses really means that you get to know the customer better and understand their needs and their drivers better. And that's all about understanding what they value. As I said before, the key to unlocking value for us is delivering value to them, and having access to all three sources of knowledge really helps you achieve that goal.

Second is our ability to position in the market. We interact with basically everybody on the customer side. We know what's going on, we know where we can push and where we have to back off. And again unlocking the value that's inherent in that position, that leverage position really is something quite significant.

We also are in a better position, we believe, to understand where the steel industry's going. This is a longer-term issue, consolidation, different product usage trends, all things that we need to understand well ahead of the event actually occurring so that we can position ourselves to again continue to extract value from those moves.

And finally we have the ability to really swap the best practices from each of those groups across them. At the Singapore office we've made a conscious decision to make it open office plan, the iron ore guys sit next to the coal guys who sit next to the manganese guy. The iron ore negotiator from Japan comes back and he meets the coal negotiator at the office coffee machine we have in the office. We've got that area set up so there's a whiteboard next to it, a couple of chairs there, and it's surprising how effective that is in getting people to intermix and intermingle and swap war stories, and that's really where a lot of that information transfer takes place, around that coffee machine. Being located in that environment in that space in the one place is a key to doing that, to achieving that.

We also now through the grouping of these three businesses have the scale that we need to build up a significantly enhanced technical marketing support. As I said, understanding your customer and understanding the value that your products deliver to that customer are really key to extracting your own value for your product. And post the BHP Steel spin out in particular we will be putting a lot of effort into maintaining and building that technical capability that we have.

The global spread of operations and offices I've talked about.

We're also looking to go increasingly direct to our customers. That's all about squeezing out the agents and the middle men from our business and extracting as I say again, repeating myself I know, but it shows you the emphasis we are placing is extracting the maximum value out of the piece of business that we can. Example of that is just recently in the manganese business we used to have an agent who stood between us and Corus. We've just terminated that agency agreement and we'll be doing our business directly with Corus in manganese as we already do with iron ore and coal. And that example's being moved across all of our businesses. Where we go, wherever possible, wherever we can, we go direct.

And finally we've got the world's largest freight book. We have a separate freight and logistics optimisation team based The Hague. All of the charterers for all of our various customer sector groups sit together around one table. The total is about 80 million tons of bulk movement, and there's a significant effort being placed on extracting the maximum value and the maximum synergy out of that that we can as well.

So in summary I think the message I'd like to get across to everybody is that in terms of the background, the basics, we've got a solid demand profile in a sector, the blast furnace route for steel making that's here to stay, and we have a particularly high exposure to Asia where we're seeing the growth. We've got a very strong market position that delivers us a superior position in terms of market knowledge and ability to understand our customers, to meet their needs and to extract the value from that position. And we've got some exciting and sustainable growth opportunities in both coal and iron ore as the steel industry gross and we can substitute particularly for domestic production in both China and Europe for coal. And we've a unique platform in our CSM grouping to capture the value from those positions.

So I'm not sure if I've run over time or not, but I would like to now ask Graeme Hunt to come along and talk about our West Australian iron ore business.

MR HUNT: Well good morning. My task is really to build on the themes of both Bob and Andrew's introduction with respect to our Western Australian operations. What I'd like to put particular emphasis on are a couple of things. Firstly how we're leveraging our resource position, particularly in the context of the changes in the market dynamics that we're seeing. Secondly, spend probably the majority of my time on the efforts and results we're getting in improving our efficiency through the application of operating excellence, and then, thirdly, to give you a brief update on our growth projects.

The location of our operations I think is well-known to most of you in the north west of Western Australia. The mining operations in the bottom of that slide are centred around the Newman area with our Newman joint venture and Yandi joint venture - between the two of them producing around about 65 million tons of ore which is railed down our owned and operated railway between Newman and Headland. And in addition to that we've got the Goldsworthy joint venture operations with mines in the Yarrie/Nimingarra area producing about 7 million tons down that railway line to Port Headland as well. So the shipping out at Port Headland is certainly one of the biggest bulk handling terminal volume anywhere in the world.

The background to operation, again I think this is well-known to most of you, the main points that I would like to make out of this slide are that we have had sustained operations and growth in sales over a number of decades. Part of that growth has been driven by the introduction of new products, particularly the Yandi project which has gone from zero to over 200 million tons shipped in a decade. We're now adding further value to that project with introduction of a lump product. We've shipped over two and a half million tonnes on a trial basis, but have just commissioned in the last few weeks a more permanent facility which will allow us to ship 4 million tonnes of lump on a sustained basis. That project came in ahead of time and under budget.

With respect to the resources I think the key point here is not only the depth but the breadth of our resource base, and the ability that that gives us to be able to provide the kind of solutions in iron units that our customers are looking for. Our resource position is clearly the premier position in Australia and certainly gives us that flexibility to meet the customer needs going forward, and I will touch on that a little further in terms of how that relates to the different customer requirements that we're seeing in the developed markets of Japan, Korea and Taiwan, as it compares to China as the main growth market.

All of that, as Bob said earlier, is underpinned by very key infrastructure. The efficiency of which is world class already but we're not satisfied with that and we're certainly moving forward to ensure that the effectiveness and the efficiency of that infrastructure improves as we're going forward.

With respect to our position on the cost curve, we're certainly at the right end of that, although we're not totally satisfied with where we are and we're using the OE approach to try and drive our position further towards the left-hand side of the curve. We will have a natural shift in that direction with the closure of our Goldsworthy operations in 2005, and we expect that that tonnage will be taken up by a mix of primarily MAC product, but also as a general spread of our other products which will move us further down the cost curve.

The real key to how we intend to move forward with respect to improving efficiency of operations is what we're calling operating excellence. Operating excellence focuses obviously on costs, it focuses on productivity and it focuses on efficiency, including capital efficiency improvement.

Productivity is obviously critically important in this kind of operation and this slide shows the quite I guess large changes that have occurred with respect to reduction in both employee numbers and productivity over the last five years. Significant reductions in people involved in the business, and at the same time the volume has increased. So we've had a double positive effect anymore terms of productivity.

The chart there for year to date 2002 shows a small increase. That doesn't relate to the people actually involved in the operating part of the business, if you like, it relates to those that have been involved in the owners team work on the capital expansion projects. I would expect that we will actually see further reductions in people in our business as the improvements in flexibility that we're getting out of our working arrangements and through operating excellence continue to stick, and so I would expect that we'll have less people in the business and in this forthcoming budget year than we have now.

A specific benefit that we're actually seeing out of this improved productivity and the improvements in the way that we're working is one related to our Whaleback operations. We've just gone through the process of expanding our tailings dams on the back of an expansion of our bene plant. In the past that we would have done that sort of work with a contractor. Given the improvements in the productivity that we have he seen at the site, both in terms of people, but also in the efficiency of the use of our equipment, we're actually able to do that job in house. The cost of doing it in house is 50 percent of what it traditionally would have been doing it outside. So the difference is a saving of about A$400,000.

There are many examples like that that we are now getting across our business where the improvements in productivity that we are making are getting a secondary benefit, if you like, not just the primary benefit of having less people and less equipment involved in the business.

So operating excellence is all about improvement. It's a myriad of approaches, it includes the six sigma approach which is well-known, particularly in the manufacturing industries, but it also includes things like networking, benchmarking, performance management, and other business improvement techniques that are obviously well-known and available.

In our business we identified 90 improvement focus areas for this financial year about to complete. About 40 percent of those have come to completion. The rest are still in the pipeline. And we've just in the last month or two identified 60 more focus areas that we want to work on over the next 12 months. All of those things focus on things like cost, productivity efficiency, but also from a triple bottom line perspective, looking at improving our health, safety, and community performance.

If I could move on and talk about perhaps one of the most striking examples of what we've been able to achieve with operating excellence is our ship loading rate at Nelson Point. This is the rate which we can put ore on to a ship. It's the average rate from the first ore on to a ship to the last ore on to a ship, including total time, so there's nothing taken out of this, so this is really the most fundamental measure of how effectively we are delivering ore to our customers.

Over the last two years we've been able to improve our performance 20 percent each year. And that has been sustained and we're now operating at above our name plate capacity as a result of the improvements we have made in this area. The benefits that we've seen are obviously better utilitsation of our equipment, and costs, and better ship turn around time which improves our relationship with our customers, and has given us a demurrage saving of about $10 million Australian year to date compared to where we were last year at slightly higher volumes.

This is, if you like, free capacity. Perhaps initially it was capacity that we had invested in that we weren't fully utilising, I think now we've gone beyond certainly the name plate capacity. We're really getting more out of the business, and by focusing on these kind of bottle necks it really makes a huge difference to the efficiency of the business overall.

But if we could roll the first video now. This gives you, for those of you who might not have been to Nelson Point, it's an overview of the facilities. What we really focused on in getting this improvement was a myriad of projects, looking for example at the optimisation of the digging, of the reclaiming equipment, the uptime of our conveyors, the average amount of material on the conveyors, and looking at the hatch time delays on each ship.

So to achieve that outcome was not one project, it was a myriad of projects which in fact started at the mine in terms of the handability of the ore and getting the moisture content right. So by focusing on a more integrated approach to the way we run our operations, we're actually able to improve the outcomes at the bottle neck which was at the ship loading.

Another example of where we've been able to improve our efficiency relates to fuel consumption in our locos. Over the last 12 months we've achieved more than 20 percent improvement in fuel efficiency of the locos. This is a good example of where we've been able to use technology by being able to get in many cases real time information about fuel consumption on the loco during the trip from Newman to Headland, feeding that back to the drivers, developing driver strategies, and then using that in a context of performance management to ensure that the performance of each individual, as well as the performance of the system, improves over time.

We're using similar strategies in mining by using the high resolution GPS equipment at Newman to provide information on shovel efficiency, truck efficiency, and the like, and feeding that back on a shift basis to each of the working teams and each individual so that they can continue to improve their performance against themselves and against their peers. And that be kind of healthy competition is really helping to drive the business forward.

If we can roll the next piece of video. I think many of you would be aware that our railway system already benchmarks as the best in the world, but we're not satisfied with that. About 12 months ago tomorrow we ran an experimental train which was the longest heaviest train ever to run. More than seven kilometres in length and over 100,000 tons, the train allowed us to test the weak points in the system. It allowed us to confirm the technology and test where the problems where.

We found some problems, which is really what we were about. In fact if you look at the total running time ten hours four minutes is not our personal best getting between Newman and Headland. We got to the top of the hill and the weak link in the system was, as it always is, the simplest thing, one coupling on one car. So we had a little bit of a rest at the top of the hill, fixed it, and moved on.

But the learnings out of that has allowed us to run consistently trains of half of this length every day. It allowed us to understand what we needed to do to improve problems in the system, and that has allowed us to run productivity improvements of better than a third out of the size of the trains that are running now compared to where we were just a few years ago.

So I think this is good example of the focus we've got on getting the maximum value out of the capital that we spend. Also getting the maximum out of our people by getting them the information that they need in order to determine when they are making a better contribution than we were in the past. I think it's also important that are it demonstrates that we're not satisfied when we already benchmark as best in the world. It's critical in these kind of businesses that we keep improving, and so the fact that you are already world's best is no excuse for sitting back and resting.

I would like to move on now and talk about future growth. We have embedded growth options with incremental expansion opportunities at both our Newman and Yandi mines. We believe that Newman products will be in higher demand in the future, particularly driven out of China. We have seen increasing demand for hematite ores into China over the last couple of years and I think it's well-known the amount of extraordinary growth that's occurred in that market, and I think there was some articles even in this morning's press about that.

To assist that we've increased the Fe grade of our Newman products over the last six months from about 63.3% Fe in our fines to over 64 percent. We think that will help position us well in that market place, and particularly to help drive the substitution of local Chinese domestic ores by our imported product.

With respect to the growth in high value end use products we see these as a win/win where they are lower cost to produce for us, but they are also lower cost for the customer. There's been high demand for the Yandi product in that context over the last decade. The introduction of Yandi lump is another example of that, and the bringing on of our MAC lump and fines product are also consistent with that approach. And alongside that have we obviously need the capacity to meet the future demand the expansion of our port and rail deliveries through our pace project is a part of that.

I would just like to give you a quick update as to where we are with our Mining Area C project. This project was announced in April. This slide shows the MAC site. In the centre of the slide is the bulk sample pit. There's been over 5 million tonnes of material now removed from that pit to produce a representative sample for our customers. We have thought it was critical that we got a sample that really was indicative of the life of the mine and not just what you get when you take the over burden off and scrape away some of the surface ore.

The first of that product has reached our joint venture partner POSCO in Korea. The transport of the material went very well and the customer is very happy with it. It will be the subject of technical trials in the coming weeks. That material was first of the new generation Marra Mamba ores actually into the market.

There's a bit more detail here about the Mining Area C project. I think this was covered in the release we put in April so I won't dwell on it. I think the key points are that the first shipments are now gone. We are still well and truly on target for it to be in production before the end of 2003 calendar year. While the capacity is 15 million tonnes nominal, there is certainly the foundation to expand that more quickly if the market demands. And the POSMAC JV is a very important part of this project with the relationship with POSCO as our biggest single customer for both carbon steel materials but also obviously iron ore with the 3 million tonne per annum offtake longterm arrangement being a critical part of the development of this project, as will the technical knowledge we will get back from that association with respect to value and use of this ore.

The expansion of our port is also a key part of ensuring that we have sufficient capacity moving forward. Effectively what we're doing here is an effectively a greenfields expansion on the Finucane Island site. Of the light grey part in the centre of the slide there is the existing Goldsworthy operations on Finucane Island. They will close down in 2005. The blue colour is the PACE expansion, so it's effectively a greenfields expansion behind the existing Finucane Island operation.

The advantage of that is that we will be able to do it without interruption of our existing operation. We will be able to utilise available land which is there, and we will be in a position where we can build very easily off that capacity to take us beyond the 80 million tonne type level through to the 90 million tonne and beyond that if the market demand is there going forward.

Just finally a few words on Boodarie, and there's always more than a few words on Boodarie. This is obviously a shot of the plant. Where we were through into the third quarter is that there was good market demand and acceptance for our product, particularly in China, and in fact the relationships we've developed in China with HBI are opening further doors for us for iron ore and potentially other carbon steel material products into China.

The plant was ramping up on target and the core process was working and we were operating at the 1.8 million tonne a year type of rate, around just beyond the middle of the year. Unfortunately as it's been well reported we have had problems in an ancillary part of the plant, in the gas heating furnaces which bring the reducting gas up to temperature. The problem there is a simple one in terms of failure in some of the heating tubes in those furnaces. We're in the process of rectifying those tubes at the moment in all the furnaces, and we will be starting up the plant next month and ramping up through the first quarter.

Perhaps if I could just summarise where I see our businesses in Western Australia are, particularly the iron ore business. We've had a very strong focus on improving performance. We've got now methodologies to underpin that and they're delivering, but we still see that there's a huge amount of potential left, so I think that our ability to continue to meet efficiency improvement and cost targets that have been set by the corporation, there is plenty of fuel in the tank just yet.

We see that we can grow our business with the market, we're well positioned to meet the changing demands from the customers, but that for higher value in use ores in our traditional markets, or easier to use ores, particularly Newman hematite blend in the Chinese market, and we're working hard on ensuring that we get our fair share of the market growth in those areas going forward. A key part of that is making sure that we've got the capacity to underpin that opportunity and the investments that we're making in capacity will ensure that we're in a about good position to do that.

So I think that we're certainly well positioned moving forward, we've still got a lot of opportunity and hard work before us, but we're certainly on the right track.

I would now like to hand over to Dave Murray who is the CEO of BMA.

MR MURRAY: Graeme, thank you very much. And from my side welcome to the presentation this morning. I will try and stick to my ten minutes. But clearly in ten minutes I can't give you a huge insight, I can't give you detail, but I will try to give you some insights into some cost initiatives and some projects that we are looking at.

As I'm sure you all know coke is a critical ingredient to the steel making process, and as Andrew intimated or suggested we expect that to remain so going forward. Good coke not only allows for the production of good iron, buts it also allows for the high efficiency in blast furnaces. And as steel producers increase the efficiencies, so they will look towards better quality coke on an ongoing basis. Good coke has certain physical and chemical qualities which are essential to good iron making, but one of the most important of those is in fact coke strength. Strong coke, strong porous coke allows you to carry the load in the furnace, and therefore allows increased efficiencies.

Now every steel producer around the world has its own concoction, its own recipe to make coke, blending various coals to make the strong coke. But there's one common denominator in virtually every mix that's made, and that's what we call hard coking coal. Now unlike thermal coal and to some extent unlike weak coking coal, the world is not blessed with a myriad of regions around the world where hard coking coal is found. In fact there are only three regions.

The first being the United States, and production out of the United States has decreased over recent years, depletion of reserves, the economic competitiveness of mining it, and of course the energy market in the States. Second, Canada, a very important player in the hard coking coal market producing a very good quality coal as well. And the third place of course is the Bowen Basin, central Queensland, Australia.

Central Queensland, the Bowen Basin is, I must have said this on many occasions, is to the coking coal business what Saudi Arabia is to the oil business. It is absolutely essential both from a volume point of view as well as from a quality point of view, essential in the coking coal and steel making world. The world could not do without the product from the Bowen Basin.

BHP Billiton is lucky to be part and to have participate in assets in the Bowen Basin. Not only are they part of the Bowen Basin, but in fact the assets which they participate in constitute some 63 percent of the output from the Bowen Basin.

BHP Billiton's assets in Bowen Basin are held in basically two entities. The first entity ranging from Hay Point in the north, a wholly owned terminal with a throughput of about 34 million tonnes. We also throughput through Dalrymple Bay nextdoor, and through Gladstone in the south, but really the high point to the organisation as such is that it's ours, we can blend, we can play with stockpiles which most of our competitors don't have that option for because they go through multi user ports.

Then the other assets, Goonyella, Peak Downs, Saraji, Norwich Park, all really household names in the coking coal business, all of those are very large open cost operations. We have Gregory which is a smaller open cost operation, and then the only under ground operation which we have, a long wall operation, being Crinum producing some 4 million tonnes per annum. And then right in the south we have Blackwater, which is a recently expanded mine that's output is now some 14 million tonnes, one of the largest operations certainly in Australia. It's just recently completed or virtually completed its expansion, but it's more, it's product's more in the weaker coking coal and the thermal coal market.

Now all of those assets are held in what is termed the BHP Billiton Mitsubishi alliance. It's a global alliance formed in July last year in which BHP Billiton owned 50 percent and Mitsubishi owned 50 percent. The governance of the alliance is through what we call the Owners' Council which is essentially a board of which both parties have representation. In the BMA alliance we have two joint ventures, some of these names might be familiar to you, the CQCA joint venture and the Gregory joint venture.

Then we, as Andrew's spoken about at length we have marketing, but we have marketing both in Brisbane, which really looks after domestic sales, we do supply some coal to Stanwell Power Station, and then the Singapore office looks after all the export sales.

The second entity where BHP Billiton has an interest is in the BHP Mitsui business. Essentially the two green assets there, South Walker Creek, again a recently expanded mine, a new drag line was introduced there, we've just put in a new rail loop, and that's been expanded. Essentially that's in the PCI market, low volatile PCI and thermal market.

Then Riverside which is really a mine adjacent to Goonyella. In fact, it's under the same management and both of those mines are managed in the one entity. That's held in joint venture 80 percent Billiton and Mitsui owning 20 percent, but again the marketing of that joint venture done through the Singapore office. The Singapore office also looks after Illawarra coal exports.

So really all the metallurgical coal marketing of BHP Billiton is done through one entity. We do use energy coal marketing capability to market some of our thermal coals, the BHP Billiton energy coal marketing team.

I'm not going into a lot of detail in terms of key statistics. I think it's suffice it to say that our products from the Bowen Basin cover all three coal types, hard coking coal, which has grown substantially over last decade or so from 25 million tonnes up to 35 million tonnes, weak coking coal, a smaller proportion of our output but nevertheless grown. The expansion of Blackwater has contributed largely to that growth. And then thermal coal, a much much smaller component of our business, it's not really our prime business, but it's more as a bi-product of the coking coal. But again that's grown significantly. So overall the business has grown quite significantly in ten years from 32 million tonnes up to 50 million tonnes.

But in the same time the employees, the number of people employed at those operations has decreased substantially from over 8,000 down to about 3,000 as we've introduced new technology and efficiency.

Reserves I think suffice it to say that certainly in the mines we operate we have sufficient reserves to see those mines through for many many years ahead. That's not an issue, and in fact if that wasn't good enough we do have undeveloped reserves which we can bring to book if we so desire.

Equipment, I'm not going to go into detail here. I think it's suffice it to say that the assets in the Bowen Basin are big. Very big. Some of the biggest operations in the world employing some of the newest technologies in the world. The important number there I think is 33 drag lines which I will return to a little bit later.

In terms of costs, again suffice it to say that virtually all the operations in Bowen Basin are in the bottom end of the cost curve with the Canadians occupying the middle part of the cost curve and the Americans the top end of the cost curve. The position on the cost curve is there for a number of reasons. I think we were blessed with accessible reserves, reasonably high quality reserves giving reasonably high yields, open cast, but if we didn't look after them we wouldn't stay in that part of the cost curve so we really are, like Graeme in Western Australia and elsewhere in BHP Billiton, really are focusing on productivity improvements. We have a recently introduced state of the art shovels, three of them, two at Goonyella, one at Blackwater, we have new trucks, really state of the art about to be introduced, a myriad of control systems using GPS and others. All of that is helping keep us in that part of the cost curve.

But what we really look for are some quantum leaps. And from time to time we do I wouldn't say stumble across, because there's a lot of hard work that's gone into this one, but what's very exciting out there at the moment is a new technology on what we call the universal drag line. And why it's important to try and find improved productivity for drag line, it's really the multiplier effect. We have 32 drag lines out there and it is the cheapest way we have of moving over burden to access coal. So 70 percent of our waste material is moved using drag lines. 330 million cubic metres per annum. So any small improvement that we can find to improve drag line efficiency will have a huge multiplying effect.

Universal drag line has a number of components, or the benefits has a number of components to it. Now I'm going to show you a clip, and you will see in the initial part of the clip we will see a standard drag line, bucket, and you will see there's a lot of jewellery as we call it around the bucket, dead weight, a huge spreader bar, lots of chains, and all of that is dead weight which the drag line moves to and fro without actually getting any benefit for it. Let's roll the clip and you can have a look at that. You can see the spreader bar, we have the big arch in the front, spreader bar, huge chains, all of that adds 10 tonnes, some buckets even higher, 15 tonnes to the bucket which we just move around and get no benefit for it.

The new design UDD has changed, it might not be entirely clear to you but you can see from that there's far less steel at the end, we now have two suspending ropes, so it gives more manoeuvrability to that bucket. Just that on its own means that every time a drag lines swings we can put ten more tonnes of dirt in the bucket rather than moving steel around the place.

There are other benefits to the drag line which haven't fully been understood yet. It can dig in any position, the older drag line had limitations, or older configuration had limitations as to where it could dig. It can dump in virtually any position. Interesting concept which came up recently is in fact instead of dumping forward you would be able to tilt the bucket backwards so you can increase your dump radius. We suspect, we don't fully understand this, but we suspect we can change cut configuration, we will be able to dig deeper, we will be able to dump higher.

All in all we think we could get 20 percent improvement per drag line. Now 20 percent improvement per drag line has a huge impact. You can value it any way you want to. The first way you can simply say that equates to six drag lines so we can go park up six drag lines. That's probably the least beneficial. We could park up prestrip equipment, more expensive prestrip and use more drag lines, or we could produce more coal. But all in all it's really a step change in productivity, and we believe that this reasonably simple, although the electronics behind it is quite complex, but the reasonably simple modification has given us are the equivalent the stripping capacity equivalent to a new big mine. But the trick is that's at about at least a third of the price, or at worst a third of the price. Huge huge improvement that can be brought about by this piece of technology.

The second is OE, and like Graeme we have similar teams, we have many many projects around the place, and I'm not going into detail. But there's one aspect which I think is missed in the OE programmes as they are applied around the group, and that is the fact that it is broad based, it is everybody in the business is focusing on how they can improve their role at the play and improve productivity. It's broadbase and therefore people feel involved, they feel attached, and they feel committed and enthusiastic about improvement.

I think the reasonably modest numbers that one sees or certainly in OE in Queensland coal is $10 million which would accrue to BHP Billiton, that's really conservative. That's the hardware side of the business. The real soft issue, getting people involved, is I think of just as greater benefit.

Future projects, I'm just going to highlight two; the first one being the Goonyella Underground. This is probably one of the most exciting projects that I've come across in a long time. Really efficient use of capital. Because we're taking an area which has already got a high wall at Goonyella, the area is thought, or is known to be not as economic as other areas at Goonyella to mine, so it's really a dormant area, and we are taking a long wall which is now a redundant long wall out of Kenmere which was in south Blackwater which otherwise would be sold for marginal benefit to other people or use the elsewhere, when we are combining these two at reasonably low capital cost. I don't know what the capital will end up being, but in a hundred percent terms, probably somewhere between US$35 and US$40 million, meaning the BHP Billiton share in order of US$20 million, that sort of number. We haven't finished the feasibility study yet.

But that gives us a number of options. We can either take this cheaper coal and displace some more expensive coal in the group. We could use this as growth, we could use this as on tap, if the market wants coal at short notice we could introduce it. And in fact because it's that capital efficient we could use it as almost a stand by to guarantee supply to our customers. Should we have a problem at another mine this could be a stand by to supply coal from Goonyella.

Then the other interesting part about Goonyella Underground is that we will have and do have many many kilometres of open high wall which are available to now, and to test, if you like, punch mining, long wall punch mining, in a very capital efficient way will give us a whole lot of insight into the possibility of punch mining elsewhere in the long walls down there. And as the mines get deeper, maybe punch wall mining and long wall mining will become a real option going forward. I think a very very exciting project.

The second one being Comet, and I'm not going to go into detail there, suffice it to say that we've joined two mines, South Blackwater and Blackwater. Both of them had their own infrastructure, the idea here is to really put the processing plant in between, improve the technology of the plant and give us the ability to produce a greater range of qualities. That's more a longer term project. We're in the process of pre-feasibility now, I guess a decision to take it into feasibility could be made either later this year or early next year.

All in all I think BMA and Mitsui JVs offer good value. We have a product which undoubtedly is going to be in demand going forward, we have some great ideas in costs, and I think some very interesting projects going forward. I will hand back to Bob.

MR KIRKBY: Thank you. We are well and truly late, so I'm going to have it skate through the rest of these, which is not to demean their importance to us but we need to get to question time, I suspect.

So if I could just quickly run through the Illawarra operations, 7 million tonne a year sales, all underground operations, and we're consolidating our position here, reducing the number of operations, increasing the scale of them, and Wayne Isaacs down the end is leading this charge. We have closed the Cordeaux mine last year, the Tower mine will close this year, and we are building a new Dendrobium mine, so eventually we will end up with three larger operations, more efficient operations.

This business is quite overlooked in our portfolio, I feel. People concentrate on our activities in Queensland. But this is an important part of our business. We've just signed a 30 year contract with the Port Kembla Steelworks because BHP Steel being spun out of course, a 30 year contract for volume, there will be annual price reopeners and the price will be based on an international price for a basket of goods. But that's an important part of the business to us.

The great advantage of the Illawarra operations are their proximity to the coast, and we are working actively to get their cost down to the same as Queensland. They're underground mines at the moment but we see good opportunities for this to become a very efficient operation and increase the prospects for further exports as well as its domestic supply.

The other aspect of this business is that we are building the Dendrobium mine. That's on budget, on schedule, will be in full long wall production in 2005. There will be coal coming out of there from the road heading tunneling operation, development operations well before that.

Quickly on to manganese, also a very important part of our business, and John Raubenheimer is here. I suspect in this group of people this is probably the one that people haven't been exposed to as much as some of the other businesses we've talked about. It's an important part of our business. Three and a half million tonnes of ore, and as Andrew said there's the ore part of the business where we make our money. Just over two million tonnes of that is mined in South Africa, just over one and a half million tonnes of that mined on Groote Eylandt in the Northern Territory, and then we have our processing facilities similarly about 650,000 tonnes a year of alloy, 400,000 tonnes in round terms coming from South Africa and the make up coming out of Temco in Tasmania.

I've put in here the cost curves and similarly you can see our operations in the bottom part of the cost curve there before a steep rise. This doesn't show it, but there is a quality differential, and our ore, as Andrew mentioned, is in the high quality range.

These are our high carbon ferro manganese plants, Metalloys in South Africa right down the bottom of the cost curve and Temco in Tasmania also there. We've just used it as representative. The majority of our output of course is high carbon for our manganese, but they're currently positioned on the bottom end of the cost curve.

Like the other businesses, we don't have time to go into this, but there's a very strong programme to improve productivity and reduce costs this these. The OE programme, the operating excellence programme is underway, but also in South Africa we're having a really hard look at that to improve productivity, and there's a lot of hard work gone there to reduce numbers and bring it up to an international standard. That work on ongoing and we will continue to improve our position. Particularly in the alloying facilities in South Africa.

The last but not least assets in our portfolio is our Samarco participation, 50/50 percent participation in the iron ore operations, specifically the pellet operations in Brazil. Here we have a unique position. We have a pipeline which connects the mines to our port facilities that all the other operations in that part of the world move their material by railroad, and we have a very substantial cost advantage over those other operations by our unique pipeline operations.

In the last two years of course the pellet market has been in over supply and we have had one of our plants shut down for a period of time in the last year. That situation is now turning around. The pellet market's picking up. We have an opportunity here for a very low cost expansion of that plant. We can lift it from 12 million tonnes to 14 million tonnes for a very low cost expansion at the pellet plant.

Just quickly, this is the graph you can see that the Samarco operation's very very competitive and it's a very well run business, and we're more than pleased to the part of it. In fact if we had the opportunity I'd like more of it, but that hasn't been possible.

So if I could just quickly wrap up, we've spent a lot of time talking about cost, and I did this in response to the feedback we got from the market about our willingness and our desire to continue to improve. I hope we've given you an understanding of the effort that's going on, particularly in this CSG, to manage this business, to remain competitive, and the ways that we're going about it.

Here, for history's sake and just to demonstrate, we have been able to exceed the two percent real cost reduction target over of the last ten and last five years in both our iron ore and our met coal business. With the sort of activities that we have underway at the moment, I'm sure that we can continue that trend. And I hope we've been able to convey that to you and I hope the people that have been on the field trips associated with this activity also get the impression that there is a very focused effort to continue to improve our costs, to continue to improve our efficiency in all of our businesses.

I drew up this slide because I think that a lot of people talk about reducing costs and they have a very simplistic view of how that's actually achieved. A number of people talk to me about getting hard nosed and being like another competitor and so on. There's far more to it to get sustainable cost reductions in your operations and in your businesses. We use all of these levers, and we've tried to explain some of them to you today, to maintain a focus on improving our efficiency and improving our costs. We want to do it in a sustainable way. Everyone can undertake some avoidance activities and I've written them down there down the bottom, you can get short term impacts, but in the long term you must be doing the things in the top part of that graph.

The thing that we don't do, and we won't do, and we hope this differentiates us from the others is the bottom one, where people increase volumes, or pump tonnes as I've called it, and of course yes it does reduce your costs, but what does it to do to your market place? And we've been quite disciplined in this and we will continue to do it. I'm happy to answer any questions on that if people need some further explanation.

For completeness we've put in here our sensitivities to the two main commodities that we're involved in, the Australian dollars and the South African rand. Both of those are moving around as you know, and have a very significant impact on our competitiveness and on our results, the way we currently report.

Last but not least I would just like to spend a little time on growth. We do have a target for our team here to improve the value of our business by over a billion US dollars by 2005. We want to do that in a sustainable way, we need to do it prudently. The projects that we've announced recently over the last nine months or so, and you've heard about them here, will deliver half of that, we believe. We are working and Stefano Giorgini is our development VP, working on a number of other projects. We're very selective, we believe that there are things that we can do to reach that target.

There's quite a lot of effort which we haven't really covered here today because I needed to cover these other points, but there's a lot of effort in our group to sift through ideas, come up with value adding projects, and of course run them through the rigorous system that BHP Billiton has for screening these projects. But we believe that we have identified a number that we're working on, and at the appropriate time we will unveil then.

So if maybe I could just conclude, what have we tried to do here today? We've tried to give you an overview of a very very big business, and we've overrun time, and even then it's been a bit of a skate. We haven't been able to cover everything.

But I particularly wanted to talk about our marketing initiatives. It is new for the industry, we are trying something new, we believe that in the long run will differentiate us. We're the only company that can put these whole suite of materials together. It helps us understand the business better. We aren't selling commodities in this game, they are performance products. You talk about value in use. We believe this model that we've got will give us a long term advantage in that area, and there are new things and new initiatives under way.

We have a great assets base and I've deliberately asked the business unit presidents to talk about the ways we're doing today and continuing to exploit further value out of that asset base which will be around for a long period of time and for which we can extract a lot of value for the shareholders.

We've talked about operating excellence, that's a programme which we started developing about three years ago in the old BHP group. Billiton had a similar initiative. We've sort of unveiled it now because it is really starting to bite. The way I describe our operating excellence programmes is like looking up at the sky, you see the milky way. It's not the bright stars, there's not one or two things that you can say, ahh, that's what it means. It's a myriad of activities that give you a net result. We've trained a lot of people. We believe that it's got a great future in our company.

I'll talk very quickly about our growth projects, the ones that we have on the drawing board are safe projects, we know what we're doing, we're sure we can deliver them on time on budget.

Last but not least, you've seen our management team here today. They can talk a bit more than I thought they could unfortunately, but they're great, they know their business, they're great operators, they're great businessmen, we know our business well, and it's a pleasure to work with them, and I hope they've been able to give you some feeling for the way we're driving our business forward.

And with that I'm happy to sit down and I will direct questions. We're happy to answer the questions. What we'd like to do is take questions off this floor for a while. We will then move to Sydney and take a similar number of questions. Probably five or six questions to start here, five or six in Sydney, and then we'll have time for the people who have dialled in that so we can answer their questions.

QUESTION: Just a couple of questions. On coking coal, you're talking about that you won't pump tonnes and you're talking about prudent growth. You know we've just been on a trip around some of the Queensland operations of some of your competitors, and we've seen just about everybody looking to increase tonnes there. And I guess the question is, are you prepared to lose market share and allow your competitors in Australia to increase their share in, you know, striving for that prudent growth, if you like?

And the other question is actually on iron ore, I was just interested in your comments that you're increasing the grade from your Newman separations, just logistically how does that affect your operations? Is it another product or are you looking at increasing the grade for the entire product?

MR OFFEN: We actually had a book here running on what would the first question be and that didn't rate on the book, so congratulations.

It's always a fine balance. I mean, the strong tendency of producers is to produce. Everyone loves to produce coal. It's a great thing to do, is produce more black stuff. We've seen an enormous expansion out of the Bowen Basin in the last five years as Moranbah North's come on stream, Burton before that, we've seen a new low volume producer in Foxleigh, Oakey Creek's expanded significantly. The growth in that volume has predominantly come at the expense of the United States' export business into the Atlantic, and to a lesser extent, from Canada.

We don't see huge licks of new tonnes coming into the market beyond perhaps Hale Creek in a couple of years' time, and so the growth that comes from this point forward will be relatively small compared with what we've seen over the last three years. That incremental growth we think will still predominantly come at the expense of the Americans and the Canadians.

So we believe we're more than capable of holding our position. In fact as Dave talked about we've got a few potential opportunities there ourselves at very low capital cost and at the right quality into the curve, so we're not too concerned about that.

MR MURRAY: I don't know what expansion plans they had on the table, but unlike thermal coal, coking coal is not coking coal is not coking coal. So we anticipate growth in the weak coking coal domain. I don't know whether that growth is going to be in our high quality hard coking coal domain at all. So one should ask what quality of coal are you tending to grow to understand whether it will impact on us or not.

MR HUNT: Quite simply it's across the board. So it basically just lifts the grade of all our Newman products. It will have the biggest impact on the fines grade, the lump grade it will have a marginal effect. So, 0.1% or 0.2% improvement in the Fe in the lump grade, and in the fines grade it will have gone up to 63.3% to just over 64%.

QUESTION: You sort of touched at the end on development projects but could you just talk about I guess you had something in Guinea many - a couple of years back and also India was, you know, a race for everything there, can you just give some feeling as to you know, what's happened on your views on those countries now going forward?

MR GIORGINI: In terms of the longer term greenfield operations or strategy is really to try and position ourselves in what we might regard as the next generation of tier one resources, and certainly West Africa from an iron ore perspective there are some good quality resources there. The guinea project is Nimba, we have an interest in a consortium there, and we have been in discussion with the Guinean government for some time around a mining convention. Once that is executed that will kick off effectively a feasibility and study process. Infrastructure is a key issue in this area and that would be one of the first things that would be studied. Environmental issues are also to be addressed given location of that particular deposit.

In terms of India, you know, we recognise India as a very prospective iron ore province. India is infrastructurally challenged, and not only from the lack of infrastructure but also the commercial and business structures there with India Rail, and until something occurs there India's going to have problems in terms of significantly ramping up their exports. That is our view. They will creep we think, but major change is going to require some fundamental change.

But we are looking at India, we've got various interests and conversations from a grassroots exploration level to talking to some of the key players there, and that's an area where we're looking at positioning ourselves for the long term.

QUESTION: Just focusing on your marketing effort Andrew, have you tried to quantify the impact to the bottom line, particularly on revenue enhancement or cost reduction, and what sort of percentage of the two percent cost reduction do you think your efforts could, you know, contribute?

MR OFFEN: The answer to the first part of the question is yes, we're in the process of - we've just gone through a fairly major transition in relocating the teams from their various previous locations to Singapore. On top of that we had the Japanese and the European pricing negotiations which are now coming to a conclusion, so really we've been pretty well caught up in those two activities to date.

From this point forward we're establishing a series of teams across from each of the three businesses to look at where we're going to identify the top ten targets for synergies, and we're going to put people from each of those groups and each of the disciplines into that team to actually define what the potential benefit is, quantify it, and then map out a plan to achieve it, and then go out and implement that plan. So that's really from this point forward for the next six to twelve months. So if you can ask me that question in twelve months' time I'll be able to give you an exact dollar figure. At this stage it's still a bit rubbery to nominate a number.

In terms of cost reduction Singapore's a more expensive location to operate in than Australia is. So there's been a net increase in our marketing costs, offset by some extent by some of the tax advantages you have from operating in Singapore. So we're not looking at marketing as a cost reduction exercise, we're really looking at it as a margin and a value maximisation exercise.

QUESTION: Dave, just a question about the Bowen Basin, and recently there's been a lot of discussion about coal seam methane extraction. Just with the development of that industry, assuming it does go ahead, what implications it may have to your mining leases versus their petroleum leases that they've acquired particularly I think with the CH4 group which are in your area, and given the longevity of your position, and I may be thinking too far out but is there a situation where you're going to have a whole lot of well heads pumping CH4 and you're trying to either do an underground punch long wall or some form of other development, and there's a conflict between the two, and is that something that you can resolve or is that a treasury or government issue that has to be decided about who has tenure of that asset?

MR MURRAY: Well as you can imagine it's a subject of huge debate right at the moment. And I don't know the answer. There's a team of three which the Queensland state government has nominated to try and come up with a legal framework in which gas, coal methane, and coal mining will try and cohabitate, if you like. They're busy sitting at the moment. We should have an outcome from them probably in the next couple of weeks, maybe a month more.

But the idea is, and certainly what's happened in the United States is they have been able to cohabitate, they have been able to make sure that there's no negative impact on coal mining, not from an output point of view as well as from a safety point of view. They've managed to create a footprint certain area ahead of the mining operations, and the gas producers don't then operate in that area, and whether it's five years out or ten years out we don't really know yet. But those are the type of ideas on the table.

But live together, we will have to live together because it's an asset and people want to get value out of those assets. I personally don't think it's a big issue. I think the issues can be overcome. There's a question of compensation and all that sort of stuff, but where there's value to be gained I think people will get their minds around it and be able to work together.

QUESTION: Just on China and iron ore, I mean, clearly work at the moment is substituting the low quality ore, but is there a risk that going forward that China may look to beneficiate up its own domestic ore and therefore use it and become less reliant on imports, or is that physically impossible from a reserve base point of view?

MR OFFEN: Most of Chinese ore is already beneficiated, and I think there's a cost issue there for it. The Chinese have taken a more outward looking strategy of actually investing in operations themselves and ensuring that they've got a stability of supply from foreign sourced ore sources. We think that the trend of replacing domestic for foreign for imports is effectively going to continue.

The growth in China's coming from actually two sources. One is a replacement of domestic ore but there's also an absolute and quite significant increase in pig iron production as well, meaning more ore and sinter being consumed. So no, we're not too concerned about it. We're really much more competitive, particularly for the coastal mills, than domestic ore is. And increasingly as time going on we'll be able to translate that in land.

QUESTION: Graham just a question about the DSO blend for WA iron ore. Just looking where you're sort of running from here, what proportion are you running of Marra Mamba at the moment, what could you run at, are you optimising that, and looking sort of five, six years out, what happens to your competitors in the west when they start to struggle with the DSO blend, and is that a competitive advantage that you have? How do you quantify it? And are we going to get a two tier pricing structure?

MR HUNT: There's a lot of answers to that question. Where we are at the moment is around the 10 percent Marra Mamba in our products. That is significantly different to our competitors. Where to from here? We see that - and that Marra Mamba is Newman area Marra Mamba - we would see that we would maintain that kind of level going forward. We don't intend to blend MAC ore into our Newman blend. And we understand that our major competitor for a hematite blend will probably have to increase their percentage of Marra Mamba going forward to meet chemistry targets and may then even struggle to meet some of what the customers will expect. So there will be differentiation.

Is that an advantage? We believe it may well be, particularly in the context of pricing structure where the price for 100 percent Marra Mamba product is going to be lower than the price for the blend, therefore the customer will be saying, why am I paying full price when you're effectively, diluting, if you like, the blend. So they're all kind of issues that will obviously play out going forward in the market place.

QUESTION: My question is three parts. The first one is you've made quite an emphasis on marketing as a consumer sector group. Have you experienced or do you think you will experience a potential discount in the price of one of your products in order to shore up a market or a better price in others, ie lower iron ore higher met coal?

The second part of the question is obviously the three month provisional pricing period on your met coal that has been agreed by producer on the Japanese steel mills ends at the end of June. How close are we there, and will any price settle be retrospective to April 1?

And the third question is, there's been quite a bit of market talk about iron ore sales into China and the potential of both BHP and Rio discounting into China in order to stave off the CVRD increased market share. Could you comment on that one as well?

MR OFFEN: Firstly the issue of trading off one commodity to support the other. Our objective actually is to not discount anything. Really what we're on about is maximising the value on all our businesses. We don't think that trading one off to support the other is really where the value is or where the juice is in having these three groups together. It's really about knowledge management and understanding where the customers are going and what they're doing and what they value. We've got joint venture issues across the three businesses that really prevent us from doing that in any case. So the first answer to that first question is no.

Provisional pricing. There actually isn't a fixed three month period agreed for provisional pricing for coking coal. It's really, we're venturing now I guess into unchartered territory in terms of taking so long to agree a price. We're still negotiating. We're actually reasonably confident that we'll get a result in Asia fairly soon. So I don't think that's a big concern for us. The contract period is almost consistently in Asia April 1 through March 31st, and so all those prices will be retrospective back to the 1st of April.

And the third part of the question was I think China. CVRD and their Brazilian competitors, or partners, MBR, are making serious inroads into China in terms of gaining market share. One of the reasons for that, which people don't look at too much, is the fact that they have in fact lost absolute volume in the other parts of their business through the steel, particularly in the US, and so their absolute volumes haven't increased all that significantly. In fact last year they were down. They're recovering that this year.

We don't think that we are really under too much threat there. We've held our market share over the last year or two, we believe that through managing our quality and managing our pricing structure we're going to be able to keep, in fact maybe even creep a little bit our own market share there. So there is a bit of a turf war going on at the moment in China, but as things mature and the market becomes more stable I think that will become a little bit more sustainable. It's something that concerns us a little bit, the level of discounting that's going on in China at the moment, but it's not something that we keep awake at night about. We believe we can protect our position there reasonably effectively.

QUESTION: I have he got a philosophical question for either Bob Kirkby or Dave Murray, and it relates to the coking coal assets in Queensland. I agree with your sentiments that BOF technology, blast furnace technology is here to stay. I also agree with your sentiments that the quality of the Queensland coking coal operation is beyond peer. I noted from an earlier slide that the ROC is in the order of 50 percent. I guess it's arguable, probably not arguable that these assets are clearly among of the best not just coal assets in the world, but mining assets in the world.

So my question, the philosophical question is, given that situation why did BHP opt to reduce its proportional stake in those assets twelve months ago?

MR KIRKBY: Well maybe I will give a philosophical answer. You will recall at the time BHP was BHP, we went through a period of very heavy reliance on the steel industry, the actions that the company took to reduce that exposure were the steel spin, of firstly One Steel. A reduction in the exposure through the Queensland coal assets, and yes they are very good assets. We were paid for them, we're still a 50 percent participant, we're very happy with our partners Mitsubishi. In the process, you know, we rationalised the ownership with the purchase of QCT, and as you heard Dave Murray say, we've been able to extract benefit out of that rationalisation, particularly at Blackwater.

So they're some of the reasons. I mean, from our point of view we're still a 50 percent owner in the best assets, the best coal assets, as you point out, in the world today. So it was different circumstances and the right thing to do at the time.

QUESTION: Obviously you've spent a fair bit of time explaining, you know, how market position is important for the maximum margins. In your suite of businesses are there any businesses that you would like to have a bit more market share, and are there any constraints on increasing any of your businesses? Obviously hard coking coal is starting to get up there at 29 percent. Is there any more acquisitions you can make there, and are there any limits on what you can and can't buy?

And secondly, just looking at the universal drag line, obviously in some thermal and in the States over burden removal is done by explosives. Is there any application to that in Australia?

MR KIRKBY: Okay, let me talk about the first part of your question. Are there limits to growth? I mean, I think in the iron ore business the consolidation is near the end. We saw the EU impose some conditions on CVRD in its last activity. Are there still opportunities there? There probably are, but they're more minor in nature. Would we participate in that? Yes, if we can at the right price. But we're very strict in our application of looking at these things, and they have to be value adding to us. As we've tried to point out here today we have a number of in-house opportunities, and these things have to measure up against that position.

In coking coal, not quite as consolidated, are we looking at things, we're always looking at things. Do we have any right to lay on our table? No we don't. But we continue to look at that and if the right opportunities come up we would feel comfortable with Mitsubishi in proceeding with those.

Manganese is not so easy, it is quite consolidated right at this point in time. We don't really see opportunities there in that business. But I mean, thre is need to be scanning the horizon all the time and we have a group of people led by Stefano Giorgini whose job it is to do that.

MR MURRAY: I think you should see the UDD as on top of everything else. It's not the only thing we're doing. We do use cast blasting as they do in the States, and as they do in South Africa. The conditions in Queensland are slightly different. Many of the operations are deeper so the efficacy of cast blasting is not as great as it would be in the States and in South Africa. But since the merger we are looking very closely to some of the blasting technologies which South Africa introduced in terms of electronic detonation and so on, so we're doing all of that as well. But at the end of the day the UDD is improving, when we do eventually get to move what the drag line has to move there's a productivity improvement on top of that with the UDD.

QUESTION: Just a quick question on the fourex sensitivities that you kind of briefly mentioned. Looking at the various profit down grades on Rio Tinto and BHP Billiton because of the rising Australian dollar, would the group be seeing a tougher second half year, particularly with the slight falls in the iron ore prices, and would that appreciation in the Australian dollar actually off-set any kind of the much touted ten percent rise that we might see in hard coking coal?

And just another question if I may, I kind of lost out the connection when Andrew was elaborating on the turf war in China with regards to iron ore, so could I please - I would appreciate if you could kind of repeat that, thanks.

MR KIRKBY: Thank you. On fourex, we've given the sensitivity of this group to both the Australian dollar which is appreciating of course, has been appreciating, and the rand which is also strengthening. And those figures are for the impact on EBIT for our group over a year. One cent and one cent. BHP Billiton also published recently the impact on the group for similar movements. They were on a quarter by quarter basis.

But obviously the strengthening of both of those currencies will impact on our EBIT, and you can work out the numbers from what we've given. Now I don't know whether that totally answers your question because I've found it a bit hard to hear you. Does that answer your question?

QUESTION: In part. But I was kind of looking for more concrete as to how that might be off-set, how the appreciating Australian dollar and rand might off-set the touted increase in the current coking coal prices the producers are looking for.

MR KIRKBY: Yes, we're looking for a price increase. The quantum of that hasn't been finalised. It has in some parts of the world but not enough for us to publish it. But as Andrew said, you know, we believe that's getting to be quite close. So maybe today I can't exactly give you an answer, but watch this space very closely, the next week or two, and you should be able to calculate it for yourself, I think.

QUESTION: In the next week or two?

MR KIRKBY: Yes, I think so. And now Andrew will just repeat his answer for you.

MR OFFEN: In iron ore what's effectively happening is Brazilian producers who have lost volume as a result of some of the downturn that's taken place in the US and Atlantic markets have aggressively moved to capture a significant share of the growth in China. So over the last twelve months as the Chinese market's grown the majority of that additional tonnage has gone to the Brazilians, and to a lesser extent the Indians and South Africans. The Australian producers are not capturing over the last twelve months the proportional share of those growth, or haven't been. That doesn't mean people's tonnes are going down, it just means the Brazilians are going up at a faster rate.

What I said was I believe we are in a position through our grade and the quality of our asset to maintain our market share in the future. And as the market production in the Atlantic market comes back we believe that the sort of micro struggle that's going on in the Chinese market at the moment will stabilise and become more sustainable.

QUESTION: Could you please comment on the future growth of the pellet market in relation to fines and lumps markets in terms of drivers of customer demand for pellets, sort of with a particular relevance to Chinese demand.

MR KIRKBY: Okay. Well I'll try to give an answer to this. I mean, typically in the cycle when people in the blast furnace are looking for productivity, you get a higher demand for high quality products, in particular pellets, and then when things back off they suffer most, and in the last couple of years we have noticed in our Samarco business a slackening in demand. That is now turning around, and you know, we see good prospects this year and I think CVRD is the main producer, also the numbers I've seen they're improving. There has been a push by the Brazilians into China, but the majority of growth in China, because of the surplus of centre plan capacity in China, has actually been for centre fines. And I think that position will continue.

The talk that comes out of Brazil of course is that the world should go all to pellets. We happen to be a lump supplier which is a direct competitor, and at the end of the day the steel makers look at the relatively of the pricing between those two competing products and choose. So I think, you know, there's room in the market for both of these, and there will be variations in the differential between those two products. This year it closed, the price cut for lump closed the gap on pellets, so presumably the steel makers will think lump is slightly more attractive this year, but you know, this goes up and down, and I don't think there's any clear trend amongst the producers from one product to another. It depends on the relatively of the prices. I hope that answered your question.

QUESTION: Just a couple of questions. The first again I guess following on that pricing settlement, it looked like overnight there was a pricing settlement for your fines product into Europe, which looked like a pretty poor outcome relative to CVRD pricing. It was quoted in Tex this morning. Maybe you haven't heard it. It looked like part of that component was a higher transport cost and I'm wondering how that can be given the volumes on the weaker part of Europe.

And the other question I had was Marra Mamba ore, do you think China's going to become any sort of market for Marra Mamba ore within five years.

MR OFFEN: Our outcome in Europe was the equivalent of what CVRD achieved. Any apparent differential is either a function of the Tex reporter's reporting style, or the CFR versus FOB differential.

Marra Mamba ore into China is not something we think in the short to medium term is going to be big. Predominantly it's going to be Japan, Korea, maybe Taiwan, but over time as the Chinese steel makers become more sophisticated in their ability to use the lower quality ores, then there is the potential there for Marra Mamba to grow into China. But short term, maybe medium term's a bit unfair on the Chinese steel makers, over the short term it's probably not big, but over the medium to longer term it will slowly grow, we believe.

MR KIRKBY: Okay well unfortunately that's all the time we've been allocated. Thanks very much for coming. Some of us will be around, or we'll all be around here for a little while if you've got more questions. Thank you very much for attending and we hope we've been able to give you an informative overview of our business and what we're trying to do. So thanks very much.

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