Boodarie Iron

Operated by BHP Billiton

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Iron Ore

- KEYNOTE ADDRESS -

"The Outlook for BHP Billiton's Iron Ore Business in Western Australia"

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INTRODUCTION

As you will hear repeatedly during this conference, there is no question that current global demand for iron ore is strong. Across the industry, record production and shipping results are being achieved and, I believe, will continue for some time into the future. Ironically, this environment, along with other external forces, has generated a greater level of competitive pressures that cannot be ignored by the major producers. The evolving challenge is to deliver the growth necessary to satisfy the increasing demand for our products, while maintaining our low cost base and enviable safety record.

Our iron ore business is already recognised as a global leader in this industry for our world-class resource base, efficient production infrastructure, well-established marketing network and proximity to the industry growth in Asia. We are relentlessly pursuing greater efficiencies in our existing iron ore operations while maintaining our share of the sea-borne iron ore market.

Over the past year, we have focussed on refining and executing strategy, rather than re-shaping it. This strategy hinges on the following fundamentals, each of which I will cover in further detail later.

1. Sustaining a strong underlying business that continually strives to deliver operating improvements and efficiencies;
2. Capacity expansion projects that will allow us to manage changes in demand; and
3. A sophisticated marketing approach that aligns the business with the marketplace.

Two significant outcomes flow from our concentration on these strategic directions.

First, recent incremental operating improvements have swelled our production and shipment levels well beyond what we previously defined as capacity. This has allowed us to meet recent strong market growth.

Second, our capital investments will allow us to bring on further capacity and products as the market requires.

And as always, we have maintained a focus on our overall business model and core processes, ensuring that we best match our large resource base and product range with the needs of the evolving market.

- **Snapshot of the Business**

Before looking at these recent changes and developments, I will briefly reacquaint you with our Iron Ore business.

Our business is structured into four main operational areas in which we employ about 2000 staff and a similar number of contractors.

Our operations are located across the Pilbara region of Western Australia, from Port Hedland in the North, Yarrie in the East and Newman in the South East.

These operations include:

- Extensive iron ore resources supporting a range of mines across the Pilbara.
- 696 kilometres of railway linking our mine and port operations, including a rail fleet of 48 locomotives and 2210 ore carriages.
- Port and processing facilities at Nelson Point and Finucane Island, which are linked by an under-harbour tunnel and conveyer.
- The Boodarie Iron hot briquetted iron plant, which is also located at Hedland.

Customers of BHP Billiton Iron Ore and Boodarie Iron are located all over the world, and are ranked by demand as follows:

1. Japan - 42%
2. China - 20%
3. South Korea - 17%
4. Australia - 10% (including Newman Fines sales to Boodarie™ Iron).
5. Taiwan - 7%
6. Europe - 4%

- **Strong fundamental business**

The success of BHP Billiton Iron Ore and its predecessors over the last 34 years has been built upon the high quality of our mineral assets as feedstock for steel furnaces across the globe. In general, our products fit within 3 niches.

First, Mt Newman ores are our high Fe, low Loss on Ignition ores. The chemical, granulation and sintering properties of Mt Newman High Grade Fines means that it is increasingly popular with inland Chinese customers. For these customers, the additional Loss on Ignition in pisolitic and marra mamba ores means significant additional freight costs. We believe this is the cause of the falls in Australian market share to China at the expense of high Fe Brazilian and Indian ores.

Similarly, our High Grade Newman Lump is appreciated for its high Fe, as well as its reducibility and low alkalis, though this product remains popular outside China as well. The remaining resources from our Goldsworthy operations, centred around Yarrie, have similar properties to our Newman ores.

Despite more than 34 years of sustained production growth, we still have 1.3 billion tonnes of low P Brockman resources available mainly in the Newman area, and approximately 1.7 billion tonnes of high P Brockman ore in our resource base, sufficient to support many more years of increased production.

Yandi has found itself a niche as a high Value-In-Use (VIU), low alumina product, in particular for coastal mills. After leading the market development for pisolite ore, demand for our Yandi Fines product remains strong. The main market for this product is high-technology coastal mills, particularly in Japan, Korea, Taiwan and Australia. Our Yandi Fines have been complemented by the introduction of Yandi Lump. This fills a niche for low cost, low alumina ore for high-technology customers operating at relatively low blast furnace productivity. Most Yandi Lump is sold to Japan.

Mining Area C is one of the next generation of Marra Mamba ore projects. This market niche is for high VIU, relatively low silica ores. The higher ultrafines component of these ores presents some challenges in sintering and we believe that, like Yandi, the relatively higher loss on ignition and lower Fe of these ores means they will find it harder to penetrate the Chinese market. However, we are working closely with Chinese customers to understand the potential for sales of Marra Mamba ore. Of course, if our Chinese customers do want Marra Mamba products, we have ample resources to meet that demand.

Our Newcastle Technology Centre is a leading source of sintering technology. Through the Centre, we have done extensive technical research into the difficulties of sintering marra mamba ores. We are now working through with customers the ways they can overcome these challenges to maintain sinter productivity while reducing costs, provided of course that they use MAC™ to do so. So far the results of this co-operation have been very encouraging.

- **Business Performance**

Our Iron Ore business performance has continued to improve in recent years.

Performance in the current financial year has been the best on record, with sales of 40.4 Mwt of iron ore in the first half of the YEJ 2003. This is about 9% or 3.3 Mwt greater than the equivalent period in YEJ 2002, and the first time that we have dispatched over 40 Mwt in one half. Our first half production for YEJ 2003 was 38.4 Mwt. These results are significant as they represent levels of production and shipping that exceed what we previously defined as capacity just a few years ago.

In CY 2002 we shipped 74.6 Mwt, exceeding our previous record of 71.3 Mwt for CY 2001.

Our Boodarie Iron plant in Port Hedland produced 747,000 tonnes of briquettes in the first half of YEJ 2003. Boodarie has recently been running three and four trains for consistent periods. The strong demand for Boodarie™ Iron is continuing for use in both BOF and EAF applications. We have recently seen a significant increase in prices driven by upward movement in the metallics market generally coupled with supply availability issues for DRI due to the political circumstances in Venezuela. Our focus through the balance of 2003 is on consistency of operation as we continue ramping up production, against what is the most encouraging environment for the commercial success of the plant to date by far.

CURRENT CHALLENGES

I now turn to developments in the external market, which have driven the key direction of our business in recent years.

Asia continues to dominate global steel production, accounting for around 41% of the total 840 Mt of world crude steel production in 2001. Steel growth in Asia has averaged above 3% pa over 1990-2001, compared to a global average of 0.9%.

This growth in steel production is reflected in the dramatic rise in Asian seaborne iron ore imports over the past 20-30 years. Growth in the global seaborne iron ore trade has been driven by Asia, while imports into the developed regions of North America and Europe have remained relatively flat. During the period 1980-2000, global seaborne iron ore trade increased by 27% while Asian ore imports grew by over 67%.

The Japanese steel mills are now focussing on the use of new generation ores to drive down steel making costs. China remains a developing market, with strong economic expansion over the past decade fuelling a sustained increase in steel consumption.

Chinese steel production has more than doubled over the past ten years, with production rising by over 100 Mt from around 81 Mt of crude steel in 1992 to almost 182 Mt in 2002. This equates to an annual compound growth rate of 8.4% since 1992, rising to over 11%pa since 1997.

This increased steel production has been based on imported ore, with domestic Chinese ore production remaining flat or declining. Most forecasts indicate that future imports to China may rise as steel production grows from 182 Mt to over 200 Mt forecast for this year, to over 300 Mt within the next 5 to 10 years, reaching over 25% of total global production. Consequently, China is one of the key drivers for future steel consumption as well as production with IISI medium term forecasts of consumption predicting growth at 7% pa compound in their mid case.

2002 saw Chinese import demand increase significantly, beyond the ability of the domestic industry and led to a rise in steel imports of 15%. This was supplied from existing steel making capacity in neighbouring countries such as Japan and Korea, and this trend is likely to continue at current Chinese growth rates. The strong import demand from China was the major reason for the increase in Japanese crude steel production to 107.7 Mt, a rise of almost 5 Mt over 2001. This is the third year in a row that Japanese steel production has been over 100 Mt.

While China continues to emerge as Asia's future growth engine, and is forecast to become the largest iron ore importing country this year, Japan and Korea will remain vital markets within the overall Asian iron ore market. While rationalisation in Japan may see some change in ore consumption, there is unlikely to be a longer-term dramatic downward shift, particularly if steel exports to China increase.

Asian demand already dominates world seaborne trade accounting for over 55% of the approximately 455 Mt shipped in 2001, rising to 63% of the approximately 480 Mt shipped in 2002. Chinese demand increases of 19 Mt in 2002 corresponded to 80% of the rise in seaborne trade. And as I've said, we believe much of this demand will be for relatively high Fe ores, which our Mt Newman operation in particular is well positioned to meet.

Future growth in the steel industry and seaborne iron ore market will clearly continue to be focussed in Asia, and BHP Billiton's Pilbara operations are well positioned to capture a major share of this growth.

OUR STRATEGY AND PROGRESS IN MEETING THE CHALLENGES

In meeting the increasing demand requirements of our customers, our organisational strategy is focussed in three key areas.

1. Sustaining the business

In 2002, Western Australian iron ore producers were recognised as being among the most efficient producers in the world. We are in this class, but are unrelenting in our pursuit of continued innovation, efficiency improvement and cost reduction. Notably, the introduction of individual contracts in 1999 among the traditional award workforce has had a significant effect on the productivity rates for our operations and provided the basis for increased employee involvement in business improvement.

- **Continual drive for operating improvements and efficiencies**

Our drive for continued efficiencies is spearheaded by the Operating Excellence initiative, which has delivered significant cost and efficiency savings to the business. We estimate that our business improvement initiatives overall will result in over A$20M in savings in the current financial year alone.

One of the key efficiency measures for our business is the rate that we can load ships. This affects our ability to earn revenue, increase our operating efficiency and influence our demurrage costs. Hence a focus of our operational improvement is this area. And you can see the dramatic improvement we have made in Gross Loading Rates in the last few years.

- **Gross loading rate – reclaimer 6**

  One of the many projects focussed in this area addressed unutilised capacity of some 2000 tonnes per hour in Reclaimer No. 6 at Nelson Point. Since then, a team has worked to optimise the productivity of this reclaimer, resulting in a 20% improvement in net loading rate. This improvement has increased port capacity and reduced ship turnaround time and therefore demurrage costs, delivering approximately A$700,000 in annualized savings.

- **Increased tonnages in rail cars**

  Another successful project is one where we have increased ore car loading with the installation of a specially designed system at OB25. Improvement to date is a rise from an average ore car load of 112.8t, with a standard deviation of 5.7t to an average of 120.8t, with a standard deviation of 2.1t. This average increase of 8 tonnes or 7% in each ore car represents a significant efficiency and increase in rail capacity.

- **Safety**

As you are aware, we have made a great commitment to the goal of BHP Billiton becoming not just the most efficient and profitable iron ore producer in the Pilbara, but also the safest.

Achieving change that provides a safer workplace is a difficult, yet critical challenge. Our safety record continues to improve, due to our concerted safety initiatives across the organisation. This is noteworthy when viewed in the context of our accelerated expansion projects.

The foundations of our safety approach remain the same:

- Strong leadership and commitment to achieving zero harm to our people, which starts with me, and goes right through the length and breadth of our workforce;
- Safety management systems that are developed in collaboration with the workforce; and
- Developing a more mature perception of hazards and approach to risk taking behaviour by our employees.

This approach is reaping demonstrable rewards. Our Lost Time Injury Frequency Rate has improved significantly over recent years, and currently stands at 1.2. This compares very well in the iron ore industry and the mining industry in general, which has an average of about 7.

- **Sustainable Development**

To sustain our business, we need to be more than just efficient. Now, more than ever before, we need to work in partnership with our communities and other key players in the Pilbara to put our commitment to sustainable development into practice. Our focus in this area is on a achieving the best environmental and community outcomes.

On the environmental front, we made a significant advance during 2002, in gaining ISO 14001 international accreditation across the entire business unit, including our expansion projects, and we have just retained that accreditation. Our community relations program has been focussed on establishing standards and targets to improve and monitor our progress towards sustainable development. These targets include indigenous employment programs and supporting BHP Billiton's group-wide goal of an aggregate contribution to community programs, equivalent to 1% of pre-tax profits.

2. Expansion Projects

The second plank of our strategy is expansion of our product range and capacity. Our expansion projects are designed to deliver the capacity we need as the market continues to grow. And that is the sensible thing to happen. We are among the best positioned to bring on new capacity for relatively low capital expenditure, and our expansion projects are designed to do just that. For this reason, we are looking again at accelerating our existing expansion plans in the light of higher than expected Chinese demand.

- **Yandi Lump**

I will quickly update you on our recently commissioned Yandi Lump project, before turning to our major capital projects. Our A$27 million upgrade to the Yandi mine to deliver an additional 4 Mtpa of lump product was commissioned in June 2002, under budget and ahead of schedule, and our production levels are right on target. Importantly, the introduction of the Lump product has had no impact on the grade of our Yandi Fines product, which is being produced at an annualised rate of about 33 Mtpa. The Yandi products have been a key factor in our record production levels over the first half of the current financial year.

- **Asset Development Projects**

Turning to our larger capacity programs, you would all be aware of our Area C and port and rail expansion projects.

The authorised capital cost for the Area C project is approximately US$213m (100% terms) and US$351m (100% terms) for the products and capacity expansion, otherwise known as PACE.

- **Area C**

Area C is located 120km north of Newman and 39 km from our Yandi mines and is estimated to contain 819 Mt of marra mamba ore in separate deposits. Initial operations will commence at "C deposit", which has a proven and probable reserve of 209Mt.

As part of the development, BHP Billiton entered into a joint venture with POSCO, which will acquire a 20% interest in the 'C Deposit' section. Under the agreement, POSCO has committed to purchase 3 Mtpa of Mining Area C product following an initial ramp-up and to maintain a long-term strategic alliance with us for supply of other iron ore products.

Area C has the potential to increase ore production as the market demands. Engineering is complete and construction work is in progress. Overall, the project is 43% complete. Tenders for the operations contract are currently under evaluation and we expect the contractor to mobilise in April.

The airstrip has recently been completed and construction of the railway spur, linking Area C to Yandi, is underway. Overall completion of the rail project is at 47%.

The 500 strong construction workforce will be replaced by a permanent workforce of 150, and personnel recruitment is currently underway. Overall, the project is proceeding on time and within budget and the first production train is scheduled for October this year.

- **Bulk Sample**

To validate customer confidence in the new MAC™ product, we embarked on an ambitious bulk sample project of ore for trials by overseas customers. To date, 750,000 tonnes of MAC™ has been shipped to customers in Japan and Korea, with 180,000 more tonnes to be dispatched over the next few months.

- **Products and Capacity Expansion**

The PACE Stage 1 development will increase our export capacity by approximately 10 Mtpa at a more efficient level of operation and will be available early in CY 2004. It will also provide the foundations for further stages to increase capacity to over 100Mtpa as the market demands.

The PACE project includes:

- A new 'Western Yard' stockpile area at Finucane Island;
- Modifications to handling systems at Nelson Point;
- Upgrading the under harbour tunnel conveyor to 10,000 tph;
- A new lump re-screening facility at the 'Western Yard';
- A new Finucane Island berth to accommodate 250,000dwt vessels;
- Addition and expansion of rail sidings to accommodate longer trains.

Engineering is 80% complete and overall, the project is 25% complete and on schedule to commence full operations in early 2004.

The PACE rail work is expected to be completed by the end of the current financial year.

The major activities on site to date are earth works and the dredging of the channel. The marine contractor is now commencing work on the new wharf. Electrical and mechanical contractors will be commencing work over the next few months. Other major contracts awarded include stackers and reclaimer, new shiploader, conveyor drives, and additional ore cars.

The PACE project will require a peak workforce of about 500 during 2003 and about 20 new permanent positions.

As you would expect, we are continuing to evaluate the need for further expansion of the port and rail facilities.

3. MARKETING

Our third key business strategy has been to develop a sophisticated marketing approach that aligns the business with the marketplace.

- **New Product Development**

Given increasing cost pressures on steel makers, there has been a drive for ore producers to provide higher VIU market offerings to assist steel producers in optimising their ore feed mix. Over the past decade, we have worked with our major customers in developing these new, higher VIU ore products to assist steel makers in improving their cost competitiveness.

Having pioneered the market development of Yandi Fines, we are well placed to realise the VIU potential of our new Yandi Lump and MAC™ Fines and Lump products as we develop these projects. Our large resources of low P Brockman ore will also enable us to satisfy increasing demand for high Fe Hematite ores in China.

- **Newman Ore upgrade project**

At Newman, we have for some years been successfully reducing costs. Now, we are re-visiting our products and their market position. We will review the balance between what we can economically produce and what the market desires from a long-term, high-grade hematite ore supplier.

The improvements made to our beneficiation plant give us more options. Three years ago we were achieving 4.4 Mtpa – now it is around 7 Mtpa, and the concentrate quality is better. We believe that further improvements are still possible.

In addition, we have now exposed more D2 ore in our Whaleback pit than we have had in recent years. This ensures there will be no issues in producing improved competent high-grade lump ore for at least the next 5 – 10 years, and high-grade fines with improved chemistry.

- **BHP Billiton Marketing Network**

A key outcome from the BHP Billiton merger was the location of the Carbon Steel Materials Group's Marketing hub in Singapore to better service the growing Asian steel industry. The hub is supported by an extensive network of regional offices with representatives in key customer countries. As the world's largest supplier of hard coking coal and manganese, there are unique opportunities for our carbon steel materials businesses to work with each other and maximise returns to BHP Billiton and our joint venture partners.

CONCLUSION

In conclusion, BHP Billiton Iron Ore is a world leader. We are producing at record levels and beyond what we originally thought was possible. We have a large product mix that is constantly being refined in collaboration with our customers. We have the scale, technology and a quality asset base that defines our operations as world class. Our proximity to the market growth centre in Asia guarantees that we will be a major player in the future growth of the seaborne iron ore industry.

The recent period of growth in the global demand for iron ore has been extraordinary. We have been able to stretch the capacity of our existing operations to participate in this growth period and maintain our market share. The timing of our additional capacity over the upcoming months will enable us to meet the continued growth in demand that we expect to see over the coming years.

Thank you.