BHP BILLITON
ENERGY COAL CUSTOMER SECTOR GROUP BRIEFING
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MR MARK LIDIARD: In a moment I will hand over to Mike Oppenheimer, the President of the (Energy Coal) customer sector group but I just have one or two housekeeping matters. The first one is can people turn off their telephones and, secondly, the next event will be our full year results and we will be presenting them on 7 August. Next, Mike will be introducing his comments for Energy Coal.

In terms of the questions and answers today, what we would like to do is start with questions from Australia, we will then move over to London and then Johannesburg before taking questions from the dial in facility, but Mike again will be hosting those.

Finally, as always, these events wouldn't happen without the commitment of our customer sector group presidents and on that note I would very much like to thank Mike and his team for giving today's presentation. I will hand over to Mike.

MR MIKE OPPENHEIMER: Thanks, Mark, and good evening ladies and gentlemen in Sydney, and good morning to you in London, and good morning to you in Johannesburg. Thank you for the opportunity for allowing us to present the overview of our Energy Coal business to you here this evening. Before I start I would like to introduce those members of our Energy Coal leadership team who will be participating in the briefing tonight.

On my right here in Sydney we have David Lamont, the chief financial officer for Energy Coal, and John Smith the chief development officer. John looks after the growth in our Energy Coal business. Derek Nightingale, who is the chief operating officer of the Hunter Valley business, is unable to present to you this evening as unfortunately he is ill. He is recuperating so will not be joining us today.

In London we have Jon Dudas who is the marketing director based in The Hague, but he is in London for the briefing this evening. We have Eddie Scholtz, the chief operating office of our Ingwe business in Johannesburg. Eddie will not be presenting but he will be answering questions.

The other member of our team is John Grubb, the chief operating officer of our New Mexico business, but obviously given the time of day it wasn't possible to dial John in this evening.

Our intention is to provide you with a high level overview of our business, our markets, our strategy and the growth opportunities that we see before us. We will also try to give you some insights from our perspective into the state of coal markets today, and where we think these markets may head in the future.

In the interests of time it is not my intention to go into our assets in a great deal of detail. We will be touching on some of the critical issues attached to those assets but, by and large, the focus of the presentation will be on markets and strategies. In that way we think we can keep the presentation part of the proceedings down to about an hour and leave plenty of time for questions.

Our agenda is broadly in line with the intention that I have just enunciated. As Mark said earlier, we do have the three centres going simultaneously, Johannesburg, London and here in Sydney, and I would ask you to reserve questions until the end of the presentation just to ensure good order.

If the quality of the picture is not that great from London, please refer to your handouts. All the slides will be in the handouts in that sequence, and likewise obviously in London and Johannesburg.

A quick overview of our Energy Coal customer sector group. Our business is targeted on servicing power generation customers globally. We supply over 60 million utilities in Europe and Asia, and amongst those almost half of the leading power generators in those two major markets.

Our share of the market is about 96 million tonnes per annum of coal, which is equivalent to over 2000 petajoules per year of energy. Just as I mention that, that is approximately equal to the total fuel burn of the Australian power sector on an annual basis, so we are a very significant contributor to the energy needs of the power utility sector. Our core business is seaborne energy coal and we are the number one supplier into that market worldwide. We are also a major producer and supplier into domestic markets, especially South Africa where we are Eskom's largest supplier.

We think our business is unique in the range of supplier options that we have to service our customers, and that is underpinned with BHP Billiton's extensive global freight and logistic network. As far as risk mitigation is concerned, our business is exceptionally diverse. We have a global spread of operations and markets. In the export business and the domestic business we operate open cut mines and underground mines and we have a good technology spread. We operate in a variety of different market situations, from mine mouth operation in New Mexico and fully deregulated markets like South Africa into increasingly liberalised markets in Europe. We have learnt to adapt our marketing skills to suit the particular market in which we operate in.

Lastly, we are only about 3 per cent, or a little under 3 per cent, of the world's Energy Coal market. So we have a very small market share and we believe that gives us plenty of head room for growth. By and large we think that the spread of assets and our link to BHP Billiton provides us with a degree of differentiation relative to our competitors and, frankly, a unique platform for value creation in the Energy Coal sector.

As far as BHP Billiton is concerned, our Energy Coal customer sector group is a significant part of the portfolio. For the first nine months of this year we averaged about 11 per cent of the company's revenue and about 16 per cent of the EBIT. We have strong growth potential. I mentioned earlier only a very small part of the global Energy Coal market and we think there is a lot of growth upside in that market. Jon Dudas and John Smith will take us through that in a moment. This contrasts quite significantly to a number of BHP Billiton's other commodities where we already are a major supplier. So we think this is a significant growth opportunity for the corporation as a whole.

We also provide BHP Billiton with a significant presence in the power utilities sector. As I said earlier, we have over 60 customers in this arena and clearly the capabilities and relationships that we have established could be used by other parts of BHP Billiton to build their businesses. Lastly, we have significant links, both upstream and in the marketplace, to other parts of BHP Billiton. Obvious examples are Queensland Coal where we have a common coal mining upstream connection, and by and large we have a number of the same customers as our LNG and gas brethren do in petroleum.

A high level overview of our assets and our markets. As I said, the export business is our core business. 70 per cent of our export market is in Europe but we do have a significant and growing presence in the Asian market. The main supply for Europe at the moment obviously is from Ingwe in South Africa, but increasingly we are supplying that market also from Colombia. Our main supply at the moment into Asia is Kalimantan where we have the rights to market are 75 per cent of the Arutmin product, as well as our small component from PT Kandilo. Increasingly we hope to be servicing the Asian market from our own activities in the Hunter Valley.

Our largest asset clearly is the Ingwe operation in South Africa. Approximately 60 per cent of this business is domestic, 40 per cent export. Our New Mexico operation is a mine mouth facility servicing two major sets of customers with very stable cash flows and some significant growth potential. I also point out that we have a non-operated production in Colombia obviously, and also in Queensland associated with our BMA alliance with Mitsubishi and in the Illawarra. I think one of the key points I would like to make here is to demonstrate the multi-sourcing capability that we have into those various global markets.

I think one of the strengths of the Energy Coal customer sector group is our diverse management team. When we put the merger together between BHP and Billiton, a critical aspect for us was to find the leadership required to very swiftly and efficiently create a new Energy Coal business. Lleadership skills were critical in this regard: in terms of integrating the BHP and Billiton parts of the business, in driving the cultural change that is so essential in creating a new business like this, and in establishing a global management structure. Certainly our team has an abundance of high calibre leaders.

Secondly, we are operating in a very complex and increasingly competitive global environment. Although we have very deep mine operations and project development capabilities across the world, increasingly we need high quality commercial skills and this is in our case augmented by some extensive energy markets experience which, as we go through this evening's presentation, we'll see is being brought to bear on our activities globally. We also have some substantial merger and acquisition capability within the group and that obviously is of assistance to us as we manage our portfolio going forward.

The last point I would like to make about the organisation is that we are very lean and mean. We have a very small head office staff for Energy Coal based in Melbourne and what is critical for us is the establishment and further development of very efficient global business processes to allow us to communicate globally, to analyse the markets, and to act opportunistically as things unfold.

I would like to talk briefly about our portfolio. I mean, there has been a very substantial restructuring of this portfolio over the last 18 to 24 months. A number of these initiatives started prior to the merger, both on the Billiton side and the BHP side, but certainly since the merger the focus on portfolio restructure and enhancing our global competitiveness has been a very high priority for us.

First of all, we have high graded our portfolio over this period of time, both in terms of divesting underperforming assets and also divesting some of those assets that no longer fit our long-term business strategies. Some examples of those. We have sold the Matla and Glisa assets in South Africa to a black empowerment movement and that was strongly aligned with our focus on our social responsibilities in South Africa. We divested the Lake Mines in the Hunter Valley. We recently announced the closure of Rietspruit in South Africa.

Also during the course of last year we divested our PT Arutmin assets in Indonesia. As most of you know, we had a contract obligation with the Indonesian government to sell down to less than 50 per cent in those assets. We were able to divest to our partner at that particular point in time through a deal which was highly valuable to BHP Billiton, and left us in very good standing with the Indonesian government. We think that good standing will allow us to re-enter Indonesia in a significant way in the future if our business so demands.

The second part of the restructure is all about commitment to new projects and acquisitions. These have been focused on further enhancing our very low cost supply position, enhancing our global multi-source capability, and to allow us to also grow from these opportunities in the future. Examples of these were the series of commitments to Colombia over the last 24 months starting with the acquisition of a position in CdelC (Carbones del Cerrejon) and then going through the two stages of acquisition the CZN (Cerrejon Zona Norte) operation. In South Africa we committed to the Boschmanskrans and Kwagga developments. In Australia we committed to Mount Arthur North at the time the merger was announced in the middle of last year. We have also effectively repositioned our New Mexico business by announcing and now implemented the San Juan underground project in New Mexico. John Smith will be commenting on all of those projects during the course of the review.

During this period of time, and especially the last 12 months or so, we have been following a far more creative commercial and marketing approach in our business. A lot of that is now quite evident when you look at the results and see what we have been able to achieve. Just a few examples of those. If you look at San Juan for example, the commitment to the underground was predicated on a very extensive renegotiation of our long-term contract position with the San Juan generating station which is a group of customers we service in New Mexico. That contract was quite innovative to the extent that it effectively positions our customer very attractively in their market, which is the southwest US power market, and underpins the commerciality of our San Juan operation for the next 17 to 18 years.

As far as Arutmin is concerned, as most of you know as well, prior to the divestment of those assets we were able to secure marketing rights to 75 per cent of the coal, which underpins our marketing book in Asia and provides us with significant marketing gravitas as we build our Hunter Valley market position.

We have also positioned ourselves in the marketplace through creative marketing and building our marketing capability in The Hague, and in Singapore. Jon Dudas will take you through that in a great deal of detail in his part of the presentation. Some of the noteworthy outcomes there were the establishment of The Hague and Singapore marketing hubs in the middle of last year. Our first structured deal in the European market was concluded in the early part of this year. We believe that by the middle of this year -which is about now - we will be very well positioned to participate actively in the converging energy markets of Europe. Again, that is something which Jon Dudas will talk about in more detail.

The bottom line is this has been a conscious approach on our part to high grade our portfolio and to improve the competitiveness of our business.

Just some insight into the outcome of that portfolio restructure. What I would like to point out through this slide is that over the last two years, we have focused relentlessly on improving our cost position and we have been able to reduce our total unit cost by about 6 per cent. If you look at our cost base in FY00 it was about US$1,500 million. So a 6 per cent reduction in our cost base over two years is a very significant achievement in terms of the cost side of our business. At the same time we increasingly focused on high value markets, and therefore based on that and our cost improvement we are seeing very significant increases in the earnings intensity of our production. So our margins in earnings per tonne of coal have increased by 10 per cent over the two year period.

That strategy or that approach will continue over the next four to five years and our business plans are showing that we will comfortably exceed the 2 per cent cost reduction target which Brian Gilbertson has set for all of the customer sector groups., You will also continue to see a steady improvement in our earnings intensity, our margins. All of these numbers obviously are normalised for price, forex and inflation. But as I said, a significant increase in the export supply and high grading in terms of market and ongoing cost reductions.

Just to give you some insight into our overall business strategy. I mean, we do have a very focused approach to strategy development and deployment and our strategy is focused both in terms of meeting short-term business objectives and the longer term objectives which John Smith will talk about in more detail. Four main legs to the strategy. The first one is our asset portfolio and our focus really is around cost reduction on the one hand, productively improvements, looking at opportunities to further reduce our cost base by seeking out opportunities to deal in a cross lease sense with other owners in reducing overall cost, and actively managing our portfolio to bring in lower cost assets and to divest of those which don't fit the portfolio all that well any more.

The other side of our asset portfolio is a very diligent approach to project execution. We are absolutely committed to delivering full value from the capital projects which were approved by our board over the last couple of years and, again, John and I will talk about those during the course of this evening's presentation.

The second leg of the strategy is to grow in high valued export markets, and the highest priority for us is Asia. Two main aspects of this strategy. One is to develop market capability to allow us to extract greater value from the market to grow market share and, secondly, to position ourselves in those supply opportunities which are best suited to capture those particular markets.

Thirdly, domestic markets. In the past it actually hasn't been a well heralded part of the Energy Coal portfolio. We see the potential for this to be increasingly important in the future. We are looking at selected high value domestic opportunities, possibly in the US, possibly in China; those are all longer term. We are also looking at the domestic market as a way of optimising our resource position through a careful balancing off of export and domestic supply from the same resource. That is certainly the case in South Africa and it is increasing the situation in the Hunter Valley in Australia.

The last part of our strategy is around innovation and what we have called leveraged growth. Innovation in terms of the marketplace, innovation in terms of the way we deal with our infrastructure, the way we deal commercially with our assets, and trying to leverage off the significant positions we have. Back in the coal value chain, upstream right through the market, but also leveraging off the positions that BHP Billiton has globally in terms of freight, logistics, customer balance sheet et cetera.

That is a very brief outline of our strategy. The whole strategy is founded on the strengths that are inherent in BHP Billiton as a corporation and the distinctive capabilities that we have in Energy Coal.

Very importantly our priorities are totally aligned with those of BHP Billiton as recently enunciated by Brian Gilbertson, I think it was 8 April, when he presented the strategic framework for BHP Billiton to the investment community. The priorities, just to spell them out again, are around managing our outstanding asset base, intense focus on delivering on our portfolio of capital projects. We have over US$700 million of approved projects under way; Mount Arthur North, San Juan, the two South African projects I mentioned earlier and our acquisitions in Colombia. They are high priority for us in terms of delivery. Customer centric marketing, Jon Dudas will cover that. Then innovation, and, as I say, innovation across not only our marketing activities, but across all facets of our business.

Lastly in this introductory section I would like to provide you with some insight into the growth outcomes that we believe will flow from the strategies that I have just enunciated. If you look at the production side, over the last two years we have seen a decline in our production, largely as a result of quite deliberate portfolio action. Our suite of approved capital projects, the ones that are in blue, orange and red, will see production build up to about 95 million tonnes over this timeframe. Very importantly, these assets or these projects will also position us for future growth in these areas.

Within Energy Coal and in fact within BHP Billiton we have a very rigorous approach to new opportunity assessment and implementation. So projects, or the project life cycle is it comes in just at the concept phase and then goes into a pre-feasibility study phase, feasibility study phase and ultimately it then gets approved, either by the board or some lower level of authority depending on the size of the capital commitment. At each of those phases there is a very rigorous peer review process and a challenge process that ensures that the projects by the time they are approved are rigorously assessed and thought through.

Using that as the terminology, we do have a number of projects in the feasibility stage, i.e. they would be ready for final approval during the course of the next 12 months or so. Those projects, we believe, will take production up as indicated in the overhead. We also have a number of opportunities in the business development portfolio in the concept and pre-feasibility study phase. Recognising that the probability of all of these coming off is not 100 per cent, we think it is possible that over this time period we will see our production up to about 110 million tonnes. Certainly we have the strategies and base assets in place to get there during this time period.

As far as the earnings perspective is concerned, as I said the left-hand side is production and the right-hand side is earnings. Just a few comments here. As I said earlier, the earnings intensity of our production is increasing as we focus on higher valued markets and as we reduce our cost base and, therefore, the growth in earnings is going to be disproportionately high relative to the growth in production.

Some of the features of our future earnings position. You can see that the reliance on Ingwe will reduce over this period of time and we will see a significant increase in earnings, but the share that Ingwe will have in the total earnings picture will be significantly reduced. What we will then see is that the Hunter Valley and Colombian businesses will deliver earnings us which are comparable, in fact probably slightly higher than our current New Mexico business, and all of that earnings growth will come from the currently approved project, the ones we are currently implementing under the US$700 million.

The feasibility projects and those in concept and pre-feasibility stages will also deliver significant earnings growth, we believe, over this period of time. I would just point out as well that this year, FY02, we will be generating in excess of $10 million of EBIT through our marketing activities, and we have assumed that in the feasibility and concept/pre-feasibility earnings growth that we will see increases contributions for our marketing efforts, beyond that of the Energy Coal commodity.

I think that will probably suffice in terms of introductory comments. I would now like to turn over to Jon Dudas who is in London, and he will take you through our marketing strategies, and his view of the market.

MR JON DUDAS: Thank you, Mike. In order to examine the future prospects for coal it is essential to examine the underlying drivers of demand. Historically, growth in demand for coal has been shown to be linked to growth in demand for electricity, which in turn is primarily driven by growth in GDP. There is no reason to expect any change to this relationship in the foreseeable future.

Electricity is forecast to grow at a healthy 2.7 per cent annualised over the period 2000 to 2020. On a basis of life cycle costing, little expansion is seen in the nuclear sector and whilst gas will capture most of the growth, coal will retain its common dominant position with 32 per cent of supply in 2020.

A critical strategic issue facing coal over this period is emissions in greenhouse gases, given the public perception that gas is a relatively cleaner fuel. However, on the face of it coal does have a secure future. It is derived from a cheap and globally diversified production base and mostly from secure regions. It cannot be substituted for on a large scale given the sunk cost in current generating capacity and the cost of alternative fuels in certain regions of the globe. There is still, though, a need to recognise the environmental concerns and participate in industry developments to enhance the attractiveness of coal, such as zero plant emission research and clean coal solutions.

On what base does this growth occur? The total Energy Coal market is around 3.1 billion tonnes annually. Of this around 2 billion tonnes is consumed domestically in roughly equal proportions between the US and China. In comparison the seaborne trade in thermal coal was around 385 million tonnes in 2001. However, this market sector has seen significant volumetric growth over the past few years, especially in the Far East despite continued depressed economic conditions. Asia is also forecast to remain the growth engine through to at least 2005, whilst Europe essentially shows no growth in total coal consumption. The domestic markets themselves are also sources of high growth with the US and China looking at volumetric growth rates which are multiples of the seaborne market growth rate.

In Europe it is clear that the level of consumption of Energy Coal will reduce over the next few years. Gas takes up the growth in demand as the fuel of choice. However, imported coal levels will remain constant as there is continued substitution of uneconomic domestic production, despite Kyoto effects. This is a direct consequence of the orderly EU subsidy reduction program and the planned closure of certain competing generating units in the UK and Germany.

A liberalised energy market has emerged post the deregulation of electricity generation in Europe. This has brought sophisticated owners and buyers to the market with a need to risk manage their exposures in an increasingly volatile electricity market. This in term has required the transfer and adaptation of appropriate tools and instruments from other commoditised fuel supply markets. Coal is clearly moving down the commoditisation route and although it may never reach full commoditisation due to fungibility issues, there is no doubt that aspects such as spot buying, index pricing and derivative markets will remain a permanent market feature.

This slide (BHPB participates in all areas of an evolving market) illustrates the changing nature of the market and the routes to market. Looking at route one, as little as five years ago almost 90 per cent of Energy Coal sales were concluded directly between producers and consumers, mostly on a long-term contract basis and mostly with annual price negotiations. The balance tonnage was sourced from traders with branded coals exploiting small or niche markets. The Asian markets largely still exhibit these characteristics, however in Europe current estimates are that only 75 per cent is moved directly from producer to consumer and the spot percentage of these sales has risen dramatically to almost 80 per cent.

Via route 2, another 24 per cent is sourced from the traditional asset-like traders who have been joined by both producers and consumers who trade third party products freely in order to balance their supply demand portfolio. In addition, looking at route 3, coal via a screen is now possible, the route of GlobalCoal. This site is focused on the delivery of smaller tonnages to less quality sensitive buyers and has traded around 4 million tonnes to date.

In support of the need to hedge fuel input cost exposures an active derivative market, seen there in route 4, has developed. In 2002, a velocity level of 1 should be achieved with around 120 million tonnes of paper being traded as market players become familiar with this new tool. This mechanism, of course, allows both buyer and seller to agree volumes but to fix prices independently and probably at different times.

The Asian region is characterised by strong demand growth but can be segmented regionally. There are markets with domestic production such as India, where imported coal competes on a landed or at plant cost basis, taking into account levies, taxes, rail costs et cetera.

There are also markets with no domestic production such as Japan, South Korea and Taiwan. In these markets imported coal competes mostly with gas. From this perspective the outlook for coal is positive since there is a lack of adequate infrastructure to support large substitution by pipeline gas whilst LNG, once committed, has a long lead time and little optionality or flexibility once deliveries commence. Signs such as increasing spot sales in the region, the relaxation of legally bounded sales areas for generators are all indications of an embryonic deregulation process. This process is being led currently by South Korea.

Ironically, Kyoto is far less of an issue in the Far East with Japan being the only signatory to date, indirectly confirming coal's superior position in this region. This presents us with two opportunities. Firstly, to participate in the absolute volume growth via production or trading from natural supply basins and, secondly, to transfer the profitable liberalisation lessons learnt in the European market.

China is the world's largest coal mining region supporting the world's fastest growing economy. Coal is mostly mined in the north whilst economic growth is surging in the south. As a result, volumes far exceeding exports are currently transshipped between these two regions. After two years of rapid growth in exports, the levels have now stabilised and reduced even more recently. Any potential to increase exports must be weighed up against potential domestic sales. In China it is common for the domestic price to exceed the achievable export price in contrast to production sourced, for example, from South Africa or from Australia. Further, coal currently accounts for about 40 per cent of all cargo moved on the internal rail infrastructure. That very same infrastructure must support the high internal growth rate. Should increases in coal carriage be achievable on the rail system, huge investment is also needed to boost port capacity. In order to participate more effectively in China we have also recently appointed marketing staff to Beijing.

This slide (Today's market) depicts the historical FOB price for South African coal at Richards Bay. The juncture of the three curves indicated by the green spot indicates today. It is obviously that the recent drop off in price was more severe than in previous cycles. This was due to demand side issues and not increased supply as was evident in previous cycles. The warm winter just passed in Europe had a 1 in 70 year statistical chance of occurrence with similar odds in the US. To compound this, both the US and Europe experienced a simultaneous economic slow down. Of course, Asia, suffering from its own subdued level of economic activity, was not immune from the knock-on effects from its major trading partners.

Also record levels of gas availability was experienced in the UK as gas was routed via the interconnector from Europe. Gas prices dropped dramatically being the more liquid market, but coal soon followed in order to maintain its competitive position. However, it must be noted that a reduction in overall demand for energy is often amplified in the coal demand arena. This is because coal, in order of merit, is generally consumed last after base load units such as nuclear, gas and opportunistic energy supplies such as wind or run of river hydro. Thus any reduction is taken off the marginal supply field; often coal.

Looking forward, the red line depicts a scenario where history repeats itself, whilst the blue line depicts the forward price curve available in the derivatives market. This market is a consensus view of all major participants in the coal generated electricity market and clearly indicates an expectation that the current market is short lived and was created out of a set of unique circumstances.

A few comments perhaps on Asia. In the east these settlements have reflected the demise of the traditional benchmark or reference pricing system in Japan as utilities have broken ranks in a liberalising market to source competitive fuels. On average price reductions were in the range of 8 to 10 per cent for term contracts. However, there was a degree of tonnage cuts as buyers elected to increase their tonnage allocated to spot purchases in order to more closely match the market over the coming year. This has imposed difficulties on negotiations in both South Korea and Taiwan who prefer to follow Japanese benchmark pricing, and we have yet to see these settlements.

This slide (Different fuels continue to compete) illustrates the internal differentiation between markets in Europe. Whilst the Asian markets currently act in a reasonably similar manner, it is clear that Europe is not one market and it is critical to understand the various market and intermarket dynamics. Over the last 18 months we have seen very different interfuel competition patterns in the UK and German markets. The curve illustrates the spark spread which is basically the difference or gross margin between input fuels normalised on a heat adjusted basis and the selling price of power in the relevant power pool.

Examining the UK graph, it is obvious that fuel oil is generally uncompetitive and this data does not even factor in a potential geographic risk premium. In the period leading up to last winter, coal was by far the cheapest source of input fuel, with a gradual reduction in the coal price matching the reduction in the electricity price, and the cold snap over Christmas boosting margins. However, as the warm conditions returned, demand dropped and electricity prices fell being a much more responsive and immediate market, rapidly resulting in less demand on the mid merit coal fired coal stations. Even output from coal fired base load stations could be substituted by cheaper imported gas generation or by French nuclear output overnight. Given these circumstances and the coal over supply position, it was critical that the price of coal dropped to match the equivalent gas price to prevent further substitution. This pattern will probably be maintained throughout the UK summer.

If we turn our attention to Germany on the lower graph, there were similar weather conditions but within a different market environment. The gas market is regulated to a greater degree, resulting in higher gas prices generally. In the open continental power market, prices were generally lower than in the UK throughout the period. Again, except for the Christmas spike, with a consequence that fuel oil as well as gas remained uncompetitive. Due to global over supply, coal prices were forced lower by smaller producers who lacked the capacity to stockpile or adjust production levels. In this market it was necessary to meet the price levels of these coal suppliers, however coal still remains the most profitability generation fuel in Germany which supports the view of increased German imports in 2002.

We have reorganised our marketing structure in order to better reflect differing regional dynamics. The Hague is the central marketing hub where we are co-located with other customer sector groups and are able to exploit cost commodity opportunities and synergies, for example in freight and logistics and customers. The Hague is focused on the provision of structured products to the western markets and is the home of our risk management and governing systems. It is also the centre of knowledge for coal, gas, electricity analysis and is where global trading and marketing activities are co-ordinated. The Hague also performs an integration role between the marketing strategy and the assets in order to facilitate alignment with market conditions.

In the Singapore hub the functions are focused more on relationship marketing and intelligence gathering. This is achieved by the employment of local staff in regional offices in tune with local customs and norms. In addition, we have a market development function in Singapore which is tasked with transferring skills learnt in the deregulating European environment to this region.

In order to participate in the structural changes in the coal market we have added substantial capabilities through the recruitment of external skills. The risk management team is comprised of origination and trading sections with origination developing, pricing and concluding structured deals. The trading unit manages the exposures generated from such deals within approved limits. This is backed up by appropriate management systems and a governance framework. This activity has demonstrated the ability to add small but material earnings to our basic commodity sales. Although these capabilities have been added to enhance the coal market in Europe, they can be utilised to create value in other energy markets or to explore profitable linkages between other components in the energy arena.

This is an example from the changes brought about by the competitive pressures in the liberalised European market. This is a multi-million tonne deal per annum for a number of years. New owners of significant generation assets in with previously captive markets were forced on to the open market. Their skills lay in the management of generating units and the trading of power into volatile markets. They were less interested in the sourcing of their fuel supplies. What they required was coal of a consistent quality delivered daily to a number of generating sites.

Where was the value derived? For the owners they could close their purchasing department, lower their stockpile levels and bank on risk pre-sourcing from the largest exporter of Energy Coal. From a BHP Billiton perspective, we earned both commodity dollars and service dollars. We benefit from the optionality to supply coal from any source, equity or traded. We can also exploit freight arbitrage opportunities between supply regions and even with other group commodities. There is value in the barging contracts. A substantial volume has also been added to our CIF book and the added buying power allows discounts to be applied, not only to this tonnage, but to other business as well in the areas of chartering and stockpile costs.

Finally, our close association with this customer allows us to mutually examine opportunities in other supply fields such as gas, as well as participate in their offshore expansion plans.

The key to any successful marketing strategy is understanding the key drivers in the target market. The changed market environment in Europe for our ultimate product, namely electricity, has initiated changes in the behaviour of our traditional customers. We need to meet their need for innovative risk management products recognising the volatility in the environment, as well as the influence of competing fuels in related markets. In Asia the market will experience significant volume growth which will require sourcing from competitive basis but with a cautious approach to more value added services. Growth in this region will also allow us to diversify our current customer portfolio.

Our strategy leverages off the unique production asset base of coal, pipeline gas, and LNG available to the group. Servicing differentiated markets via new products to enhance our earnings will be supported by an already well-established brand, premium credit rating and broad energy customer franchise. We are able to provide and manage some of our customer's diverse risks taking their specific requirements into account.

Selective trading will improve our market knowledge, product range and provide access to additional margins. Plus the underlying philosophy of the coal plus strategy is to add a range of services to the sales price of a basic tonne of coal, equity first and then traded. This allows growth in contribution without simply adding volumes, especially via capital intensive assets. Tailored products will allow access to a broader, real customer base with real implying terminal or consuming customers, and not intermediaries or traders.

Finally, as we expand our activities in the supply slide of the converging energy markets, our coal plus strategy will facilitate the gain of additional value by added services, as well as the possibility to shift our coal exposure into the larger, more liquid energy markets such as gas or power. Back to you Mike, Sydney.

MR MIKE OPPENHEIMER: Thanks, Jon. At the outset I indicated that I wasn't going to be going into great detail on the assets. As I said, the intention is only to highlight certain specific issues around these.

Our portfolio is focused on positioning ourselves optimally to service the 96 million tonnes of market share that we have worldwide. Notwithstanding our very strong market focus, however, we never lose sight of the fact that at this particular point in time most of the value in our business is derived from our world class asset base and that diligent world class management is required to deliver that value.

Our major strategic focus is on our cost competitiveness or, more correctly, our supply competitiveness into our two main markets. Our supply position is continuously improved through our relentless focus on costs, productivity improvement, looking at opportunities for cross-ownership synergies, consolidation plays and looking at our portfolio aggressively and growing volumes.

If we look at the supply curves that we have presented here this evening - and incidently this is AME data, it is not BHP Billiton data - as far as Europe is concerned, it is note worthy that our two premium mines in South Africa, Middleburg and Optimum, are significantly low cost in terms of supplying to Europe. Douglas and Koornfontein are also two major Ingwe operations, and the Rietspruit mine was recently closed. That European supply curve excludes Russian and Polish supply.

As far as Colombian supply to Europe is concerned, I think our strategy is self-evident from the slide. An initial seed investment, as it were, in CdC followed up by two successive investments in

Cerrejon Zona Norte which is really the linchpin for our supply out of Colombia going forward. So very well positioned into the European market.

As far as Asia is concerned, Mount Arthur North will position us very attractively opposite most major suppliers into Asia. The Chinese band that you see in yellow is a BHP Billiton estimate of likely China supply costs. You can see that our supply into both Europe and Asia positions us extremely well for whatever vagaries may materialise in terms of the coal price cycle.

I would now like to spend a few minutes talking at a slightly more detailed level about some of the initiatives underway within Energy Coal around the announcement of our competitive position. First of all, in terms HSEC and more specifically in terms of safety - I mean, the one blight on our business over the last nine months has been our fatality record. Tragically we have had five fatalities in Energy Coal; one in Indonesia and four in South Africa. The highest priority in the business is an aggressive safety leadership strategy to try and drive safety changes throughout our entire business. We see a great deal of complimentarity between world class safety performance and the cost and productivity performance that we believe is critical in terms of our global competitive position.

Community relationships are also critical to our business success. We operate in countries like Colombia, South Africa, we work with the Navajos in New Mexico et cetera, so community relationships underpin to a large extent our licence to operation and our competitive positions.

As far as the assets themselves are concerned, our main vehicle for driving business improvement is the operating excellence (OE) program which was initiated within BHP and has now taken life within BHP Billiton. We don't only focus operating excellence around our operating assets, we also focus it on all facets of our business, including our commercial activities and other business processes within our Energy Coal business globally.

As far as our assets are concerned, the one aspect of operating excellence which has really taken root is the Six Sigma methodology which we are using to drive operating cost improvements across the business. Now the Six Sigma technology was well entrenched in BHP prior to the merger. As you can imagine, post merger a number of the assets in Energy Coal were ex-Billiton assets, so our approach over the last 12 months has been to transfer the Six Sigma methodology and the OE philosophies into the ex-Billiton assets within Energy Coal, specifically Ingwe which is the largest operation in our portfolio.

We have a number of internal benchmarks as to what is best practice in terms of operating excellence, and I think our iron ore business in Western Australia is probably as close to BHP Billiton best practice that we have in terms of number of OE projects underway, number of coaches trained et cetera, and I know Bob Kirkby when he did the carbon steel materials presentation a couple of weeks ago went into some significant detail around their OE programs. We are basically trying to emulate them in terms of the way OE is used in Energy Coal. In the notes that we have handed out to you, there are some specific examples of the cost improvements that have been generated in Energy Coal over the last 12 months.

We are also extensively involved in transferring our learnings from our Ingwe assets and our Hunter Valley assets into New Mexico and vice versa. We are also participating in the knowledge transfer that is occurring across CSGs within BHP Billiton. We are a significant user of rail storage and other forms of infrastructure and we are aggressively positioning ourselves to lower the cost of utilisation of those infrastructure assets worldwide.

Lastly, a very important issue for us is that BHP Billiton is positioned globally in a number of very large non-operating joint ventures and we have been able to use that capability to assist us in influencing the operator in those assets where we are the non-operator; in other words, in Colombia we are involved in trying to drive value over those assets.

Just turning to some of the asset specifics. In terms of Ingwe, this is a genuine world class business. It is more than just a set of assets; it is a business its own right. The asset portfolio is focused on very large scale mining operations, ultra low cost production, looking at a multi-product concept thereby extracting maximum value from the reserve for the benefit of the company and the country, with intense focus on our Richards Bay entitlement.

We have intense efforts around the health and safety of our employees in South Africa and we are very proactive in our broader social responsibilities in South Africa around issues like Black Economic Empowerment and Equal Employment Opportunities.

Export growth volume are somewhat limited as far as BHP Billiton are concerned and therefore a major issue for us is maintaining a cost position longer term and we have active plans in place in that regard.

As far as the Hunter Valley is concerned, the main focus there for us right now is Mount Arthur North and getting that major project into production. We need to grow market share to provide a market outlet for our ramp up of production, and with the 5 per cent growth in Asia that Jon Dudas mentioned, we expect to be able to succeed there. We also have optionality around the Macquarie Generation position similar to our situation in South Africa.

New Mexico assets, I mentioned these briefly in my opening remarks. There is a very strong customer focus around keeping our customers in a competitive position in their particular markets. Stable cash flows and some growth potential given the strong growth that is currently occurring in the southwest US power markets.

Lastly, as far as the major assets are concerned, Colombia. BHP Billiton has been in Colombia via the Cerro Matoso asset since 1975. It is a part of the world we know well and are quite comfortable in operating in. We have had a sequence of coal acquisitions there over the last two years. Strategies in Colombia are largely associated with building a 40 million tonne plus world scale business in Colombia focused on the geographically advantaged US and European markets from the point of view of supply out of Colombia. Colombia has very high quality coal, and our focus right now is integrating our acquisitions and driving the synergy gains that we believe exist in those particular assets.

I would now like to hand over to David Lamont who will take us through the financials.

MR DAVID LAMONT: Thank you, Mike. In the next few slides my intention is to firstly take you through the Energy Coal performance for the nine months up to 31 March 2001, secondly then just to review some of our historical performance and finally finish up on some of the key drivers and sensitivities to the business.

Looking at the earnings performance for the nine months to 31 March 2002, you can see that the Energy Coal business delivered an EBIT result of some US$462 million, an increase of some US$196 million or 73 per cent over the 2001 picture. The graph on the left-hand side gives you the break up of that improvement over the various different assets. On the right-hand side the improvement is shown via the specific drivers to the business.

As you can see, US$151 million was delivered as a result of price increases that occurred over that nine month period, and in our realised prices that is an increase of some 22 per cent. It is important to note here alongside the graph earlier displayed by Jon Dudas that there is some three to four month time lag from the spot prices flowing through to our realised prices. In addition to that, you need to recognise that we do actually extract some extra value through our service components.

Looking at the next major impact which is the foreign exchange results as such, you can see that we had a US$50 million impact over that nine month period which really is largely driven by a 30 per cent devaluation in the rand. This is reflected both in our operating costs and also in the restatement of our net monetary items on the balance sheet. It is important to actually note that offsetting these exchange rate gains is the inflationary asset whereby, in South Africa especially, we have seen the recent producer price index sitting at 14.8 per cent.

Looking at our volume decline over the same period, we have seen volumes decline by some 10.6 per cent. This is made up largely by some portfolio adjustments that we have made in addition to some production cuts that we have chosen to make as a result of recent market conditions. Importantly also are the portfolio changes that you can see flowing through whereby we have actually high rated our portfolio and that has had a positive impact of some US$26 million.

Just looking over the four year period and specifically looking at our EBIT return on capital, you can see over that period it has averaged some 18.5 per cent. It is important to note that through that four year period we have seen the dips and the highs of the price cycle. Over the last four years we have seen a significant improvement in our overall performance.

New Mexico in the blue at the bottom of the graph is the stable part of our business and does provide a solid base from a cash flow and profitability side of things. Ingwe is a critical part of the group and, as we have already explained, is a quality tier one asset that does deliver in excess of 20 per cent EBIT ROC.

Our Colombian and Hunter Valley operations are geared at this stage to become high value tier one assets. They are still very much in the development stages, but our long term projections is that both of those assets will also deliver an EBIT ROC in excess of 20 per cent at trend prices.

In the 2002 period for the nine months we have seen the operating results of our Indonesian business up until November 2001, and also the profit that was made on the sale of that asset. In addition, as has already been mentioned, we have retained 75 per cent marketing rights for that Indonesian business. Significantly also over that period we have spent in excess of US$700 million on our assets as we have reshaped the portfolio. Importantly, the sustenance capital throughout that period has remained flat in nominal terms.

Just looking at the key drivers of the business, you can see that clearly price is the most significant impact to the business. Every $1 movement in the export price has an impact of about US$34 million to the EBIT. As we have already articulated, we are looking to be in excess of the 2 per cent cost reductions on our production side of things per unit and, again, that has a significant impact to the overall EBIT results.

The next major impact that we do have is the exchange rate side of things. Firstly, on our operating costs and you can see there that for every 1 cent movement in the Australian dollar and a 20 cent movement in the South African rand would have in the order of $9 million impact to our overall EBIT result. Secondly,
as part of our policy on US functional currency we also have an adjustment to the balance sheet through the net monetary assets.

I would now like to hand over to John Smith who will give you some insights into our industry structure, and also our current growth opportunities.

MR JOHN SMITH: Thank you, David. As David mentioned, I will talk about some supply side issues and I will also talk about our growth projects and our profile. It is set in the context of having Jon Dudas explain the market and demand issues and Mike having given you an insight into our assets.

Looking at the seaborne coal business over the past three years we have seen considerable consolidation with the top four producers now having some 53 per cent of the market. With that size comes economies of scale and also, during that time, there has been good management of the cost structures. For the industry since 1996 we have seen some on average 6 per cent cost reduction through that period on FOB costs. Also with that we have seen the larger producers making their investments in the business on a more market related basis, and I will cover that later on. For consumers, it has given consumers of our coal security of supply. We also have been able to give them deal structures that more closely mimic their risk profiles.

As I said, we are increasingly seeing rational expansion in the market as timing is dictated by the marketplace. This slide here (Evidence of more rational supply side behaviour) shows you the last two cycles; this cycle we are in just now and the one previous. Looking at the new supply that has been introduced or announced to the market, we can see in this cycle some 86 million tonnes per annum less being announced than in the previous cycle. Yes, small producers will continue to produce as they will. The impact of that is somewhat diffused by strong demand for Energy Coal.

China will continue to produce but most commentators are forecasting them producing on a less aggressive basis than they have previously, due to things like the highly valued domestic markets, logistics constraints, and their own understanding that the value in the marketplace in Energy Coal means that proper management of supply into the market is valuable. As companies like Shenhua and Yanzhou go to the equity markets then they are going to recognise the value impact of supplying the export seaborne coal.

This slide (World seaborne coal supply/demand balance) looks to show supply and demand and we continue to see a long-term future for Energy Coal. Notwithstanding the short-term price problems that we have seen which Jon alluded to, the long-term supply fundamentals are promising for Energy Coal. The demand line on the chart here is a fairly conservative electricity growth curve and we have put in against that through various sources - not from our own but from various sources - the supply side that we see.

(On the slide) we have existing supply in the dark blue and then we have allowed for creep and brownfield growth (light blue) as happens as mines are optimised and mine plans are increased. Then we see China in there in the green piece and that is China ultimately getting up to 100 million tonnes per annum. There is some Indonesian growth in there and we have seen a fair amount of Indonesian growth this year. The chart has got Indonesian growth but not to the same extent that has occurred this year, and South African projects with the expansion of the Richards Bay coal terminal and also Colombia. On top of that are the Australian projects (orange) that are induced into the market as demand needs, and finally there is still a gap beyond 2010. So fundamentally, a very strong business. When you take into account in the last two years we have seen demand over 11.5 per cent growth each year, one does wonder what would happen if the Chinese hadn't been in the marketplace.

I have talked about our specific projects being developed at present and as you can see from the slide there they are both diverse in terms of location and business and, again, that is not by chance. These two projects here, Boschmanskrans and Kwagga, are Ingwe projects. Boschmanskrans, the picture there shows it, is effectively taking an old underground mine and slicing the top off it and mining out the pillars. There is 130 million tonnes of coal in this project and it is in over a 20 year life.

The second project is Kwagga which is a reserve next to our Optimum mine. What this project allows is for Optimum and Kwagga reserves to be optimally worked and to be mined. It involves putting in some new haul roads and an overland conveyor, but ostensibly using the Optimum equipment to bring the coal to market.

This project, San Juan in New Mexico, Mike alluded to it earlier on, this is a great piece of customer focused business. The San Juan coal company is the sole supplier to the San Juan generating station and is supplied out of two open cut mines; San Juan and La Plata. What has happened over time is the strip ratio has increased and therefore the costs have increased. It is important for the generator that we keep them optimally priced in the dispatch curve into the western power markets. The decision was taken with the customer in October 2000 to go underground and open up a new underground mind. The intent of that being to reduce the cost per tonne of production and therefore allow them to be well priced in the market.
The longwall is scheduled to start - it is a longwall mine as the picture shows there - in October this year with a fully ramped up production in June of 2003.

Mount Arthur north is located in the upper Hunter Valley in Australia. It is a strange mixture of vineyards and coal mines. Mount Arthur North, when it comes on, will be one of the largest coal mines. Where it is located we have had to work hard on community relations. We have involved a great deal of social impact analysis and we have had a social scientist work with us in bringing this project through to the stage that it is at at the moment. Those aspects will help us, and the insight gained, in future projects that we embark on. The mine is on schedule, both financially and progress, and it is up and due to supply to Macquarie Generation in January 2003, on target.

Cerrejon Coal in Colombia, Mike talked about it earlier on, is the ultimate result of us bringing together the acquisitions of CdC and CZN and our position at Intercor to be one of the largest and efficient mines aimed at Europe and aimed at the US. Growth, the growth out of this project, at the moment it is capable of producing 21 million tonnes, producing about 18 at this point in time and, as Mike said, it can grow to about 40, 40 million plus but we will make sure that that growth happens in a market sensible manner.

It is likely to happen in phases, so the first stage just now is having put the businesses together. We have just appointed a new president, Alberto Calderon, and we are just now optimising the existing businesses that we have. We will then look at new projects to increase the production as we go forward.

Looking beyond the projects that we have talked about, our pipeline is healthily filled and diverse. We are focusing on growing our core business whilst looking to exploit new opportunities, build up our current positions and our current capability. If we go around from the left to the right, New Mexico now has some 800 million tonnes of reserves available and we are looking at possibilities to grow that business in conjunction with a Navaho nation.

In South Africa, Klipspruit is an export mine. That is in the feasibility stage at the moment. It is about 2.5 million tonnes and we hope to bring that one through and get approval.

In Australia there is potential underground in Wyong which is about 70 kilometres south of Newcastle. It is in the pre-feasibility stage, and also in Australia we have the Bowen basin position with our BMA company, and we look at the thermal positions there to the best advantage.

China has a high value domestic market and we will investigate growth opportunities both in the export and the domestic markets. We will look for some initial seed investments and opportunities in trading and concurrently look at larger scale opportunities.

With our customer centric marketing position, opportunities may arise in the logistics value chain in non-traditional business areas, but these are aimed at the effectiveness and efficiency in supplying our customers. So we will look at things we can do there.

Exploration is not a main issue for Energy Coal but we will look to use BHP's Falcon technology, that is an aerial technology, to try and identify areas through localised flying, but no major exploration program.

So as you can see, we are geographically and operationally well positioned to drive value from our assets and traditional markets whilst open to value opportunities stemming from both our capabilities and acquisitions.

This last slide (Project pipeline potential of $1billion) shows effectively the combination of all of those things. Our base value from our existing businesses added together with the approved projects that we have talked about in terms of San Juan, Boschmanskrans, Kwagga and so on. Then the projects that we have in the feasibility stage, then we have projects in concept and pre-feasibility. Both the feasibility and concept will add us a billion dollars worth of value to our company over a seven year period.

What I hope this shows is that Energy Coal has significant opportunities in a growing business and our business is significant for BHP now and hopefully will be in the future. Thank you.

MR MIKE OPPENHEIMER: Thanks, John. Look, just some concluding comments and then we will go into the question session. Hopefully over the last hour or so we have been able to demonstrate that we really are differentiated from our competitors, based on our portfolio of assets, our distinctive capabilities, the leverage opportunities that being part of BHP Billiton provides us with, and that our business model for servicing Energy Coal markets will genuinely deliver superior returns for our shareholders.

Hopefully we have also demonstrated a clear understanding of where our markets are at the moment, what is driving customer behaviour in Europe, for example, and how best to position ourselves opposite those customers. In Europe our focus is primarily on customer solutions. In Asia it is on growing market share and I think in both markets we are looking to extract greater than the commodity value from the coal value chain in servicing those markets.

We recognise that the major source of our value is our superb asset portfolio globally and, as I indicated, we are focused relentlessly on improving the competitive position of those assets through a variety of initiatives including portfolio management.

Notwithstanding issues around climate change, we firmly believe that the long-term future of Energy Coal is sound and that it provides substantial growth opportunities for BHP Billiton. In this regard our highest priority is the US$700 million worth of approved projects that we have to get into production within budget and on schedule over the next year or so. Beyond that we have a healthy pipeline of new opportunities in the concept and the pre-feasibility stage, and we have a very rigorous process of assessing those projects to ensure that that value is sustained throughout the process.

Lastly, we are managing, as I said earlier, in an increasingly complex and competitive business environment. I think we have the leadership skills, we have the right blend of technical competencies and commercial skills to drive value out of this business longer term. Thank you for your attention and I think we will now turn over to questions.

QUESTIONS AND ANSWER SESSION.

MR MIKE OPPENHEIMER: The slide up on your screen right now, the Richards Bay coal terminal, which is a source of a lot of the value which Eddie Scholtz generates out of his business at Ingwe.

In terms of the logistics for the question and answer session, we do have this running live in three centres. What I suggest we do is take three questions from the audience here, then three from London, then three from Johannesburg and we also have people in by phone so we will take three questions from them as well and then continue the process if time permits. Jon Dudas will answer questions in London and Eddie Scholtz in Johannesburg. It would be helpful if you could state your name and affiliation when you ask the question. So without further ado, let's take questions. Incidentally, if you can address all of the questions to me in the first instance, I will then farm them out to the rest of the leadership team for the correct answers.

QUESTION. Just a question on the service value that was referred to before. Can you quantify what that figure is in a dollar per tonne basis today over and above what price you get and where you expect that to be in three to five years time given what you are talking about.

MR MIKE OPPENHEIMER: Perhaps we can take that question in two bites. I think Jon Dudas in London perhaps could comment on the contribution that that kind of activity is making at the moment and David a comment on where it could head in the future. Jon?

MR JON DUDAS: Thanks, Mike. Yes, certainly this element is an exciting area for us in the marketing arena. It is almost like the layers of an onion, if you like, around this base tonne of coal that we have added and we can extract significant value from that. Mike mentioned small but significant. This year we generated US$10 million around that of EBIT on around 16 million tonnes of sale into Europe. That is some indication of the potential that is available.

MR DAVID LAMONT: I think the key thing in relation to the benefit that can come from that is also to acknowledge that it is not capital intensive as part of that equation. We are still working through exactly what that means from an overall cost per tonne as such, and at this stage we are more looking at the benefits that we can see coming from the low capital side of things.

QUESTION. Just a couple of questions. AME, their view of where the Chinese may be competitive is as low as $25 a tonne. Would you just care to comment on that with respect to your view? Also just with regard to production cuts, you have made cuts in South Africa and I guess it is very, very competitive in Asia and of course most of your sales go to Europe, but is Asia out of the question for you at the moment for South Africa and would you be looking at more production cuts?

MR JOHN SMITH: US$25 I think is not a bad estimate of potential prices. I think it is range as well. You look at the large state owned enterprises and the Shenhuas that can produce high volumes of coal; they put in their own infrastructure and they can take it to market reasonably cheaply. Obviously the mines that are further away are more trouble, that is how to get the coal to the coast. Like all things, you can't apply the same rationale across them. But I think that is not an unreasonable price as far as I'm concerned.

MR MIKE OPPENHEIMER: I guess there are a number of aspects to the second part of your question. Clearly we manage our business - and hopefully we have demonstrated that to you this evening - with a strong focus on where the market is at any one point in time, and where it is likely to go in the future. I think perhaps Jon Dudas should comment on this from the market end and since the major exposure is in fact in South Africa, perhaps Eddie, you can comment from the Ingwe side of things in terms of production cuts.

MR JON DUDAS: The issues regarding production cuts are not quite clear as they often seem. When we do cut production it also affords us the ability to reduce sales into lower margin areas and perhaps maintain sales into higher margin areas. So it is not that we see a total loss in value when we cut those tonnes. Secondly, our mines have been pushing their production quite hard for the last couple of years and it has certainly given us a chance to give them a breather to improve on their technology, or the maintenance to get ready for the next change in the pricing.

We did see a number of suppliers such as Poland and Russia coming into market at what we thought were subeconomic prices. It really was a market created by this unique set of circumstances and they themselves have huge domestic growth rates in Indonesia, for example, that will mop up any increases in the next year.

MR MIKE OPPENHEIMER: Eddie, do you want to comment from the South African perspective?

MR EDDIE SCHOLTZ: I would just like to add to that that we did cut some production in the three months, April, May June, and right now we are not planning any further cuts. We do recognise that we are in the weakest period of the market; i.e., the European summer. However, on a continuous basis we will re-visit our plans in terms of the unfolding market situation.

MR MIKE OPPENHEIMER: Just one comment on Asia. I wish we were in a position where we could influence prices in Asia. We are still a minnow in terms of building our Asian market share so I wouldn't think that we would want to push ahead with our production constraints into Asia at this particular point in time. We are really a follower of the other majors.

QUESTION. Will you report your trading activities, including any derivatives exposure, separately?

MR DAVID LAMONT: The intention at this stage is that we will actually look at the marketing aspect which does include obviously the trading aspect and disclose that as a separate element within our results.

MR MIKE OPPENHEIMER: But at this stage it is not, is it?

MR DAVID LAMONT: No.

QUESTION. Just on the sensitivities that you gave us for the price, could you just let us know how much of your sales is spot and how much is contract? And you were saying there was a three to four month lag in the realised price you get and the spot price, so would it be fair to assume that you haven't seen, in the results reported so far, you haven't really seen the effects of the lower spot price?

MR DAVID LAMONT: Certainly in relation to the nine months to 31 March 2002 we haven't seen the real impact of the spot prices flow through to the results reported today. The first part of the question in relation to the mix, as such, that does depend very much around the region we are actually selling into. The European market has moved more towards the spot side of things, whereas the Asian market is still very much on the contract side of things.

QUESTON. Just on the cost side. One of the largest components of your cost would have be the transportation and infrastructure charge, rail, port, logistics generally. Is that the area you will be targeting to pick up that cost gain you have identified in your charts or is there still a lot of fat at the sites?

MR MIKE OPPENHEIMER: That is not the principal area - David can comment in a moment. That is not the principal area. We do see opportunities throughout our entire production chain to continually improve our cost position.

MR DAVID LAMONT: I think the comments around the proportion of the cost that actually sit at the mine gate as such in relation to then the transport side of thing, we would see that certainly the mine gate is in the order of 60 to 65 per cent of the costs. Then from the mine gate through the logistics is obviously a large portion, or picks up the remaining portion. To that end, as Jon Dudas has covered in relation to some of the marketing activities, we are looking at how can we leverage our position on the freight side of things and look at driving down the costs there. Equally, when we look at the mine operational side of things, the Six Sigma and operational excellence side of things is a key focus to driving down the cost there. So we see it as a total cost pool that we are managing and we see opportunities at both ends.

MR MIKE OPPENHEIMER: Belatedly perhaps we should pass over to London for questions.

QUESTION. Your ability to deliver in the longer term must, to some degree, depend on how successful you are in predicting the normalised long run on Energy Coal price. We have seen cost curves today that show the midpoint tends to be cash delivered into Europe and Asia around $23. This is all implying that the average producer is going to break even in the mid to high $20 per tonne. My question is: what are your assumptions for a normalised long-term price, both theoretical and in a practical sense because we are in a very fragmented industry where not all the producers are driven by commercial criteria.

MR MIKE OPPENHEIMER: Why don't I just give a quick response and then hand over to John Smith whose bailiwick this actually is. In fact, John has alluded to it. In our view, if you look at the long term it is really the inducement price into Australia or from Australia that is going to set global coal prices under certain scenarios. It could be the inducement price out of China under other scenarios, but by and large it is production out of those two regions of the world that we believe will probably set long term equilibrium pricing.

MR JOHN SMITH: When we have a look at forecasts and we do our long term it is from a supply side basis. So, in other words, having a look at the demand curve, what is necessary to bring in supply to meet that and what inducement price is needed to bring on projects to effectively fill that.

Historically, before China came into the picture and to the extent that it has, it tended to be based on new projects coming out of Australia and Australian inducement price, and that still has a large component of it. Again, China is an interesting factor now coming in, and as we showed it in a band of our pricing on the cost curve, it needs to be in that band to keep the Chinese in there, we think, for the long term. Sure, things will spike, but in the long term you need to be in that range. It is really the inducement price for a new production that drives our curve.

MR MIKE OPPENHEIMER: If I may just add one other comment. Clearly, as we show with our cost of supply curves, I mean we believe we will retain reasonably healthy margins throughout the cycle, irrespective of where the price actually is. Our view is we look at the business long term in terms of investment decision making, but we also look at it on a year-by-year basis to ensure that we sustain profitability and return on capital at all reasonable points in the cycle.

QUESTION. If I turn to Colombia, and I realise it is clearly early days in the integration process, but can you give some idea of your initial thoughts on the timetable and the capital costs for the optimisation program and the phase 1 and phase 2 expansion?

MR JOHN SMITH: It is an interesting one. Clearly when we did the acquisition we had views as to what we can do. Before we proceed with any project, clearly the best thing to do is optimise that which we have. So if you ask where focus is just now it is saying that we have put the assets together now how do we get these to work as sweetly as we can, and what production can we achieve out of this set of assets; what are the constraints, what are the bottlenecks and what does it take capital wise to change that to allow us to deal with it.

So I think you are going to see a lot of activities just now and our focus is around synergy extraction and about trying to optimise that base case. Having done that clearly with an asset set that we believe can deliver up to 40 million tonnes in the long run, it is going to be market based as to when we bring that production in. We don't have to do a great deal of work to bring in the first phase, if you like, a number of years and then after that we will look at that as the market dictates. It will be done in a number of phases, probably 1, 2 at least, and not one big project.

MR MIKE OPPENHEIMER: Just another comment there. I made reference earlier to our influence in our non-operated assets and this is one area where I think we have been able to bring BHP Billiton's acquisition integration experience to bear quite effectively, both coal acquisitions which we have done over the last couple of years and our recent merger. So we have in fact seconded someone into the new Cerrejon management team to actually drive the integration process and to focus intensively on synergy capture. So that, I think, is an insight into how we are trying to drive that influence forward.

QUESTON. Just a quick question on stocks of utility companies. Where do you feel utility companies generally are in stocks in Europe and in Asia?

MR MIKE OPPENHEIMER: Are you talking about coal stocks or stock prices?

QUESTION. No, in terms of coal stocks, and hence any kind of restocking influence there.

MR JON DUDAS: I think it is true to say that the stock levels are generally lower than this period last year. We have come through a period of declining price and when people see those trends they tend to delay purchases to the last possible moment and run down their stocks. Additionally, we are of course in summer and that is already a low stock environment for most of the generators. I think generally, yes, moving into winter we will see them coming off a lower stock base than they had last year.

MR MIKE OPPENHEIMER: Perhaps we should move to Johannesburg now for questions from that audience.

QUESTION. I wonder if you could just put a little bit more meat on this forward curve. You talked about the coal prices and particularly with reference in terms of how accurate it is of the future prices, because when one looks at this there is obviously some good money to be made.

MR JON DUDAS: As indicated, it is a market that has grown quite quickly over the last few years, so it has really only been around for three years. Last year was about 90 million tonnes of paper, this year 120, probably even more, and it is a very volatile paper environment. In order to capture the benefits in that derivative market you have to almost be live and wired in as we are via screens to those derivative markets.

I think it is true to say it is not properly developed. We probably need velocity rates of around 3 which are forecast to be here in about two years, so that the market is liquid enough and deep enough to allow you to fully hedge should you want to. So certainly, yes, it is possible to go out there and hedge large tonnages, tranches of tonnages, but certainly not all of our production could be hedged in a period of two to three days.

MR MIKE OPPENHEIMER: Further questions from Johannesburg? Do we have any questions via the phone system?

QUESTION. Hello, gentlemen. I would just like to ask a question about pricing. Since you are not such a large part of the Asian market maybe you could give some light on it. We know that the benchmark was reduced from $34.50 down to $31.85. There is a lot of confusion in the market about what the actual price really negotiated was in terms of discounts off that price. (a) could you just give some comment on what you believe is the current market price for contracts and what percentage of the market that is, and (b) do you believe that we will see the Asian market move in the direction of the European market with basically a breakdown or a disappearance of benchmarking?

MR JON DUDAS: Yes, I think in Asia it has been a rather confusing price session this year and really that is a breakdown of traditional benchmarks, reference pricing, and, yes, I think we will see the end of it, if not this year definitely last year. All buyers, all producers are now becoming more competitive.

The discount on the face of it was around 8 per cent for general supply into Japan. I certainly believe, given the tiered discounting that applies, the overall number is probably in the range of 10 to

10.5 per cent, and I do believe that moving into the Taiwanese and Korean settlements we'll probably see settlements a little bit worse than that, probably in the region of 11.5 to 12 per cent down for the term contracts.

Returning to the question about the volume of those contracts, a lot of buying is done in the East still on term contracts, and that price is sill significantly higher than the current spot price. The spot price at the moment is really being set on a global basis. We see Australian coal is coming into Europe and we do see South Africa coal is moving into the East. It is really a current situation where spot movements will be paralleled in the East that we see in Europe.

MR MIKE OPPENHEIMER: Just an additional comment on the last part of your question. Clearly, we do see over time deregulation occurring in the Asian market and I think I said at the outset that one of the capability sets that we have is the ability to manage our business across a variety of different market environments. We see a sort of Asian market model emerging over a period of time which is quite different to what it is today, and we certainly think the capability that Jon and his team have developed in Europe will position us very nicely in an early mover sense to participate in that new Asian market model.

Next question from the phone system.

QUESTION. Good afternoon. Having analysed the new portfolio of coal assets that you now have post the merger, is there anything sticking out that you actually might like to dispose of?

MR MIKE OPPENHEIMER: I will answer that question; probably not. We have been through, as I took you through earlier, a very disciplined assessment of our portfolio and we have divested some assets. I mean, we have some minor properties around the world, which are literally minor, which we may want to dispose of for reasons that it is not core business. But certainly in terms of our major assets we are very happy with our current portfolio set. We do look at our portfolio continuously, though, so we are also alert to opportunities as and when they occur.

QUESTION. Two quick questions, please. On your slide which looks at your growth profile, a lot of that growth comes through the feasibility and the concept pre-feasibility line. To what extent is the fiscal year 07 number likely to be flat if those feasibility and concept and pre-feasibility areas don't come through; i.e. is business actually going to make headway were it not for those businesses? Second, on the cost achievement, I see you will have already achieved a good part of that for fiscal year 02. Going forward to fiscal 07, to what extent is that achievement also reliant on the blue sky feasibility/concept/pre-feasibility area, or is it reliant very much on the incumbent businesses?

MR MARK OPPENHEIMER: Again, I think there are a number of aspects to your question. In terms of growth a very significant part of our growth comes from the US$700 million of capital projects which has already been approved, and the feasibility projects are at the stage just prior to approval. I think there is a high probability that the vast majority of those will go through as well. So I think, you know, the earnings growth associated with the pipeline of projects is reasonably realistic going forward.

MR JOHN SMITH: Just to re-emphasise, as Mike said, the approved projects and the projects in feasibility are well in train, they are going through a process of approval and definition, but they are projects that have a very high probability of happening. Looking at the pre-feasibility and concept, as Mike alluded to earlier on we have a number of projects and a number of initiatives following through in our strategy that we have actually risk weighted. So it is not all the projects that we have or all the projects that we think of gives us the sum total, that is risked recognising that not everything is going to get up and get approved.

From our point of view we are comfortable with that growth profile given the industry and given the growth possibilities in the industry.

MR MIKE OPPENHEIMER: I think David Lamont is best placed on the cost question.

MR DAVID LAMONT: In relation to the cost improvements that we have flagged, the majority of that actually comes from the existing projects that we have actually already talked through; the Mount Arthur North project, the San Juan underground project and the various projects in South Africa as such. That is all enabling us to high grade the portfolio as such and does see us significantly move more into the export market as well, and that is the key driver alongside the cost improvement.

MR MIKE OPPENHEIMER: Apparently there were further questions in Johannesburg but the mike wasn't working. Perhaps we should cross back there quickly.

QUESTION. My question was you have your operations in Colombia and South Africa, the main customers for that coal are in Europe. How do you decide how to source the coal from either of those countries through to Europe?

MR MARK OPPENHEIMER: I will kick off the answer to that question. Clearly, our Colombian business, we have three shareholders in Colombia, and we have formed an independent integrated company set around coal that runs that business. So decision making around production plans associated with a market are taken by the Cerrejon Coal company, and the Cerrejon Coal company boards, so it is really not an issue for BHP Billiton to decide unilaterally.

MR JON DUDAS: I think what dictates where we bring the coal in from is really driven by the customer and specific qualities, perhaps, that they might need and the sources available from the various basins. On top of that, we do look at freight arbitrage opportunities through the regions so that we can land a lower cost to ourselves. That is really what drives our decision making.

QUESTION. There is one area that you have not touched on in your presentation which is the Indian market. Is that not a market available to BHP Billiton's coal or is it just an area –that is of interest?

MR JON DUDAS: The Indian market is actually quite unique from a few aspects. One is that South Africa is the closest supplying region to it, so there is geographic advantage. The second one is that most imported coal goes into the cement industry or general industries as opposed to the generating industries, so any amount of coal you can sink into that region lowers the volume available to our main business. However, the Indians themselves have got quite a protected domestic market and they tend to react by changing import duty, rail charges, ship loading charges, quite rapidly, in fact within a number of months.

So one can actually see a picture in India from the importing ports as sort of a bubble where you're competitive that shifts as the months change and as regularly as the Indians change the regulations. However, it is a low value market and certainly those are the sort of markets that we cut out as we have done now when we did our production cuts and keep our production in the high value markets.

QUESTION. You have talked about coal energy conversion deals from a marketing perspective. What I would like to know is what you mean by that and how does that work. I would also like to know if that is any way linked to the multi-source energy deal that you referred to where you supply coal in Europe. I am also interested in how that is priced.

MR MIKE OPPENHEIMER: Just a couple of comments and I think probably again Jon is best placed to answer the question in detail. Clearly we see the whole European market converging in terms of energy pricing, and customers are making fuel choices based on economically rational decisions. That is the essence of this fuel or energy converse issue which is so critical to our capability development in Europe. Jon, do you want to comment on that?

MR JON DUDAS: I think that really is the issue facing the customers. They certainly have to sell their electricity out either on forward curves or into the wholesale market, and they need to find a way to look in their input fuel costs. Certainly the traditional pricing system of annual pricing and annual tonnage has zero flexibility for them. So we have had to adapt our offerings to match the movements and the speed that they see in alternative fields, basically fuel oil although it has been uncompetitive for a year, and the gas markets as well.

QUESTION. You had a chart talking about UK coal and German coal and talked about deregulation, certainly on the gas side. Can you talk a bit more about that because obviously the influence would be increase use of gas, decrease use of coal longer term. Can you give us some timing on that and what you view as the influence on coal.

MR JON DUDAS: Yes, I think the issue is that gas undoubtedly in Europe is the fuel of choice for growth, although we do see in the press more recently that there are questions being asked around the sustainability of that in the longer term in the European Union, and the advisability of sourcing permanent gas supplies from far flung regions such as Russia, Afghanistan et cetera, along capital intensive pipelines.

However, when you take the environmental impacts into account as well there is no doubt that at the moment gas is the fuel of choice. There is no reason to believe that it is going to substantially displace the coal in the market. I have already alluded to the fact that the expensive domestic production will be substituted by imported coal but there are some coal generators that are allowed to run that will actually outlive the current life of the mine reserves that are feeding from them. So there is the potential to extend the life of those as well.

I think there is significant room still for movement in the coal market in Europe.

MR MARK OPPENHEIMER: If I may, just a general comment picking up from that which is an important strategic issue from us. Our whole business plan is predicated on the view that we think gas is going to grow its market share into power generation from about 18 per cent of the market in 1999 to 26 or 27 per cent in 2020. So we see most of the growth in power generation going to gas. The issue, of course, is that the growth in demand for power generation will also see growth in demand for coal, although coal's market share will decline.

If you look at the size of the coal market and our relatively small percentage of the coal market, you can see why we are bullish in terms of growth for our business.

Unless there are any other pressing questions I think we should draw this to a close. It is running rather late here in Sydney. Just a closing comment from me. I appreciate your attention and the quality of the questions. I look forward to the next review, whenever that will be. Thank you.

MEETING CONCLUDED