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BHP BILLITON CARBON STEEL MATERIALS BRIEFING
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BOB KIRKBY: Good morning, ladies and gentlemen. Welcome to this briefing of the Carbon Steel Material sector group of BHP Billiton. I'm Bob Kirkby, for those of you that don't know me. It's good to see so many of you here this morning. A couple of ground rules if we could. Mobile phones, if anyone's got a mobile phone or a blackberry, if you could turn that off. Just in case we forget later, there is a lunch. It will be next door. There will be a lunch provided after the briefing, which we expect to take until 12 o'clock.

You've got a handout in front of you. If I could just introduce the people we've got here helping us today. Andrew Offen is a marketing director. Andrew has presented at these sessions before. Graeme Hunt, who runs the iron ore business, is known to all of you. Peter Beaven is new. Peter's responsible for development activities in the Carbon Steel Materials Group. Colin Bloomfield is new to you. New in these positions would be a better way to describe it. Colin is responsible now for the Illawarra coal mining assets. And we are lucky to have Dave Murray with us. Dave is the CEO of BMA. Of course BHP is 50 per cent owner with Mitsubishi, and I see many of the Mitsubishi gentlemen here this morning; that is good. We will all take turns at presenting sections of this.

Not with us today are two people. One is John Raubenheimer. John runs the manganese business. He is based in Johannesburg. We will cover for him. It is the middle of the night, so we will let John sleep. Right at the moment, we are running without a CFO. Louie Irvine was our previous CFO. He has joined Xstrata. We have just finished recruiting and I will be announcing a new CFO during this week. So we'll cover for those gentlemen.

Right, if I could just start off. These are the themes that we'll be running through this morning: unprecedented demand in all the commodities in Carbon Steel Material. That won't be of any news to you in iron ore. I guess we're seeing similar patterns now emerge in coking coal, metallurgical coal, and in the manganese business as well.

We have under way low cost, low risk expansions right across the board, and people will be talking about those in their area of responsibility. We're very fortunate to have the resource base that we do, and we've been able to build on that in this time of growing demand.

I would just say a word about reliability. We are looked upon as one of the reliable suppliers, particularly in the coking coal business, for many years filling in for others that for one reason or other don't supply. That is very important to customers at the moment and we are being rewarded for it. We're doing our best to meet all those needs. It's also part of our value proposition. Growing part of our value proposition in manganese at the moment, where some of the other suppliers have been unreliable, and in our iron ore business of course it is a core part of our value proposition.

Our focus on improvement remains. These are boom times I guess. It is quite easy to take your eye off the ball. That is not the case and you will hear some of the examples where we are pushing ahead with our programs to reduce cost, improve productivity and improve the capital efficiency of our business.

Last but not least, these are boom times. They will come to an end - who knows when but it's certain and we are taking steps, putting in platforms, that will see us through in the longer term and we'll talk about some of those as we go forward.

The next slide is just a map we've used a number of times highlighting the scope of our business. I don't intend to go through that. I am sure you're all familiar with the asset suite that we have which is very impressive. A full range of assets which none of the other competitors have in this sector.

Additionally, we've been publishing our EBIT numbers. This is just a breakdown to remind you of the EBIT contribution of the various business units in our Group year on year. Iron ore continues to improve. Our coal businesses are down somewhat. I mean they didn't enjoy a price rise like iron ore for this reporting period and the exchange rate has strengthened. A similar story in manganese. There are some production issues at the Illawarra Coal which Colin Bloomfield will cover, and Boodarie Iron as you can see is now just above the line, which has been a long hard struggle as many of you will know and Graeme will mention that in his talk.

If I just look holistically at the whole business for the half year ended December 2002 versus December 2003. The themes here are obvious: the price increase in everything but coal basically has added to that line of $146 million.

Efficiencies, our cost efficiencies, also a significant contribution first half year on year; volume up; and then you can see the big negative impact of the exchange rate across the two six months. The Australian dollar moved from 55 cents to 69 cents and the rand from 10 rand to the US dollar to 7 rand to the US dollar - so very significant movements in the two major currencies and it has a very negative impact on our earnings. Six months on six months, very flat earnings and the second half of last year, so we've had three periods of just over half a billion dollars US EBIT from this business.

We've just included here the changes foreign exchange impact on our various EBITs for your reference.

Margins: I remind you about EBITDA margins in this business, very healthy in all of our sectors with the exception of Boodarie, and that's a story which you are all familiar with. Both of our iron ore businesses in Australia and Brazil, very solid margins. Our coal businesses in Queensland and the Illawarra also with good margins, and the manganese business with a very similar margin to the Illawarra Coal margin. So it is a good margin business and we're very fortunate to have our major businesses in that shape.

If I talk now just to production, because this is a period of higher and higher production. In iron ore, you can see on the left hand graph, I mean the iron ore business in FY01 was 68 million tonnes in Western Australia, 15 in Brazil, and Boodarie Iron in those days was running at just under a million tonnes per annum.

In the last six months, if I annualise the last six months production: iron ore is now running at 90 million tonnes a year rate and Graeme will talk about our ongoing plans to lift that, but we've achieved that in the last six months. Samarco also running at 16 million tonne a year rate and Boodarie produced a million tonnes in the first six months, so two million tonne a year rate.

I will say that the second half of our financial year is usually affected in all of our businesses in Australia with the wet season, and we will be attempting to push all those numbers up but we have seen some minor affects that we've seen both in Western Australia and in Queensland and in Groote Island actually in the back half of the year so it's not always easy just to double these things.

Metallurgical coal business: Queensland coal in FY03 in 100 per cent terms is 50 million tonnes and Illawarra 6.8 million tonnes. Six months just ended 31 December 2003, 53 million tonne a year rate out of Queensland and a drop, which Colin will talk about, of 6 million tonnes a year rate out of the Illawarra Coal operations.

Turning to manganese, it's the same story. We're lifting our ore production, which is on the left, in both Australia and South Africa. If I go back, for instance, to FY01: South Africa, 2.1 million tonnes per annum, then FY03, 2.3 million tonnes per annum, then the last six months running at the 2.6 million tonne per annum rate. In Australia, at Groote Island 1.6 million tonnes per annum in FY01; 1.9 million tonnes per annum in FY03; now running at 2.2 million tonne rate. So a lift in production in manganese ore to meet the demand in China and some of the supply problems that other producers have had.

The alloy business, we've been running that pretty well flat out for the last couple of years, around the 700,000 tonne a year rate. The only issue we really have had in manganese is some electricity supply problems in South Africa which has caused us some outages. But the rest of the business is running at full capacity.

I'll just talk about China before handing over to Andrew Offen. But as you know Chip Goodyear announced our joint venture deal in China recently. I've been to China twice this year. We now have a staff of 23 people I think it is in Shanghai - analysts, sales people, technical, marketing people - working full time and we've gathered quite a lot of information.

I thought I would just summarise this in our words. Much of it won't be news to you. But the Chinese steel industry is now the largest steel producing country with 23 per cent of the world's steel production. It is blast furnace dominated; of course our raw materials go mainly into that route. It's relied on seaborne iron ore, although it does have a very large domestic iron ore industry, that's low grade iron ore. It needs

imported iron ore to grow at the rate it has. We're seeing an increasing demand for coking coal, and Andrew Offen will talk about that.

The steel industry is very fragmented. I will show you a map. Compared to say a place like Japan, the Chinese steel industry is very fragmented and takes a lot more people to service and get to know what's happening. And the other thing is that it's long products dominated and I will give you some numbers here. The steel products that are currently required in construction dominate steel usage and production in China.

It's also the largest trading country and I've also got some notes there on import, but it is now the largest importing country for steel in the world, and our other customers in Asia and Japan, Korea, Taiwan, in particular, are benefiting from supplying the Chinese economy. It's the largest consumer. It's competitive. The steel industry has been revolutionised, much like the rest of China, it is going through tremendous change and there are some very competitive up-to-date steel plants in China. And of course it is the biggest growth market and that's why it is of so much interest to us all.

Just a graph here to show you the pig iron crude steel and the roll steel numbers that we have. The big thing here is the change that occurred 2001. Huge jump in the rate of growth, which I guess has caught us all out and we're all scrambling, particularly in iron ore. It is now emerging in the other commodities, not only in carbon steel of course but we're seeing it in other commodities across BHP Billiton as well.

I think there are 80-odd steel mills here which we track, our sales people are following, we've established contact with and we see many of these as potential customers. Some of them far inland obviously not, but the green area in particular, roughly a 500-kilometre bandwidth around the coast, we see as potential customers, iron ore, coking coal, manganese, Hot Briquetted Iron (HBI).

This is a graph showing the steel imports. The imports are mainly flat products coming from high technology producers in Japan, Korea and Taiwan. You can see the numbers there. I think it is 28.5 million tonnes in calendar year 03, flat products. Some long products coming in from the CIS. But it's had a very stimulating effect on the steel industry in those neighbouring countries.

There's a breakdown of what we believe the usage is. The statistics we have, you can see of the 240 million tonnes consumed in calendar year 03, 128 million tonnes went into construction. Next biggest sector, machinery and equipment manufacture, nearly 32 million tonnes. And auto at 12.3 million tonnes. This is a pattern of an industrialising country and this wouldn't be reflected in more developed countries.

But the story of the moment of course is China. We are spending a lot of time and effort understanding it - understanding what their needs are, understanding who the players are, understanding how long it is likely to continue. We believe now we've got a very good insight into what is happening in that area. I'll hand over to Andrew, who can talk more about the future of their business.

ANDREW OFFEN: Thank you, Bob, and good morning everyone. In the interest of time this morning, I'm not going to go through every chart in the pack you have in front of you. I'll skip over a couple of the ones that are more focused around data and try and focus rather on the outlook that we have for the steel industry going forward over the next few years and then look at each of the three major commodities we participate in and then take a brief look at our ongoing marketing strategy and what we're doing in the current environment.

Firstly, to have a look at the steel industry. I think really the key point is here that we see absolutely no signs of any letup of what is going on in China. The steel demand is still growing very strongly indeed. In fact we're now starting to see increasing signs that that is spreading to a more globally based steel demand recovery.

US, Europe, Russia and importantly for us also India are also starting to show some fairly real signs of pickup. China is also particularly helping to drive steel demands or steel production I should say in the rest of Asia. The almost unprecedented levels of imports that are being sucked into China are giving Japan, Korea, Taiwan a very significant lift, and we're also seeing some steel flow in from the CIS as well which is helping that industry.

Global steel inventory has become quite low and we may for the first time in history this year see a one billion tonne steel production year. We are quite optimistic that that is likely to take place.

Steel capacity is continuing to be built in China. Demand is growing and the capacity of the steel industry to make that steel is also growing. We don't see that as being the constraining bottleneck. Really it is the raw materials side of the Chinese steel industry that is going to determine how much steel they can actually make.

These series of quite unprecedented circumstances are now starting to flow into very significant price increases for the steel industry. Over the last six months we've seen some significant gains. Chinese prices are very high and that is now spreading to the rest of the world. What that means is that despite the significant increase in freight costs, despite the significant increase in raw materials costs, the steel industry's profitability is in fact improving and things this year look pretty positive for them.

So, in summary, I think you can take away a story that the steel industry demand is very robust. Steel profitability and the general circumstances surrounding the steel industry are all showing a significant improvement.

To turn to iron ore - again I think you will be sick of me saying this by the end of this 20 minutes or so - but market conditions in iron ore are very strong. The market remains tight. There is a continued shortage of physical iron ore in the market. It is in fact one of the global bottlenecks for producing pig iron and steel. That is particularly true in China. Our existing customer base in Japan, Korea and Western Europe are protected by their long-term contract structure. They basically have enough ore to make the steel they need, but we have a number of customers in China who are

physically short of iron ore and it is preventing them making as much product as they would like to.

China really is continuing to drive the global seaborne demand picture. We saw a 36 million tonne increase in 2003 of seaborne iron ore demand from China, and we're forecasting similarly strong growth in 2004 and in fact beyond that, and I'll show our forecast in a moment. Interestingly now we're also starting to see the metallics market take off. Scrap prices are very high and that translates into very significant price increases for our HBI products. Graeme will talk about that a bit further in his presentation.

We're also now seeing after two years of the very strong robust market conditions the supply side starting to react. Graeme will talk about our plans, but we're really seeing the iron ore industry as a whole start to put in place some very significant production expansion plans, and really that is what is required to meet the challenge that particularly the Chinese steel industry is presenting to the iron ore supply side industry.

Freight rates are obviously impacting the business. The predominant impact is on a higher cost burden on our customers, but we're also seeing freight differentials start to have an impact on the trade flow ... the patterns of trade in this industry. Fortunately, for us Australia is much closer to the major growth markets in Asia than Brazil and we are enjoying a very significant freight differential at the moment from Australia into North Asia versus Brazil into North Asia. Ultimately, that will serve to support the competitiveness of our products and support our volumes in that region.

If we look at our forecast for the iron ore market going forward: in 2003 we saw a global seaborne iron ore demand in excess of 500 million tonnes going out through the next three or four years out to 2007, we have a range of outcomes on the low side still in excess of 600 million tonnes to a high case of in excess of 700 million tonnes. At the moment, everything we are seeing in our order books all confirms that this demand is tracking on the high side. Really no indications of any change to that to date.

Turning now to metallurgical coal: again, the situation in the coking coal industry has changed dramatically, particularly in the last six to 12 months. The market has tightened up quite frighteningly in that period. It's been driven by two major things: firstly, a very robust demand picture where we're seeing strong blast furnace based steel production as I said before in China but also now in India, Japan and Korea and also Brazil. This is helping to drive a very robust demand for particularly high quality hard coking coals, which are a heavy part of our portfolio. We're also seeing quite significant supply side disruptions that are particularly impacting the short-term market and I will turn to those in the next slide and talk to that a bit further.

The situation in China is also having quite a significant impact on the market. China was exporting quite significant amounts of metallurgical coal, particularly semi soft coals but also increasingly hard coking coals. Over the last 12 months, there has been a very significant drop off, particularly in the export of hard coking coals, and a

pickup in Chinese imports. So China has changed from a net hard coking coal exporter to a net hard coking coal importer in the space of the last six to 12 months. We're also seeing very strong demand for coke in China. There is a very big merchant coke sector in the Chinese market and that is having a very significant impact on the volume of coke that is flowing to the seaborne merchant coke market. We're seeing some of our steel mill customers experiencing very intense shortages of coke, particularly those who have relied on merchant coke over a long period.

Again, similar to iron ore, we see no indications that this situation is dropping off and the robust and strong market conditions that we are currently experiencing we expect to go forward into the future.

I'll just turn briefly to the supply side on the coal side. We've got at the moment, it's almost a perfect storm, in terms of disruptions to the coking coal supply. Starting off in Canada with avalanches this winter in the Rockies preventing the flow of coal down to the ports there. We've seen problems in a number of US undergrounds, particularly undergrounds that are supporting exports of seaborne metallurgical coal. We've seen a reduction of two million tonnes in Chinese hard coking coals which I talked about earlier, and we've got an unprecedented series of problems emerging in the Australian industry which are having an impact in the order of somewhere between six and nine million tonnes. That is predominantly underground problems. Colin will talk about our share of those woes in the Illawarra in a moment, but we're also seeing some bigger problems at Dalrymple Bay which is affecting the ability of the coal that is being produced to flow to the market.

When you add all of that up, it is in the order of 10 to 14 million tonnes of short-term supply disruption. Now if you have a market that for the first time in a long time is starting to show some pretty robust demand growth and you combine that a short-term hit of 10 to 14 million tonnes out of the supply side, you could understand the impact in the short-term is quite severe and a number of our customers are in quite serious circumstances around coal supply. So we're now seeing coal and coke shortages along with iron ore shortages also starting to form bottlenecks for pig iron production.

On the coke side, we believe that the reduction in Chinese export coke this year could be as high as five million tonnes. The Chinese really dominate the seaborne merchant coke market. They are about 75 per cent of the global supply. So a five million tonne coke export reduction just builds on and exacerbates the problems we are seeing on the coal supply side.

Of course, longer term, the people who are currently having those problems will get their act together. That supply will come into the market and it is our challenge to look through these short-term disruptions to try and determine what the real long-term impacts of the demand growth that we are seeing.

If you look at the forecast for coking coal going forward, putting this in context too of an industry that has historically seen quite low growth rates in demand, we're now starting to see the combined impact of all of those things I talked about earlier on the

demand side increases, the range of possible outcomes out through 2007 from currently around 186 million tonnes in 2003. We believe somewhere between ... over 200 tonnes to over 210 million tonnes is the range of outcomes possible in 2007. Again, as with iron ore, we are tracking very firmly on the high side of those range of outcomes. So, again, things are looking very strong and very robust.

Turning to make the manganese industry: again, driven by very strong alloys and very strong consequential ore demand, marketing conditions in the manganese industry have improved quite significantly over the recent year. Demand for manganese units is underpinned by very strong alloy demand in China. That is driven by both the absolute volume of Chinese steel production growth, but it is also driven by the quality profile of the Chinese steel industry. As they produce higher quality steel, the manganese unit intensity increases. So as a result of that, we've seen significant increases in alloy demand and therefore significant pull through in both high-grade and low-grade manganese ores.

On the alloy side, there are some fairly major problems impacting the alloy industry in China. They're suffering from power shortages, they're suffering from shortages of coke and very high cost of coke, and that's really driving their cost of production up significantly and limiting the amount of alloy they're able to produce. That's driven the alloy market in China into significant shortage and we've seen prices for manganese alloy within China rocket. We've now seen those price increases flow on to the rest of the world really starting from about four or five months a go. There have been very, very significant price increases now globally for manganese alloys.

Again, sustained strong Chinese steel production and the quality profile I talked about earlier combined with a more globally based steel production really all points to this set of circumstances continuing for some time. In the manganese side, the suppliers are relatively more capable of meeting the demand challenges but there is a longer term question over the Chinese domestic manganese ore industry. We have initiated in the last couple of months a major investigation of the Chinese industry to get a better handle ourselves on what the potential of that ore supply in China is to meet the current demand growth.

If you move forward to what that means for both ore and alloys, you can see the potential range of outcomes that we have in both of those commodities in the chart in your handout. Again, this has got to be put in a context of an industry that historically has had a very flat demand profile for the last number of years. Quite a significant change.

Okay moving forward now to our marketing strategy, what we're doing about the set of circumstances that we find ourselves in at the moment. Firstly and foremostly, we are continuing to focus on the strategy that we've had in place for the last two years since the merger. We've enjoyed some significant successes as a result of that strategy and we are very focused on maintaining that consistent approach.

Just to briefly touch on the sort of five key planks: it is the CSM approach to the market through our combined marketing organisations based in Singapore under one

management structure; it is the building up of our regional marketing position, that is building up the capability of our regional offices; it is giving them more authority, more autonomy to actually take ownership of the relationships with our customers; and it's driving agents and intermediaries out of our business and doing everything directly where we can.

We are continuing to push down a strong technical marketing path using the Newcastle research laboratories that we have which is really a world-class facility and gives us a significant differentiator from some of our competitors. We're also continuing to push the logistical initiatives we have talked about in previous presentations.

Systems work that we initiated a year and a half ago is continuing and, again, we're also trying to drive, and I think succeeding in driving, a more innovative and more creative culture within our marketing organisation. So that focus stays in place and we continue the work that we've done thus far in those areas.

However, given the market strength that we're seeing at the moment, there are some opportunities to do a little bit more than that. First of all, we're starting to look at our contractual positions and improve both the structure and the duration of the contracts in place. That means tightening up the commercial terms, the flexibilities that we have in our existing commercial contracts and clawing back some of the things that you give away when the market is weaker. It also means some major work on increasing the duration of our long-term contract base and the size of our long-term contract base.

Last week we announced that the Wheelarra joint venture with four Chinese mills and as a result of that we have achieved 12 million tonnes of 25-year contracts . 12 million tonnes of long-term contracts for a duration of 25 years in China. Over the past number of months, we have been able to now realise an equivalent volume of long-term contracts for other Chinese mills for a duration of five to eight years. So it gives us 12 million tonnes tied up for 25 years and another 12 millions tonnes tied up for a five to eight-year period, giving us a total long-term contract base in China now of 24 million tonnes, which is quite a significant improvement from where we were just 12 months ago. That is significant in building the confidence around our longer-term Chinese sales volumes and helps support our growth aspirations.

The second thing we're doing is really focusing on capturing our share of the growth and that's really about moving quickly, identifying the opportunities and being reasonably bold in the way we go out there and capture them.

We're also looking at product quality across our suite of products. At the moment, most of our customers are keen for additional volume. We have the option of actually lowering product quality in some cases and pushing further volume out the door helping to decrease our cost base. It is a win-win situation for both our customers and ourselves and we are looking at opportunities in conjunction with our customers to be able to achieve that.

Finally, we're also looking at price relativities. A number of our products - again, across the whole suite of businesses in the Carbon Steel Materials businesses - have had historically based price discounts based really around the circumstances that surrounded the introduction of those products at the time they were brought on stream. We're looking where those product discounts are not sustained by the value of the product, we're looking at where we can break the old paradigms down and redress those price relativities. Again we're starting to have some success in that area.

So if I summarise briefly, I think the market situation for all of our CSM suite of products is very positive. We have seen higher steel output across the entire CSM product range, and especially driven by growth in North Asia. The steel industry, who are our customers, are growing and they are becoming more profitable, which is obviously good news for us. I think the outlook for the next few years is for a sustained strong demand across all of our product suites. We are continuing to focus on the market strategy that we've had in place for the last two and-a-half years and we are also actively trying to use the current situation to strengthen customer relationships and strengthen our position in the market. Thank you very much. I turn over to Graeme Hunt now who is going to talk about allied ore business.

GRAEME HUNT: Thanks very much, Andrew. It is my task to open the batting I guess to give some overview of the operating side of the business. Looking at the iron ore business, it has already been described by Bob and Andrew as going through a stage of unprecedented demand. Fortunately we have been able to lift our performance to meet that demand. We have broken production records right across the business lifting from around about the 70 million tonnes per annum to up to a 90 million tonnes per annum rate currently and on top of that we are well positioned to capitalise on the investments we have made in Area C, which was commissioned last October, and the port and rail expansion which was commissioned at the end of January this year. We think that puts us in a great position to make the most of the strong demand and the shortages that our customers are seeing in terms of supply. I will talk a little more later about what we are doing to actually build on that capacity further.

We are achieving the best ever cost and performance across many other metrics in the business. A lot of that has been driven by operating excellence. We have now got over 20 full-time business improvement coaches working on a series of efficiency and effectiveness improvements focused on de-bottlenecking and cost improvements. On top of that we have taken a strategic look at our business over the last 18 months, looking not only at our business model but also the infrastructure model and that has identified a series of efficiencies, some of which we will capture through the next expansion step, but others which we are implementing as we go.

A couple of examples of those - there is a lot more focus on integration and planning in the business and how we can utilise the logistics chain more effectively. Two examples of that are we now, where we can, directly loading from train dumping to

ship, bypassing the stockyard. That gives us significant capital efficiencies but also operating efficiencies. We have instituted some changes which allow us to dual stack, building two stockpiles from a single dumping train which again effectively increases our throughput capacity through our train dumping quite significantly.

I won't elaborate too much on Boodarie Iron other than to say that we produced 1 million tonnes in the first half. The focus there is on continuing to ramp up production, being more consistent, ensuring we've got product and production stability. Prices for the product are very good. We are seeing scrap prices in markets like Korea over $300-worth a tonne now, so all of that bodes well for the business but the focus very much is on ensuring that we maintain and improve our operating performance.

I guess the next two themes are really about looking forward. We have been through not only an unprecedented demand period but also an unprecedented series of investments and expansion of the business. We saw Area C completed last year ahead of schedule and under budget. We have seen the port and rail expansion - the PACE Project - completed ahead of schedule and commissioned in January and certainly it is tracking towards being under budget as we go to close out that project as well.

The acceleration to a balanced system capacity of 100 million tonnes is within a few weeks of being completed ahead of its mid-year schedule and the rapid growth project to accelerate the system capacity to 110 million is also ahead of schedule. Initially it was planned to be completed by the end of this calendar year but we expect that we will now complete that in Q3 of this calendar year. So a lot of incremental capacity added at a time when it's obviously needed in the marketplace. We are also looking at platforms to ensure that we have long-term success. One of those is moving into a feasibility study on the next expansion, which will take us to the order of 145 million tonnes. The focus there is not just on capacity. It is on efficiency as well. We certainly believe that we can not only add additional capacity but also do that in a more effective way and efficient way than we have in the past.

The Wheelarra Joint Venture has already been spoken about but it allows us to lock in 12 million tonnes of sales for four Chinese mills. We believe it opens up opportunities for additional sales of iron ore and other commodities to those mills. Effectively it doubles the sales to the four growing Chinese mills and locks those in over a 25 year contract.

Turning to the other side of the world, the Samarco operation. I think it is well known as a high quality and low cost producer. It also has seen significant production growth since '98, up 45 per cent. There has recently been an increase in production to take it from 15 to 16 and-a-half million tonnes of concentrate down the pipeline, which was a $24 million investment - quite a low cost investment - and upgraded the pumping station. That has allowed production of around 15 million tonnes a year of pellets and 1 million tonnes of concentrate.

In light of the current market conditions the owners - ourselves and CVRD in a 50:50 arrangement, have tasked the management towards studying further expansion options - clearly there appears to be an opportunity for those, given the increasing demand out of the Middle East and China for pellets. So that is the iron ore story, extremely dynamic, lots of growth and great opportunity. I think we are very well placed to be positioned with that, particularly bringing on an expansion at this point in time and then having more opportunities coming through the pipeline.

I would now like to hand over to Dave Murray, CEO of BMA.

DAVE MURRAY: Graeme, thank you, very much. Just a few words on BMA - the Queensland assets - the assets owned by BMA as well as the ones that BMA manages and the joint venture. You heard Andrew talk about the unprecedented demand for hard coking coal in particular, and that's certainly Queensland asset produced. Our thinking and our designs and our ideas around growth options advanced in iron ore, so the best way of actually dealing with a shortage at the moment to make sure that the assets that we have are producing above the design capacity, I'm happy to say that that is exactly what we are doing at the moment, notwithstanding some rain events that we have had in Queensland and hopefully we don't have any more, but there are producing pretty well. Hay Point has broken a number of records over the last 12 month period.

It is times like this the OE projects, the operating excellence projects, really start bearing fruit. We have got a project up there called UDB, which really improved the productivity of draglines by between 15 and 20 per cent and that really does help strip overburden more efficiently. It's not something that happened overnight. So it could take a number of years to convert to fleet. But the work to the OE project which really is in a position where it may well do in the future.

One of the major challenges we face clearly with everybody out there requiring additional hard coking coals is balancing the stress between our current consumers of coking coal and potential new customers. So we would like to produce as much coal as possible but in doing that I think we are going to favour our current customers. We have had a long-term relationship with them and are not neglecting market penetration but looking to our current customers.

In terms of growth, Broadmeadow was approved about six months ago - that's an underground punch mine, a new mine underground at Carnilya Hill, capable of producing between 3 and 6 million tonnes. That's on track to produce coal by about the middle of next year, which will automatically increase our output by about 4 million tonnes.

We are also looking at a number of other expansions within BMA, not of single events but numerous alternative brownfield expansions and debottlenecking plants and particular at Peak Downs, looking at improving stripping capacity, which is one of the major restrictions on production at Bowen basin, the removal of overburden, so

with an increase in stripping capacity but also improve the ability to produce more coal and we think by a number of these projects that we could be adding up to about 5 million tonnes of capacity of very low capital and very low risk. So that's really where our plans are going to.

We saw some growth come in earlier in the year and we were lucky enough to secure some infrastructure capacity that was available in the system both in Dalrymple Bay secure in terms of DBCT and we managed to secure about 6 million tonnes of Queensland's rail capacity. So that has really put us on the front foot in terms of increased infrastructure capacity.

The Blackwater Project, which is really a cross-trading initiative by combining output from a number of plants - of processing plants into one - but we planned that additional capacity, that also allows us to export more.

Both BHP Billiton and Mitsubishi - have said to us can we expand BMA further. Clearly there will be an option there and we are looking at ways in which we could further increase the capacity but there is nothing finite or definite in terms of that at the moment.

So, like Graeme, very exciting opportunities for coking coal. There is a lot happening at the moment and I'm sure we'll be going quite further and making sure there's a demand out there for coking coal. I pass on to Colin.

COLIN BLOOMFIELD: Thanks. I guess Bob mentioned I've only been in Illawarra a couple of months. I did previously work in the Illawarra business about seven years ago. I spent seven years in Illawarra and for me coming back I guess into that business gives me a bit of a unique perspective to see how things have progressed and changed and I guess I'm pleased to report that this is a much better business than it was seven years ago. It's a much simpler business. We've reduced the number of mines. We've simplified the logistics chain and, as a result, we've lowered the costs in that business quite substantially over that period of time.

However, we're having a challenging year and really that boils down to the major issue being West Cliff Mine. What has happened at West Cliff is that they have really gone through a period where they have accessed a new area. The geological conditions have been rather poor. There have been a number of faults that have disrupted the mine plan. One long wall block had to be left behind. The first long wall in the new area was cut in half to keep production continuous.

We are also dealing with some high gas levels, which is not unusual for the Illawarra business. We are quite used to coping with high gas levels but because of the mine layout and configuration with the fault structures it was being difficult to drain in advance of development and so it's been a little more challenging than usual. On top of that we've got a very old long wall kit at West Cliff and we have operated that for one long wall block too many and that's resulted in a few issues for us in terms of risk stability, particular on the face, and reliability of the long wall production itself because of the base conveyor particularly and the safe loader.

So West Cliff has its challenges but I guess the good news is that our development is proceeding for the next long wall and we should be in a position to install a new long wall into that area in the next couple of months. We expect that to be operating by 1 July. We have spent $40 million on a brand new long wall and I think that position at West cliff is a much more reliable producer in the future.

I think the outlook beyond FY04 business is very promising. We have the Dendrobium Mine, as you would be aware. It is the first new investment in coal mining in the Illawarra of that size - the first new mine for 20 years and that development is proceeding quite okay. We have had some geotechnical issues at one stage and it appears that the worst of this is over but we keep that project under very close review.

At Appin we have left it in an upgraded coal clearance with the coal clearance capacity for about 1200 tonne an hour to about 1600 tonne an hour and that sets Appin up to be a much more reliable producer in the next financial year. We are also looking at West Cliff, the raw coal handling at West Cliff plant is being upgraded. We have just approved the project for $9 million US but we will significantly simplify the logistics in and around that coal prep. plant and ensure that the West Cliff and Appin product can be washed without any drama.

We have got a whole range of mine de-bottlenecking projects now under study and being assessed and I expect that these will lead at some point in the future to some additional output from our existing facilities. We also have an option under consideration to extend the life of Eloura mine beyond long wall 10. We initially had planned to close that mine. We expect to be able to get another long wall block out of Eloura which will help us in this time of great market plan.

I guess finally we are in the lucky situation in Illawarra where we have a port that operates not at full capacity so we do have capacity if we do make an investment in Illawarra and we also have an excellent reserve position so those two things combined really allow us to consider our options for expanding our mines and looking at other production options in the future. Thanks. I'll hand over to Peter.

PETER BEAVEN: Thanks, Colin. It's great to get the opportunity to talk to you very briefly about the discovery called Maruwai discovery - a potential new coking coal province that we have in our books discovered in Kalimantan in Indonesia. It's fair to say that it is an exploration project only and we have it in the concept study phase at this stage. It is owned 100 per cent by BHP Billiton and we have title under Third Generation CPOW. The initial findings, based on the work that we have done to date, is that we should work to produce a full suite of coal but certainly it should produce a very high quality coking coal which we will find really accepted in the market. Always in Kalimantan and in Indonesia there are always some sensitive environmental and social issues. It is not unique in that respect in any way but we

will obviously, if we go forward with the development, go forward in full compliance with Indonesian law as well as with the highest standards of BHP Billiton itself.

As I say, it is in a concept study phase and we will take at least until the end of the year to complete that concept study and we will provide some further updates thereafter, but it is an interesting development that may see the light of day, particularly in the light of the demand growth that we see in terms of the coking coal market.

I will continue and provide a few words on the manganese business itself. Certainly, you have already heard from Bob the fact that these assets many parts of it are running at record levels, particularly on the ore side of things. In addition to that there are some very good operational excellence initiatives underway and certainly there is - as in the rest of the business - a firm focus on that side of matters, in spite of the growth in the market.

The other aspect, of course, is again we maintain our reputation for quality and reliability and again, as Bob has already said, there have been disruptions from other suppliers but happily our assets have been able to continue to produce it at full production levels without any disruption.

In South Africa we clearly have many issues in terms of HSEC and we have a number of initiatives underway. In particular I draw your attention to the Kotulong Project at Metalloys. It is actually an AIDS hospice and orphanage which we have taken the opportunity to convert accommodation which is no longer needed for mine workers and we have used that for better things. In fact, details of that are included in the annual review.

I am also pleased to say that the safety record in our assets in South Africa and in Australia is exemplary and John and his team are doing a fantastic job there and it has been very very well managed.

The other issue I guess that gets a lot of air play out of South Africa of course is the mining charter and we have obligations to sell-down eventually to 26 per cent but initially to a 15 per cent level. We have an initiative underway which we've been working with some identified parties in South Africa. We are making good progress on that and also importantly we are working very closely with the Government, and particularly the Department of Minerals and Energy, DME, so we have at this stage a degree of confidence that we will be able to produce a solution to this issue which will, in fact, be value additive to the business. In the meantime we are gearing up for an expansion in our production capacity.

We are in the happy position that we have a degree of inherent latent capacity so that the initial production increases, particularly out of GEMCO, will come at a very low capital cost. Whilst there is, of course, an expansion potential out of South Africa, GEMCO is a suite of products, it's latent capacity and geographic position in fact is a prime source of being enable to fulfil the mining growth in the ore business. With that I'll hand back to Bob.

BOB KIRKBY: I will just wrap up with a couple of topics. I would just like to re-emphasise our drive for improvement. We call it the improvement imperative and what we are trying to do is grow our revenue, reduce our costs and improve our capital efficiency.

In this slide we have tried to represent how we go about it. This is the full orchestra, as I call it. In here it is talking about operating excellence and we do have very many small projects but if you think about what we're doing we have a leadership focus on improvement.

You don't get anything in this organisation from a leadership that's not focused on it. We have our normal line organisation which delivers all sorts of projects but in addition to that in BHP Billiton we've built these networks up. Networks of best practice, communities of practise. For example, we have all the processing people who work in all the business, all CSG units come together and exchange ideas on how to process ore, how to process coal, how to process iron ore, how to process diamonds, how to process copper and these people get a lot of benefit from coming together in a professional community. They evaluate each other. They come up with improvement ideas and that's unique to our organisation.
We have that in many many areas and quite often these networks are sponsored by very senior people in the company. It is part of our management focus to drive improvement. We have our operating excellence program where we think about the continuous improvement area and I think we have nearly 2000 people now across the country trained up in operating excellence techniques.

Transformational change is required from time to time in various businesses due to all sorts of circumstances and, for instance, if I think about it, Energy Coal in South Africa, they have a major change program underway there. Commercial activities are an ongoing source of improvement for us obviously. I think an example there would be our supply initiatives. With Caterpillar we have just formed an alliance. We see lots of opportunities for improvement and we continue to work in that area.

And of course, improving technology is a key in improving our business. Dave Murray talked of the UBD program at BMA - it is a combination of operating excellence activity and a new improvement in technology. This is a key focus for all the business units here. We have well-structured programs. We are always pursuing it. Even in these boom times we have spent a lot of management time talking about this.

A quick look at our score card then. We do have outstanding assets. We are operating we believe very well. We haven't had any fatalities or major environmental incidents in our group. You have heard about all the volume records that people are achieving and our costs performance in most areas. Colin had some challenges in the Illawarra obviously with these disruptions but most areas are improving and in the bottom quartile of costs. You have heard our capital efficiency - we have been able

to build a number of low-cost, low risk expansions - obviously very very capital efficient.

Growth – Area C is a major project for us. We brought it ahead of schedule and under budget. PACE, which is the port and rail capacity, the same story, in Western Australia. Now we have got two other smaller projects lifting our capacity to 10 million tonnes per annum and I'm pleased to say that Graeme and his team have done an excellent job and they are both ahead of schedule and on budget. We have now announced, of course, that we have got the next major step, it is a big step from 110 to 145-plus. We have got the same team of people working on that and I'm sure we'll come up with a very good result.

On the coal side, Dave Murray and his BMA team are progressing the Broadmeadow Mine, which we originally approved as a cost reduction activity, but with today's prices it will probably end up being an expansion opportunity. We have talked about our early stage planning, Mitsubishi and ourselves have been talking with the management team there about lifting production by 5 million tonnes per annum. A number of activities, as Dave said, a widespread group of activities have been identified and some of those have been initiated and we will be meeting that management group and eagerly await and find out when they are going to take effect.

The Dendrobium Mine in the Illawarra, also we are well advanced in all of our construction activity there and the underground operations are fully underway and in full swing.

Last but not least, our pretty exciting exploration project in the middle of Kalimantan for coking coal, which for many many years - as Andrew said, the demand has been flat - we see opportunities in that area going forward.

We have also talked today about our approach to the market which we think is unique amongst our raw material suppliers. We've put a lot of effort into China. We had the full suite of products and there is no doubt that right across the steel industry we have got people coming to us talking about all of our products and our reliability and our product suite are certainly holding us in good stead.

Just our approach to marketing, as Andrew said, the systems we are able to put in place are unique. This issue for us - there is huge growth and maintaining our supply to our traditional customers is part of our value proposition. Being able to do that and meet our growth ambitions is obviously something we talk a lot about.

Freight and demurrage in the last year have been issues for us. We believe, and Andrew talked about this, we've done a reasonable job in controlling demurrage at our ports compared to what I see in other areas, but it's an area of ongoing attention.

The Illawarra Coal production problems, Colin talked about those and we are all hopeful that with new equipment and going into some new areas the West Cliff slowdown - will be behind us. We have run those Illawarra Coal businesses for a

number of years without any new equipment. We bought second-hand equipment. I guess it was good at the time. It was appropriate at the time.

I personally wish we had changed it probably six months ahead but it's got a brand spanking new, shining long wall ready to go. It's been assembled and tested and it's been disassembled now and taken underground and Colin said by the middle of the year we expect to have that in production, which will certainly help things.

The last issue here is that enterprise negotiations are underway in Queensland Coal with the unions. We are in discussions both in Queensland in BMA - Dave has a team of people there working their way through the issues with the union - and similarly Colin has people talking about those issues in the Illawarra. We have been through this before and we are hopeful that we can get through it without any significant disruptions.

So in conclusion the word 'unprecedented' is a word which we have used a lot here today but I have been working in this industry since the '70s and it's not since then really that we have seen anything like this. We do have our expansions underway and we've been able to take full advantage of our excellent resource base and our infrastructure and build on that. It has been well documented in iron ore; you will see the same thing occurring in coal I'm sure and in manganese if it's required.

Our performance - we have a wide range of assets and most of those are going well. There is always something in this business that keeps you up at night.

I don't think I've ever been in the business where everybody is running at 100 per cent but we are doing, I think, pretty well. Improvement is a key focus for us and I tried to outline some of the ways we would go about that and also we talked about putting some of the things both operationally and in the market that we believe will hold us in good stead as we go forward.

BOB KIRKBY: Right, what I'd like to do now is I will direct traffic as we take questions.

QUESTION AND ANSWER SESSION – SYDNEY

QUESTION: I just thought a couple of areas you could put a bit more meat around. Firstly, China. you said unprecedented demand. You said you've got a pretty good idea, your order books are full, but I would have thought when the order books dive the Chinese say no more, that will be too late, it will have already turned down. So I was wondering if you could give some more idea about what you actually look at that gives you a better lead indicator. There's talk and what's happening vis a vis inventory in steel? I mean, clearly there's no iron ore inventory, but what about steel at your customer, if not your customer the end consumer as well. I mean, just looking more for the vision all the way through. And there's also some talk about stockpiling of iron ore at the ports, now that some people are actually holding it back in China to squeeze the market higher.

And then just on coking coal. You talk about China going up a hundred million tonnes in steel production. To me that's about sixty millions tonnes of increased demand for coking coal, yet you're talking only about ten to twenty-four in terms of the seaborne market. Just your views on what's happening in China, can they increase their capacity and what you're doing when you look at your ability in Queensland when you say there's only three in – I think it was – three in the port, six in the rail. I mean, that leaves you pretty much only three upside. I was just wondering what else you're doing there?

BOB KIRKBY: I'll have first crack at it, but I'll probably get Andrew to assist me here. Chinese demand, we look at this in a number of ways. Gauging the demand for raw materials. First of all, looking at the steel intensity of your country, looking at its macroeconomic situation. I think we all firmly believe that they're on a path of industrialisation. And so their graph's, you know, up to the right, top right. Will it be a smooth graph? No we don't believe it will be, it will be a sawtooth graph. What might cause the downturns? Well we read the papers just like you, I'm not making any great predictions there, but in the long run, we see sort of graph that Andrew has shown you. So steel intensity, industrialisation, sort of on the macro level.

We also look at a number of steel plants. We have people now counting the number of blast furnaces in operation or in production. And we're talking to those people. So we have a fair idea of the capacity that's being built, both in terms of the steel plants and the infrastructure to support that. And there's no doubt that they're building more steel capacity than the iron – than the raw materials can be supplied. We are having a big internal debate about demand, but we don't see any build up in steel inventories; the construction programs across the country continue to run full pace. So we have, you know, confidence that the steel demand will continue and track along those lines that Andrew showed. Talk about stockpiling and short-term squeezing, there are stockpiles and I don't think anybody's holding back any raw materials that I can see. I mean, if it is it's probably a few thousand tonnes and good luck to those people that might get some money on the spot market – on the short spot market. We're not in that business. There may be other players that are; we've signed up long-term contract and our objective is to sustain an even flow from our operations where we get most of the efficiency and continue to build as the demand builds.

On the coking coal question, I mean, I think it is swinging around. We, like a lot of people, believe the rhetoric that we were told by steel makers in various parts of the world that China was going to bring more and more coal out of China, more and more coking coal out of China. We don't believe that that's possible. Now a number of them are reporting back to us that in fact that's highly unlikely. And then the other issue of course is that the coke out of China is diminished, for two reasons. Firstly, the beehive ovens are being progressively shut down for environmental reasons, and secondly the internal demand for coal and coke in China is being absorbed. Exactly what the capacity of the Chinese coal industry is and what opportunity that might present us we're not totally sure. We have targeted the seaborne area which seems to us to be a longer term market. And there are certain Chinese mills that we've been

talking to where we think longer term we will be able to compete with say Yangtze coal into their mills. But specifically what those numbers are and how big it will be is still a question for us, one we're debating. I mean, we do see opportunities, we're preparing for them and who knows how big it can get. That's a question that's still open in our minds. But we don't want to miss the opportunities obviously, but we want to be sure that if we make these investments that they pay off. Andrew do you want to add anything?

ANDREW OFFEN: I might just add one comment. We've got a very large team now in the Shanghai office who are not sitting back taking orders, and waiting to be surprised one day when the orders stop. We've got four fulltime analysts. We've got a rugby team of sales people who are out there everyday visiting people, talking to people, looking at what's going on in the market, analysing the leading indicators. So I think we've got a reasonably good idea of what actually is going on in the steel industry, rather than just the state of our order book at any current particular point in time. We've also now through our local entity that we've established there, started to participate a little bit in the spot market. The reason for that is not so much to make money out it, it's actually to get a better feel for where the trading part of the business is going. There is a small spot market in China and it's a very, very useful way of getting market intelligence and looking at where material is being traded, where it's going, what demand is about. So I think I'd like to characterise our Shanghai sales team as being on the front foot rather than the back foot trying to determine where things are headed.

QUESTION: Bob, I'm not entirely sure where to direct this question so perhaps if I just address to you, but I looked through your graphs with great interest and I endorse your comments about unprecedented demand, but if I look at coking coal specifically it seems to me that if your forecast of two hundred to two hundred and ten or thereabouts million tonnes a year is correct the world's going to be short coking coal for not just two or three years, but possibly five or ten. It seems to me that the Canadians can't deliver any more than say around twenty-five million tonnes at the moment. It seems also that the U.S. producers can't deliver any more than what they're doing at the moment. And when I look at your projects I'm not really quite sure whether they are just not actually replacement projects for tonnes that are getting made uneconomic by high strip ratios etc.

So it seems to me looking at your mathematics and just cutting the world up and just trying to cut the numbers that way that you just simply cannot get two hundred to two hundred and ten million tonnes of coking coal out of the world right at this moment, and it doesn't seem to me like BHP can achieve that target either. That's part A, and part B is one risk that I see to the overall game is that – I hear what you're saying about China and that's terrific, but I wonder are there blast furnaces elsewhere in the world actually closing because they simply can't source raw material, either iron ore or coking coal?

BOB KIRKBY: Well to answer your first question, second question, or his second comment. There are slow downs in blast furnaces around the world, and if you look at it ex-China, most of that is to do with coking coal and coke. In China it's more to do

with iron ore, the supply of iron ore. So there's sort of a split. The coking coal – the coke shortage and where the coking coal is going to come from is a good question.

I mean as I've just said you are seeing some areas of the world where people are having to slow down furnaces due to the unavailability of coke. And how long that will take for the industry to respond - and I'm very hesitant to say that is won't respond, because I mean I think we were hearing the same sort of comments about iron ore not so long ago - but there will be a lag and there will be a shortage, and we're seeing that now because we're also on top of the surge in demand we're seeing production problems in various places. But there are, I mean, Australia is in a good position to increase its output. China will definitely increase its output. We've been talking to people who've been in Russia, talking about increasing its output. Now some of these are going to be expensive. But I mean, fundamentally I think if the demand's there that the industry will pick up to respond. But there's going to be a time lag, there's no doubt about that. We're seeing it right now.

QUESTION: A question for Andrew, which is almost a – I guess a reverse of the previous two questions. I just wanted you to comment further on the increases in the seaborne coking coal of twenty million tonnes over the next three and a half years. Could you comment on that further in terms of the shortage of coke oven capacity in general? And particularly, I guess, where out of that 20 million tonnes of additional hard coking coal demand, how much of that is China and India and how much of that is the rest of the world.

ANDREW OFFEN: The coking coal demand story is actually quite interesting. There's really three countries leading it. China number one, India number two and Brazil number three. China is a whole separate subject in itself because it's not just a straight demand scenario, it's a demand versus the domestic industry's capability to supply and then bringing into on top of that another complicating factor of the coking capacity in the Chinese industry. So getting a handle on the net seaborne coking coal requirements of China is a real challenge. We've got a lot of work currently under way – we've done a fair bit on looking at it and we've got a lot more work currently under way.

We've just posted a guy out of our Queensland coal business up to Shanghai with some mining expertise to try and get a better handle on the capability of the domestic industry to meet the demands that the steel industry is obviously going to put on them. But everything we see point to an increasing there is going to be a demand there. The chart Bob put up earlier will show China with green fringe around the coast is actually what we're using in the net coal business as kind of our target zone. We believe that longer term we have to be able to compete with domestic Chinese industry on a landed cost basis if we're going to sustain a long-term market position within China. And that five hundred kilometre zone from the coast appears to us to be the best potential we have to do that. So we're looking at, you know, coking coal's a very quality specific business, so we're looking at the specific blends that people in that zone are using, we're looking at where our coals fit into them, we're doing test work in coke ovens in Newcastle to see how our coke -- our coals fit with Chinese coal. We're doing a lot of work to try and get a- a handle on a) what the net import

requirement will be, and b) where our coals fit within the Chinese scheme of coal classification and where our niches can be made.

I think on the balance things are looking quite positive for a sustainable import requirement there that will be pretty significant. How big is a bit open to conjecture, it will be significant. India we're now starting to see take off in terms of steel demand and we're starting to see take off in terms of coal steel production. They will increasingly be a source of demand growth for us over the next five years. India's probably going to be slower than China is, and probably a little bit more problematic, but it stills its happening and we can see it happening. Brazil again because of the very strong position in the iron ore industry there, it is going to be a very logical place for Western European steel makers to expand production with hot metal production capacity in Brazil and we're already starting to see plans being announced and that's happening.

So again, you know, they're the sort of the three scenarios – the three countries we're looking at. We also seeing now with what's happened in the last twelve months with coke more plans around building coke ovens. We all thought we'd seen the last coke oven built, but there are now plans for coke ovens in Brazil we're starting to hear of plans in other parts of the world as well and there are literally fields of coke ovens being constructed in China. So there is a very significant coke oven capacity build either already under way or in the very early stages of planning to be under way. It's a pretty dynamic year or two ahead of us I think in trying to get on top of all of that, but we're pretty positive and optimistic.

QUESTION: I've got two questions on manganese markets, not to neglect. And one thing about overall marketing. First of all on manganese. I'm wondering if you can quantify the potential for expansions at GEMCO and whether it's preferentially ore or alloys. The second manganese question is relating to South Africa and the black empowerment issues there. Would you preferentially look at coal versus the metals type of empowerment issues and whether you can do that cross-divisionally. And the final thing is about just an observation -- we have strong marketing culture at BHP, but when I look at the results for the price increases they look modest in comparison to many other prices increases for materials that we see internationally traded -- iron ore and coking coal, I'm just wondering if you could comment upon the outcomes of the marketing initiatives over the last few months.

BOB KIRKBY: Let me add on GEMCO. GEMCO, obviously a manganese ore operation, so we see the ability there to increase ore output and ore sales. That ore is in demand from China. We haven't specially targeted any volume number, but we believe three million tonnes out of that mining complex is not unachievable. And should be achievable with minimal capital expenditure. In terms of alloying at TEMCO in Tasmania, there are no plans at all to increase the alloy capacity at TEMCO. I might hand over to Peter to answer the B.E. question.

PETER BEAVEN: I think in terms of secondly the cross subsidisation in terms of your black empowerment initiative, the mining charter, the implementation of the mining charter is a moving feast and there is a degree of acceptance of that from the government in South Africa. And so they are willing to work with the mining companies and are willing – are working very effectively I think with the mining companies in South Africa - in coming up with practical solutions to what are very difficult issues.

And on the basis of that, they are quite flexible in their thinking. Having said that we are talking about a situation for instance where there are practical issues in terms of this cross-subsidisation if you like. For instance in the manganese business we are a sixty percent holder of that – but in terms of our Ingwe coal business, we are a hundred percent owner of that. So it makes those sort of practical issues get in the way. Also in terms of that it just makes the deals that much more complicated. At this stage we don't see the necessity for that at all. So basically I think we're going along reasonably well with our black empowering initiatives. We are having to make a complicated situation even further, even more complicated.

ANDREW OFFEN: I think the key issue on the pricing point that you raised is that we're not in only alloy metal. As a result of that we're not the victims of or the beneficiaries of the massive volatility swings that we see in things like copper and in nickel. You look back over history, supply – price movement both up and down in our industries have been, compared to those metals, relatively modest. Having said that, the price increases that were achieved in this round of pricing negotiations were actually the highest ever. Eighteen percent on iron ore, average of about twenty-eight percent on our coking coal business was at the time we were, to be honest with you, pretty happy with.

We don't operate in a vacuum, there are, particularly in iron ore we're, you know, the number three supplier. So we don't have a unilateral ability to fix prices, quite – we'd like to sometimes, but I think within that within that context we were pretty happy with the outcome. A couple of people have, in the coal side, taken advantage of the current supply disruptions I talked about earlier. To extract higher spot prices out for their products. I think you'll find that on average weight for weight, or if you like, quality for quality, we're still achieving the highest prices outcomes average across the market for our coals. So I think the press that's been surrounding some of the spot activity that's going on, probably a little bit exaggerated, and I'd question the sustainability of it longer term as well.

QUESTION: To start, firstly I'm following on with the pricing. Just, given your background, you mentioned you've been in the industry since the seventies, you've seen the boom times during the late seventies, early eighties – is the concept of incentive pricing, even with what Andrew just said about prices, perhaps that we hear about being too high and unsustainable. Are we near the prices that would incentivise new capacity? I think you mentioned that Russia and China would require high dollars to get them on board. And are we looking at a situation like the late seventies, early eighties where we bring on new capacity that's stuck there for the next twenty years, or are the prices still short of that?

BOB KIRKBY: Well what we're seeing – Andrew might like to comment on this – but the first people to come and step into the breach being the Americans, the U.S. producers, you know, they were driven out of the market progressively over – I've forgotten how many years. But Andrew will probably give you the statistics, but I mean, despite everyone saying they were tied up in the energy business and the reserves are not there, and they do have a couple of mines where they've got problems themselves, you talk to steel companies now and they're all headed off to pay astronomical prices to get U.S. coal, so it does respond and this is my point, that I think the market will respond and you know, the price required to sustain some of these new developments that don't occur in the established areas, they're going to be well -- I don't know, but I mean, we've got to look at this deposit we have in Indonesia, it's not on the coast of Indonesia like the other deposits that we used to operate there previously in the thermal coal business.

It's going to require quite a logistics infrastructure to get it off the ground. And for us to make those sort of investments we're going to have to have a view that prices are going to be healthy for a long period of time, so I mean, I can only use our own example that the ones in Queensland obviously is more akin to, I mean, you're building off ground field infrastructure and they'll be port and rail and mine expansion, which will be a lower capital cost. To bring on these new areas in China, or in Russia, or say Indonesia, and, you know, people talk about Mozambique -- I tell you, we're not there. But you know, they are going to require sustained prices to be able to get a decent return. Exactly what that is I don't know. Andrew do you want to say something?

ANDREW OFFEN: Oh, just maybe that the current spot price both for the very small proportionate of business that's trading in those sectors, domestically for iron ore in China and a little bit out of the U.S. for the met-coal would sustain much higher levels of production capacity than we've currently got. But how long will that last? I mean do you base a whole new green field expansion, or green field project on the basis of a two percent fraction of the market being traded at a significant premium of the ninety-eight percent? Probably not. I think you've really got to look at the long-term prices for ninety-five, ninety-eight percent of the material that's been put into the steel industry to determine whether those prices are the right numbers for new capacity.

QUESTION: Making sure I'm clear here. If the prices stay where they are, there's insufficient incentive to bring on new capacity, like in Russia, China and elsewhere. So prices either need to go higher – well effectively, the market will be tight if the prices have to go higher – is that a simplistic read on the supply demand balance?

BOB KIRKBY: That's your simplistic view, that I won't disagree with.

QUESTION: One quick question. You didn't mention the word M&A during your entire briefing. Is that a conscious elimination of the word M&A or is just so low down the priority list giving the projects you've got that it's..

BOB KIRKBY: Right at the moment we're very much focussed on extracting the most value for our shareholders that we believe revolves around this field expansion. Do we say no to M&A? No we never say no, but right at the moment this is what we're engaged in. That's Peter's job. Scan the horizon and bring us something back, but nothing immediate on the horizon.

QUESTION: Just a question from Graeme and also Andrew. Just in terms of iron ore marketing into China, I think it's backing up the clock probably two years ago your focus was increasing your iron content in your Newman product, and now it seems to be about signing long-term contracts. I wonder where that sort of strategy has changed and whether that's really a success. And if you're looking to reverse that and potentially increasing tonnes of a lower grade what sort of cost implications does that have in the organisation?

GRAEME HUNT: I guess it's an illustration of how much China has changed in just a couple of years. We went from, certainly well under ten million tonnes of sales into China just a couple of years ago, to now well over twenty million tonnes. At that point in time there was a lot of I guess it was more of a buyer's market so the higher the grade the more attractive the iron ore was to a Chinese buyer. Right now, people are losing their front gates off their houses so that the scrap can be charged into a BOF. So the situation has dramatically changed. We're in the fortunate position given our resource base that we can move our grade in various directions depending on what on what we believe is right for the market. In this current market we're actually able to free up more tonnes by slightly dropping the grade, returning to where we were just a few years ago so in fact that's cost effective rather than cost penalty for us, so we'll do that to free up additional tonnes for the market.

QUESTION: Just two questions again on iron ore. The first just to do with the discount and products like Yandi which you introduced very successfully into the market, helped along by discount, and you mentioned a possibility of trying to renegotiate the discount. I was wondering if you can make some comments on that with respect to the long-term agreements with the Japanese and whether or not that discount may ever be able to won back, versus your incremental tonnes going into China where you may be able to get a good value and used price for it. So if you could make some comments on that I'd appreciate it. And the second question with regard to capacity, looking at going from a hundred and ten to a hundred and forty-five million tonnes out of Hedland, if you could just comment a little bit on how Hope Downs if and when that gets going, and say they're going to do twenty-five or thirty million tonnes, how that hundred and forty-five million tonnes might fit into Hope Downs coming into the market ie. can the port handle a hundred and seventy-five million tonnes of exports.

ANDREW OFFEN: It's clearly inappropriate to comment on what we're trying to do with specific customers and specific grades of material that and- and I'd just like to clarify did not say that we're going to increase the price of Yandi, it was more of a general comment on addressing historical price relativities across the suite of our products. It's premature at this point to be able to say anything specific about that. We are seeing some signs of success. Clearly the Chinese market is tighter and

more enthusiastic or keen to secure additional volumes, and so you know, if you're going to try and make changes of that nature tactically that's where you would start but as I said earlier we don't live in a vacuum either and there's limits to what we can do by ourselves but it's an ongoing effort and perhaps a little bit further down the track we'll have something more concrete substance that we could we could talk about.

GRAEME HUNT: The question about the next stage of expansion. Certainly the feasibility study will focus on lifting the ability of us to produce, rail and ship a hundred and forty-five million tonnes. Our understanding of the port capacity through our modelling is that it could certainly accommodate production of that level plus if Hope Downs project goes ahead at the kind of levels we've been talking about it will still be under the limit of what Port Hedland can manage.

QUESTION: I would like a bit of clarity on your exploration strategy. I'm just interested that you're looking for things in Indonesia when you've got, or when you would appear to have such great resources in Queensland. So why are you looking for these things and how good do they have to be compared to Queensland before you bring them on? And also are you doing anything similar in iron ore? Are you looking elsewhere in iron ore?

BOB KIRKBY: Yes, you know, we have an ongoing exploration effort. Lower level than it's been compared to some of the other commodities within BHP Billiton. We are always looking for tier one resources, it doesn't matter where they are around the world. We do try to do that as cost effectively as possible. We are doing it in iron ore, we are doing it in coking coal as well. Our activities in that area are reported in our exploration report. There's not much more to say other than that at this point in time.

QUESTION: There was an interesting discussion about not basing green fields or brown fields expansions on spot prices where only two percent of the market is sold. But given the work that you and your teams have put into looking into China, with all the analysis that you're doing, have you moved your long-term prices for iron ore and the hard coking coals during this period given you've given a very bullish outlook on a sustainable demand coming from the Chinese regions.

BOB KIRKBY: Yes we have formally increased our iron ore long-term price protocol. And that has been approved by the company body that does such matters. We have prepared in our group similar recommendations for coking coal. It hasn't been approved yet, but that's just a matter of time I believe. So the answer to your questions broadly is yes.

QUESTION: As a follow up. Have you – obviously thermal coal prices have gone up sixty-eight percent, if we believe Xstrata agreement will be taken over the whole industry for the contracts, and given some of the colleagues here today have talked about an extremely strong hard coking coal price outlook for the next couple of years until this extra production comes on. But then Andrew mentioned that your price negotiations tend to be far less volatile. Can we expect, given the very strong demand and tight outlook that you've given, that there would be a cap to a hard

coking coal outlook? Or could we expect it could be a free market and negotiated as it was so a plus sixty-eight percent would not be out of the question.

BOB KIRKBY: I think the comment there; and Andrew might supplement this; but the differential between hard coking coal and thermal coal and semi-soft coal is sort of at an all time or has been at an all time record. I don't know whether that's sixty-eight percent or not but, you know, there has a been a closing of the gap, between the benchmark, met-coal price and- and the – it's not called a benchmark, thermal coal price any more, There's definitely been a closing of the gap and I mean that will have an impact, not in the longer term if that's sustained on coking coal, there's no doubt that there's some floor arrangement there, but it will have an impact on semi soft coals and with coking coal which are far closely, more closely tied. Do you want to add anything Andrew?

ANDREW OFFEN: Just maybe to emphasise what Bob just said. Over the course of the last three or four years the gap between semi soft and hard had expanded to what really was far too high a level. The relatively higher increase that we've seen on semi soft this year, which we've also been able to enjoy and capture, has brought that gap back to a more sustainable sort of a number. Where we go from here on, you know, I guess up to the future.

It's very easy when you're in the role of a small producer to be kind of a bit cavalier about your pricing outcomes. When you're in the role of being the major supplier to the industry of a particular product, you've got to be a little bit more considered in your pricing strategy. So when we look at where we will try, I mean, you can say we're not doing this in a vacuum, we're – there are buyers on the other side of the table, there are competitors sitting, you know, all around us. But where we'll try and push prices is where we think they are sustainable in the long run. And, you know, pushing things up to, you know, sixty-eight sort of, seventy dollars, eighty dollars, a hundred dollars, a hundred and twenty dollars a tonne for metallurgical coal has, you know, quite significant long-term implications, which – as I say, it's a bit different if you're a- the "industry leader" in inverted commas.

So when we look at where we will try and influence price outcomes we'll be taking into account what is sustainable in the long-term, what price levels are required to encourage new green fields capacity and not just what you can extract from a particular customer at the moment in time because of a particular shortage and sort of crow about it.

BOB KIRKBY: Okay we have some people on the telephone here that have been patiently waiting so we'll take a few of those questions at this point in time.

QUESTION: I'd just like to talk about iron ore a little bit in China's domestic production, went up by about thirty million tonne, or thereabouts last year, just wondering what your outlook is for domestic iron ore production in China? And just secondly on the coking coal side, from what others have been saying and the comment, and our numbers, it generally looks like coking coal will be in extremely tight supply over the next few years and I'm just wondering if you're not committing to

further expansion because you are worried a little bit about perhaps the slowing down in China coming up in the nearer term. I'm just wondering if you can expand on that sort of thought a bit.

And also there was a previous question that asked what sort of lead indicators you were looking at. I know you've got a lot of people on the ground there but I'm just also wondering if you could perhaps tell us what are the actual key lead indicators? Are they from government data coming out of China or is it data that you're putting together yourself that you're holding internally?

ANDREW OFFEN: The key lead indicators are a combination of both government data and stuff that we have from our own analysis, which is based on what's happening at the, sort of, at bottom up, from the bottom up side. And there's a whole host of different things, I haven't got the list in front of me so I couldn't sort of run through the half dozen key ones that we look at, but you know, they are, they do exist.

Domestic iron ore I think will continue to expand as long as there's a physical shortage of iron ore in the Chinese market. When the market's in balance I think we've seen in the past that higher grade seaborne ores are much more competitive and much more desirable for Chinese steel mills than the lower grade domestic ores are. But when you've got a physical shortage of the market and anything that's got a nail in it can be thrown in to the iron content you've got a very unusual set of market circumstances. Our belief is that in the longer term Chinese domestic ore production will be relatively flat.

BOB KIRKBY: The third part of your question - you were talking about are we are we thinking about a potential slow down in the Chinese steel industry and that's moderating our views on coking coal expansion. I mean, I think we've taken the view in coking coal just like we did in iron ore, that as we get clarity about the true underlying demand we will make investments. The sort of range of investments that BMA and Dave was talking about initially are really no regrets, and so, you know, we're trying to get those under way now. They're a small raft, small projects, no rejects. So there's not much, you know, risk associated with those. But we have asked and we've got people, you know, both on the Chinese side trying to understand, I think there's four thousand coal mines or whatever in China and understand the coking coal coke position and as Andrew said, that work is under way and we'll bring all that together, you know, to consider more substantial investments if they're required.

ANDREW OFFEN: Can I just add one thing Bob, is that's important to see through what's happening on the supply side at the moment when determining how tight the coking coal market's going to be into the future. We've got an unprecedented series of disruptions occurring now, which are creating almost verging on hysteria in the coal market. That's not going to be the case in twelve months time. These people who are currently having problems will get back on top of their operational difficulties and that's why we'll come back into the market, so you've got to take a somewhat

more considered view, I think, as the long-term supply demand balance when- when justifying these sorts of big decisions.

QUESTION: Did you secure significant quantities of coal and particularly iron ore shipping capacity last year and what is the future shipping position?

BOB KIRKBY: I'll just give a overview of what I see as the shipping position before I would get Andrew to answer that specifically, but, I mean, we're seeing lots of ships tied up in harbours on the eastern coast of Brazil, eastern coast of Australia, and in China. There is not a shortage of ships, I mean, more ships would just mean more ships sitting in queues. There are two issues. There's getting material to load those ships and I might say that our shipping queues and demurrage bill from what we can understand, is sort of the best that in both the iron ore and coking coal industry or the coal industry, that there is.

There is in iron ore, you know, I mean, we have just bought on a new port, CVRD's just bought on a new port and bringing on new capacity to back it up. And Rio Tinto in Western Australia is doing the same. So on the iron ore side, I mean, things are moving to remove the fundamental problem on that side. You've seen Newcastle, I mean, the Competition Commissioner's just made some allowances there specifically to avoid congestion there. These are the root causes at the moment. There is also an issue in China I mean there are queues unloading in China I don't, I have seen but I can't recall just off the top of my head of the port capacity being built there but there is, there's a big push on over this year and next year to increase unloading capacity at China as well. Now if all that does is allow them to produce more maybe we'll be right back to where we are at the moment, but I mean, they're the fundamental global issues around bulk carriers.

BOB KIRKBY: Does that answer your question.

QUESTION: Yes, Bob. I thought you'd actually secured a lot of shipping, that was important in enabling you to increase the capacity of ordinary shipping.

ANDREW OFFEN: We've secured – part of our- our marketing strategy is to push further down the supply chain and as a result we've significantly increased the amount of CFR business we do, ie. Business where we're responsible for securing the ships and responsible for carrying the material to the customer's port. That's been, over the last twelve months, we've probably doubled the volume of CFR business that we do across the full CSM business.

We've also got a ship coverage strategy in place to back that up, which uses a combination of short-term, long-term time charters and spot vessels. So say we- where we've secured we haven't really gone our and secured enormous amount of shipping capacity. There is a very active market out there that we're sourcing ships from to meet those commitments. The increase is really been on a commitment side where we're shipping the cargo to the customer's ports rather than just delivering it at our port.

QUESTION: Is Rio doing the same thing?

ANDREW OFFEN: You'd have to ask them.

BOB KIRKBY: I mean our objective you know, why are we doing this? Obviously it does provide us some degree of control over the shipping arrivals at our ports. And that has cost implications and efficiently implications. It's one of the key drivers to that move.

QUESTION: Okay thanks.

BOB KIRKBY: We've come to the end of formal question time. So I'd like to thank you all for coming. I hope, you know, we've been able to provide you with some insight into how business is going, what the issues are, what we're doing about them. Everyone here from the management team will be available in at the lunch, so if you've got any extra curly questions we'd be more than happy to try and answer them in there. Thanks very much for coming everyone.

QUESTION AND ANSWER SESSION – LONDON

QUESTION: What scope is there in iron ore sales to lower the quality of the product to the Chinese, given that the growth in demand there has been from very modern mills where I would imagine efficiency is primary? And would there be a risk if you start to sell a lower quality product that you might invite a similar response from other producers who have only low quality product? The second question relates to the comment about reconfiguration of operations to get to 145m tonnes, just what did you have in mind there; could you expand on that a little bit? Then the third was I think a point of clarification. You referred to 110m tonnes in the third quarter of this financial year, given that that is where we are, did you mean that or did you mean the third quarter of calendar 04?

BOB KIRKBY: Yes let me clarify the last one, calendar 04, my apologies for that. We had originally talked about the end of 04, calendar 04 but we are a quarter ahead. Reconfiguring the operations, what sort of things do we have in mind? Currently we run from our oldest sources, which are the Brockman sources around Whaleback, we run "run of mine" product and then we screen it, crush it and screen it in Port Hedland. Our Mining Area C operations we in fact send finished product so that activity is done up at the mine. We are looking at whether in fact that is the model that we should use right across our business. It has the advantage of reducing the congestion at the biggest operation, which is the Port at 110m tonnes. It also helps us with some of the environmental issues around dust that we have in our operations at Port Hedland. But these are things that we have got to finalise as we go through our feasibility study, but they are the sort of things that we have in mind and we think we can do that in a more capital efficient way and brings operating efficiencies going forward.

You asked about the scope for quality reductions and I will ask my colleague Andrew Offen to answer those.

ANDREW OFFEN: The scope to lower quality is probably more opportunistic than long term. At the moment the focus of all of our Chinese customers is volume, and as I said before the volume of iron ore that they can secure is in effect the constraining factor for iron production, so we are in the fortunate position of having some flex around that and relatively small changes to some of our specifications can have quite significant benefits in terms of ore recovery and of ore volumes. So we are really looking at whilst the market is in the tight circumstances that it is, taking advantage of that in cooperation with our customers (we are not doing this unilaterally), back off a little bit on some of those specs and bring a bit of additional volume to market as a result. When the market changes we have got the flexibility of moving back to the path that we were headed down just a year or two back where we were trying to push our FE content up a little bit to try and improve our relative competitiveness and attractiveness with the Brazilians. We are pursuing a path of being a little bit flexible, given the strength of the market, but when the circumstances change and the market turns again, we will move back down the path we were originally headed on.

QUESTION: In terms of the potential for cross selling that you have into China and other reasons for these customer segment groups. I mean what we say with cross selling, whether it be a bank or whether it be a fast food chain, you buy in your super size fries, you always tend to get a bit of a discount for buying in bulk from one supplier. Is that something that we are seeing at the moment, or is the tightness in the market basically eradicating that out of the products that you are trying to cross sell into China? The second point, we have been seeing quite a bit of investment from steel mills into putting up capital and getting into some long term joint ventures in terms of iron ore, with the cross selling potential there do you think we have got the likelihood of seeing those same steel mills or different ones starting to move into the coking coal market and stumping up some capital and being equity partners and taking some longer term contracts to enable you sort of eradicate the tightness in the coking coal market at the moment?

BOB KIRKBY: I just want to get clear what the proposition is you put there. There are two different things, eradication of discounts and cross selling. Our business is owned in conjunction with various joint venture partners and so I mean the responsibility to those individual companies and individual joint ventures we do not breach any of those activities. Cross-selling, subsidising one product or cross selling another is not something we do. We do combine the sales teams to get efficiency and of course if there is any opportunity to introduce one of our products that will compliment another one of our products that some activity we do. Separately from that activity, volume discounts have been a part of this industry during the preceding era, as the tightness in the market is eventuated, as Andrew said we are improving contractual terms and discounts are one of those but they are not, I just do not want to leave the impression that they are related. They are not related.

Iron ore - the joint venture partners in iron ore were very carefully selected. We needed to underpin our volumes into China. Yes they have made some investments

there, it is not the capital that really attracts us to those people. We had the money to do that on our own but building a relationship with people to a) understand better the scene in China and b) underpin our sales if the market circumstances change, those are the key drivers of those activities. Are they likely to be the same people in coal? Probably not, I mean China has its own coal, China does not have its iron ore so we have no plans in that sort of activity. Once again, I mean the reasons why we would do, if we were to do joint ventures in any of our coal properties (and remember the bulk of it is already a joint venture with Mitsubishi, our long term partners), they would be for very specific reasons, different but the same concept that I have outlined for iron ore.

QUESTION: Firstly Andrew, the improving contractual positions, presumably you are talking about taking away the Chinese discounts. You may not want to confirm that, but basically we are just looking for your ultimate strategy here, is it to charge parity between your major customers in Japan and China, or to find yourself in a position where you can exploit Chinese customers paying premiums?

Secondly for Bob, after many, many years of depressed prices we have found the demise of unionism in Australia but as you would have observed around the world in the last six months, we have had strikes in Canada on nickel and strikes in copper in South America, including one on your own operations. Now you find yourself with labour shortages in WA, how long is it before we find labour unrest and rising wage costs there and what can you do about it?

Thirdly Peter, I observed from the map that Maruwai looks pretty land locked, what is the position regarding infrastructure to develop that project? And the big concern is of course your major peers have just pulled out of Indonesia because of the forced requirement to sell down to a minority position and people do not seem to want to operate in Indonesia when they do not control a majority on the asset?

ANDREW OFFEN: Contractual position implies more than just discounts, it is a whole host of different areas we are focused on. One as I said was contractual duration, the signing of long term contracts that gives us more certainty around our outcomes when the market ultimately does turn. It is about shipping terms for example, getting more flexibility on our side rather than on the customers' side around the way shipping schedules are structured so that we can get better throughputs through our ports and it is about discounts, it is about other commercial payment terms, quality specs etc, etc, etc so there are a whole host of different activities covered by that phrase.

In terms of our pricing policy in China, I think with the current tightness in the market (I cannot speak for our competitors) but we would not envisage that there are any discounts left in the Chinese market. There were in the past but we are pretty confident they have all gone now, certainly in our case they have. Whether China should long term be a Japanese or Japan/Korea/Taiwan equity market or not, again we are not operating in a vacuum, we do not operate in a vacuum in this market. We are the third supplier, CVRD and Rio Tinto are both bigger than us so clearly their behaviour and their activities and their pricing strategies in this area have a very

significant influence on us. We do not believe that they should necessarily be tied, in fact we think that particularly when you get into different quality ores, the Chinese value different ores in different ways to the US dollar. It isn't a commodity, there is not just one price for every product in every market. There are landed costs, differentials, there are quality differentials so we think there should be some differences, to the extent that they are actually achievable or not is really a question for the future I think, at the moment there is pretty much parity.

BOB KIRKBY: Your question of unionism, our Western Australian operations, most of our people there are on individual contracts. The work that we have done with the individuals, we believe we have satisfied peoples' needs there. It certainly has improved the productivity of our business and we will be working hard with those individuals and communications to ensure that we understand what their demands are and what the market position is.

The situation in Queensland or in the coal industry in Australia is very different of course. It is highly unionised, we do not see any change to that, we are quite capable and we have worked with those people for a long period of time. And then I think the whole understanding of everyone in Australia about the external environment is very different to what it was 10 or 15 years ago. And when people understand the need for reliability, understand the need for competitiveness, I mean we can do deals with these people and we have been able to do that in the past, I do not see any reason why we cannot do it in the future. We have to recognise the realities of the labour markets in Australia and we do that, so I do not have any great fears in those areas. Labour, having technically skilled people is an issue for a country like Australia and that goes from mining engineers to people who can fix things, mechanics and electricians.

We spend a lot of time and effort ourselves training people, we have active programmes trying to attract people. These are the whole range of issues we have to address and we have addressed the management team to run our businesses.

PETER BEAVEN: Just in answer to your question on the infrastructure, yes it is a long way inland. In fact it is not a-typical in that part of the world to ship on river barges and you truck down to the rivers and then you ship it down the river barges which go to river port. And in fact in the vicinity of that discovery there are in fact some operations, some similar operations are just starting up along that basis.

I think the near term that may be the likely route one would assume would be used, longer term, depending on how large this mine could possibly become you would think about potentially some other options but as far as we aware, based on the work that we have done on the concept study, it appears potentially economically feasible to actually ship it out on the river.

In terms of the political risk, there is no question that Indonesia is quite challenging and there are many issues that need to be taken into consideration. A couple of things on that really, we have these leases on the third generation CCOWs, which means that we do not have the sell down provision which in fact was the subject of

the KBC issue, so we do not have that as an initial issue to deal with. Having said that of course, yes we will put in place a number of mitigants to the extent that we can, but at the end of the day the risk remains. But we are working closely with the Government, both the central as well as provincial Governments, as well as all the local stakeholders and we are hopeful that we will be able to manage all these issues.

QUESTION: Bob, you gave us some good information on the steel industry in China. There has been a lot of speculation in the market about the level of inventories, both of base of metals and of steel in China, could you give us some colour on what you have seen from your visits to the various steel mills? Also if you could make any comments about the actual customers of those mills and what the level of inventories may be?

Secondly, in terms of just the freight rates at the moment and the shipping market in general, clearly freight is very tight. You did mention that you did think that demurrage would ease off going forwards into 2004 and 2005, can you comment on whether you think that we would see a slow down in these phenomenal growth rates in China? Is it that you see an easing of the bottle necking at the ports or are there other areas which you think might influence freight going forwards?

ANDREW OFFEN: From the information we have been able to gather there is not any significant, or there is no steel inventory build-up in China. There is some value build-up because the value of the products has increased so dramatically but when you express the value of steel in inventories in dollar terms the value has gone up because the prices have gone up. The physical volumes, it is all pretty tight. As I said, the demand is outstripping the capacity of the domestic industry to produce and the constraining factor is iron ore. There is no build up of steel through the system, to the extent that we can see anyway.

BOB KIRKBY: Just on the freight issue, a number of the load ports are being expanded. We talked about our PACE expansion being bought in, CVRDs is underway so on the load side there is additional capacity and if you think about the problems, it is not a shortage of ships, it is a shortage of loading capacity and specifically unloading capacity in China where the congestion is at the discharge ports. Once again they had three or four ports which are all due for completion for 2004/2005, so now whether that just means that the volumes go up, thank you very much and then we want more, that is quite possible so just watch this space. We will solve one set of problems but maybe we will have another set of good problems to solve following that.

QUESTION: On the manganese ore side, I understand that the South African Government are quite keen to see some significant increases in production. Are their expectations in line with your own production plans and if so, what sort of production increases can we expect in the manganese ore side over the next three years or so?

Can you just give us an update in terms of how negotiations are going, if there is an update, on Hope Downs?

JOHN RAUBENHEIMER: I mean certainly the powers to be in South African Government understand the manganese industry. I think Andrew mentioned that in the manganese industry, unlike the iron ore industry and the coking coal industry there is some available capacity around the world, and clearly South Africa will participate in the expansion of the manganese ore industry to the extent of our market share at the moment and Government understand that. I mean they fully understand that we have a growing business in South Africa where we dominate the industry, but if you are over supply in the market then you see the effects of that so clearly, our expectations and those of Government I think are well in line, they understand that. They would like to see expansion from South Africa and as I have said, whatever expansion we can take up from South Africa we will in terms of our market share around the world.

BOB KIRKBY: Thanks John. On Hope Downs that is someone else's project obviously, we watch it with interest. I guess they are talking to all sorts of people about how to take that project forward. We have had some discussions with them, is there anything major to highlight? No, not on our side, you know I think that is a question for them.

QUESTION: About the freight, you've moved from FOB to a certain degree of CIF, are you likely to go the whole way and start selling CIF all your products? I gather that there has been customers have really enjoyed (as well as yourselves) a bit of product service, by going further down that road. The second question relates to the efficiency gains, A$101m, maybe you could just give us a breakdown of where that was achieved. The third question relates to brands and we have seen an effort, especially in the met coal business to commoditise almost the products with the lower end qualities. Andrew was talking about the need to have high quality products, what do you do to protect your brands? You are the market leader of both the volume and product.

BOB KIRKBY: I will get Andrew to answer the freight and the brands question.

ANDREW OFFEN: On the FOB versus CIF argument, we have made a concerted effort to increase the volume of CIF business that we are doing to help manage our business and control our pipeline more effectively. That has seen some significant growth in the amount of freight that we handle. Can we go the whole way? I think it would be impractical to think that that would be achievable. I mean the Japanese and the Korean steel industry all has very large dedicated fleets, ships they have built or had built and then take on long term charter. I think it is naïve to expect that we could somehow in the next couple of years magically take over all of that business and handle all the freight ourselves. So I think we will continue to push down the CIF, CFR or CIF path as we can and as it is appropriate.

On the brands, really for us commoditisation is an evil word. Coking coal and iron ore are both (particularly coking coal) very quality specific, very individual choice sort of businesses. If you go to any steel maker around the world and you look and you ask them their opinion of coking coal A versus brand B if you go to seven different people you will get seven different answers. They all have their own personal or pet likes

and dislikes and there really is a very strong quality focussed component about marketing effort as a result of that. The commoditisation that we have seen in things like energy coal over recent years I think is unlikely to eventuate in coking coal. I think it is also unlikely to eventuate in iron ore. Iron ore is also, not quite to the same extent as coking coke, but it is still a very strong, technically led business and some mills like some ore, some mills like others so we do not anticipate that that is going to start to develop and we certainly do not want to encourage it.

BOB KIRKBY: On the A$101m, that is six months against six months. There are some underlying sustainable cost efficiencies in that number. In the iron ore business, we are driving down the inner costs as the volume goes up and our cost efficiency is a significant part of it. Our HBI business compared to that six months is more efficient. There are some timing things in that though as well, in Queensland there are scheduled a number of shut downs in major pieces of equipment, for instance like coal preparation plants and drag lines and so on and there is a degree of timing involved in the A$101m on that six months versus six months and that will iron itself out over a full year period. So they are the sort of things that go into that A$101m.

QUESTION: I would like to ask a couple of questions about manganese. Firstly the relative production in the output for ferro manganese and silico manganese at Metalloys and the Australian operation?

Secondly, what is happening at Advalloy, is there still demand for Advalloy product?

JOHN RAUBENHEIMER: Metalloys and TEMCO as I said in my presentation are running at full capacity at the moment, so we cannot really do anymore than we are doing right now except for some small efficiency booms and both the general managers have got OE projects looking at how they can marginally improve outputs from those plants. At Metalloys we have our so-called self plant running on silico manganese and we will keep it like that and at TEMCO we do have capacity to switch furnaces from high carbon to silico. At the moment we are running on two and two. We have four furnaces, two are producing high carbon and two are producing silico and in the near term we will be switching one back to high carbon so the answer on that is we are running at full capacity and we have not had a lot of scope for improving our output.

The second question was about Advalloy, I think like all manganese related products there is strong demand for the Advalloy product in the market at the moment and again on Advalloy output we will probably be doing record volumes this year.

QUESTION: I just wanted to ask you about your manganese business and empowerment. You say you are looking to wrap up your requirements as soon as possible, how many empowerment expressions of interest have you received? And regarding the Indonesian discovery, I just wanted to find out when the earliest you expect to start production is and what kind of production you expect?

JOHN RAUBENHEIMER: On the empowerment issue, I said in the presentation that we are making good progress and we are in discussion with potential partners at the moment and I really do not think it is appropriate to say anymore than that at this point in time, at an appropriate point in time we will come to you and tell you what the position is.

BOB KIRKBY: On Maruwai it is just far too early. We are still drilling there, we are trying to find out where all the coal is, we are only in concept stage. We cannot make any sensible comment about the cost of that business.

QUESTION: I just wanted to find out how much extra your demurrage costs are, how much is that costing you?

BOB KIRKBY: I do not have a specific number, what I can say though is that our ports have had far shorter queues of ships than the ones that you read about in the paper. I think Port Hedland is four or five, Brazil you read about 30 or 40 or 50 so the answer is that it has increased our costs compared to last year, a) because the queuing but b) also the demurrage rates per day have gone up, unfortunately I cannot give you a specific number. But I can say that I feel somewhat proud of our groups in the way that we have been able to manage the queues in both the iron ore in Western Australia and our coal operations in Queensland. The marketing teams have done a wonderful job there and we have not over promised. A lot of other producers it seems have over promised or over sold and have ended up with these queues. That is about the best I can do I am afraid.

QUESTION: Bob you talked about roughly 40% growth in iron ore volumes over the next two or three years, yet the best I can reconcile on coking coal is roughly a 20% increase, there seems to be a mismatch there. Do you think that in the future coking coal actually may be the limiting factor in terms of the rate at which you can sell iron ore?

BOB KIRKBY: Fundamentally, China does not have any iron ore and China does have options with coking coal so that is a fundamental driver of the difference in the numbers. I think Andrew said that Chinese steel production at the moment seems to be limited by iron ore. In some of the other global regions outside China, it swaps, the limiter seems to be coke and particularly right at the moment with these short term problems, but we need to see through those short term problems, they will be solved. So there is a difference in the growth rates yes but it is fundamentally because of the Chinese situation.

Alright, I think we have passed our time and thank you everyone in Johannesburg and people on the line for listening to us and thanks to people here in London, we hope that you found it worthwhile.