BHP Billiton

Energy Coal Business Briefing

31 March 2005

Contents

Energy Coal CSG Overview/HSEC, *Mahomed Seedat, President, Energy Coal, BHP Billiton* 3

Energy Coal Marketing, *Mike Henry, Vice President Marketing, BHP Billiton* 7

Financials, *Clayton Whipp, VP Finance, BHP Billiton* 12

Operations and Growth, *Mahomed Seedat, President, Energy Coal, BHP Billiton* 17

Darryl Cuzzubbo, President & CEO, Ingwe 18

Stephen David, Senior General Manager, Hunter Valley Energy Coal 20

New Mexico Coal, Cerrejón & Briefing Conclusion, *Mahomed Seedat, President, Energy Coal, BHP Billiton* 22

Questions and Answers 24

Energy Coal CSG Overview/HSEC

Mahomed Seedat

President, Energy Coal, BHP Billiton

I. Introduction

Good day, ladies and gentlemen. A very warm welcome to you today, on this briefing on the BHP Billiton Energy Coal CSG.

The agenda for today – the last briefing was held in July 2002. We will therefore refresh your memories a little bit with a brief background of the CSG operations, in addition to focusing on current performance, and future opportunities for the CSG. The agenda has been displayed to indicate the areas that will be covered and the speakers presenting.

Here I'd like to just briefly introduce you to the team that's presenting in three locations. In Johannesburg, besides myself, we have Darryl Cuzzubbo. Darryl has been acting as the President and CEO of Ingwe since my appointment as President as Energy Coal, since January of this year. In Sydney, we have Clayton Whipp, who is VP Finance, and Stephen David, who runs our Hunter Valley operations. In London, we have Mike Henry, as host. Mike was recently appointed as VP of Marketing. His previous role was VP of Business Development in Energy Coal. Jon Dudas, Chief Commercial Officer for Energy Coal, is currently on leave, but has kindly agreed to participate by telephone, and will assist during question time if that is necessary. I hope Jon is on the line. Sitting amongst the audience in London is Phil Aiken, who is the president of the Energy Group.

Once we're through with the presentation, we will give you an opportunity to ask questions.

II. Themes

The next slide, the themes. As we work through the presentation today, there will be some themes that will emerge. These include:

- The significance of the BHP Billiton Energy Coal Business, both in BHP Billiton as well as in general in the world;
- Our strategy to drive shareholder value;
- The importance of health, safety, environment and community in the way we run our business;
- The value driven from our marketing model; and
- The ongoing drive to improve the existing business, and manage the portfolio.

I will recap towards the end of this presentation on these key themes.

III. Energy Coal Organisation

Just going through the Energy Coal organisation. The next slide please. We have recently seen some very significant changes in the Energy Coal leadership team, and the management structure. The most significant of these being the inclusion of Energy Coal as part of the Energy Group, under the leadership of Phil Aiken, who is Group President Energy.

Secondly, my appointment as President of Energy Coal in January, and the move of the CSG corporate centre to Johannesburg. Several reasons for establishing the corporate centre here in Johannesburg, key being Ingwe is a significant part of our asset base and it made logical sense to locate the corporate centre here in South Africa. I think it also sends a very strong, positive message not only to the employees but also to the stakeholders at large in Southern Africa, that BHP Billiton is very serious about its commitment to the region.

My leadership team, the new appointees, include among them Eliphus Monkoe. Eliphus joins us from Sasol. He starts tomorrow, in fact, 1 April, as the head of the Ingwe business. Manie Dreyer, previously from our marketing unit in Singapore, will now manage our interests in Colombia, and the business development in the Americas. Jon Dudas, whose role was recently extended to also cover the Global Energy Coal business development activities, in addition to his previous responsibilities for Energy Coal Marketing. His new title is Chief Commercial Officer, looking after marketing as well as business development. Mike Henry was recently appointed as Vice President Marketing, and prior to that, as I mentioned, he was Vice President, Business Development. Mike reports to Jon Dudas, and Darryl Cuzzubbo reports to Eliphus as of tomorrow.

IV. Our Energy Coal Business

1. Overview

Next slide. Just some statistics on our Energy Coal business. As you can see it is significant in scale, employing a large number of people, with a substantial investment in equipment and infrastructure. We have the capability to move the material equivalent of one and a half Panama Canals each year.

In addition to marketing hubs in The Hague and in Singapore, we have operating mines on four continents. So essentially we are actually operating out of five continents. The size and complexity necessitates that this business is actively managed to extract the inherent value, taking care to manage risk, particularly safety, with the ambition of realising our target of zero harm.Our markets have changed and evolved, and are still doing so. In the Atlantic we are the largest supplier and therefore play a significant role in shaping the market there. In the Pacific, we need to become a key player to extract value in the same way as we have been doing in the Atlantic market. Mike Henry, in London, will talk further about the markets later in this presentation.

2. Global Position

This slide is quite busy. I am not going to talk to the detail of this slide, but it illustrates BHP Billiton's global position in coal, both in terms of operating assets, as well as markets.The global power market is massive, and coal is the largest source of fuel supply. Given continued strong growth in the demand for power, the longevity of our coal reserves, coal's compelling economics, and the supply security of coal, we believe that coal will be around for a very long time. With its reserve base and truly global asset portfolio, BHP Billiton is well positioned to capture a portion of that growth. We will speak later about the specific opportunities available to us in that respect.

3. Marketing Model

We will also speak about our marketing model. In parallel with the strong growth in the demand for power, we are seeing power markets re-shape themselves, including increasing convergence across the fuels and power. As we will discuss later, our marketing model is a key differentiator for BHP Billiton and positions the Energy Coal business well to capture maximum value, provides us with better strategic foresight and creates optionality for the business.

4. US and China

Finally, it is worth noting that while our market positions are geared towards countries and regions, they are heavily dependent on sea-borne coal. The world's two largest coal producers and consumers, the US and China, are struggling to meet demand with their internal suppliers. The US has seen increasing imports in recent years, and very strong demand in China is straining that country's production and logistics infrastructure.

V. Energy Coal Strategy

1. Overview

We'll talk briefly about the Energy Coal strategy. Although we do regularly review our strategy to ensure it remains targeted to delivering full value, the key pillars have remained essentially the same. There are four parts to our strategy that need to work together, to create value for Energy Coal, and in most cases they also need to work simultaneously. Firstly, the focus is upon delivering the value inherent in the investment in Energy Coal assets. We will talk to the process to drive value on the next slide. Secondly the recognition of the high value to be captured from the sea-borne export market focuses attention on growth opportunities in this area. Thirdly, the value within domestic markets cannot be ignored, as is really evident from our New Mexico coal operations. So, we seek to participate selectively in this area, including where the extraction of export coal involves the sale of bi-product coal to domestic consumers. Finally, we seek to utilise specialist skills and knowledge at both an operational level to leverage the existing investment, and in our marketing group to drive value creation through negotiation of creative deals and the use of market-based tools.

2. Integrated Process to Drive Value

The next slide is a diagram that demonstrates that we try to drive value from and at all levels of the business. Nothing, we believe, is immune from value management. Critical in this process is having sound data on which to make sound decisions, and recent activity in Energy Coal has particularly focused on this area. Regular benchmarking and trending performance has not become an inherent part of the way we run the business.

VI. HSEC

1. Overview

I'll talk briefly now on our health, safety and environmental community performance.

Since the formation of Energy Coal, back in 2001, a major safety initiative was implemented across all of our sites. These efforts have singularly focused on fatality prevention. It was driven by detailed analysis of fatal risks and annual peer reviews of the fatal risk management.

2. Zero Fatalities

The four fatalities that we have had in the last two years have been at our Douglas/Koornfontein complex here in South Africa, and are a tragic result for all of us. However, there is clear evidence that our intervention programme is beginning to deliver results. If you look at the top left-hand slide, you can see how the fatalities have come down over the years. Clearly for us our objective is to achieve zero fatalities as soon as possible.

Outside Douglas/Koornfontein, the Energy Coal mines have achieved three years without any fatalities, many of these mines achieving this for the first time in their history.

3. Classified Injuries Frequency Rates

The Classified Injuries Frequency Rates, the second graph on the top right-hand side, have apparently flattened, as you can see, over the past two years, and we still intend to maintain a very strong focus on fatal risks, greater intensity on programmes to reduce minor injuries have already been initiated.

4. Health Safety Environment and Community Scorecard

Energy Coal has an integrated Health Safety Environment and Community Scorecard, the bottom graph or table, which is fully aligned with the BHP Billiton corporate targets. We have environmental targets, which include reductions in greenhouse gas emissions, freshwater consumption, energy usage, as well as waste intensity.

The Classified Injuries Frequency Rate is behind our targets levels, while all of the other programs are either on target or close to target.

VII. Conclusion

On the phone we have Jon Dudas, as I mentioned earlier. Jon is Chief Commercial Officer for Energy Coal, and is responsible for energy marketing, Energy Coal development, as well as BHP Billiton's freight group.

Presenting is Mike Henry. Mike, as I said, has recently taken up the position of Vice President Energy Coal Marketing. He reports to Jon, and, for now, continues to hold the position of Vice President Business Development while we seek a successor for that role.

I will now hand over to Mike in London. Thanks Mike.

Energy Coal Marketing

Mike Henry

Vice President Marketing, BHP Billiton

I. Introduction

Thank you, Mahomed. I will be talking about marketing today from three key perspectives. Firstly I will outline the purpose and objectives behind Energy Coal marketing. Secondly I thought it would be worthwhile quickly discussing the strategic context that we find ourselves in. Finally I will discuss some specifics around Energy Coal marketing initiatives and outcomes.

II. Marketing Objectives

1. Sell the Product

It is important that we are quite clear on what the objectives of the Energy Coal organisation are. The first and foremost obvious objective is to sell the product that our assets produce. This is the stock standard marketing effort that you would see most of our competitors engaged in.

2. De-Risk Sales

The second objective is more unique to BHP Billiton. By now most of you will all be familiar, I think, with the BHP Billiton thinking in respect of the portfolio effect. For the portfolio effect to work, the organisation needs to be as floating as possible across as many commodities and currencies as we can. As a result of that, we seek in Energy Coal to float, or de-risk, as we term it, as much of our sales as possible. I will talk a bit later about how we go about doing that.

3. Add Value

The third objective is where marketing adds visible and measurable value to the organisation. This is where we seek to generate incremental margin over 'market'.

4. Create Optionality and Underpin Strategic Foresight

Finally, via the depth of understanding we have of the market and relationships we have with customers, we underpin the organisation's strategic foresight and create optionality in the business.

III. Achieving Marketing Objectives

1. Provide an Integrated Offering

So how do we achieve those objectives? Well, at a high level there are a few key areas that we are engaged in.

We provide an integrated offering of products and services that meet customers' needs. These products and services include our own equity coal, third-party coal that we have sourced as agent or as principal, emissions credits, logistics and risk management.

2. Make Active Use of the Paper Markets

Secondly we make active use of the paper markets. This is primarily to address our need to float, or unwind, our fixed prices.

3. Optimise the Supply Chain

Finally we are very active in optimising the supply chain, from mine to customer, to ensure maximum efficiency and margin capture.

IV. Strategic Context

1. Strong Future

Next I would like to talk a bit about the strategic context in which we operate.

The first point to make is that we believe coal has a strong future. I hope I am preaching to the converted here, but it is always good to revisit why we believe coal will continue to play an important part of the energy mix.

The first point to make is that coal is a very significant fuel source for power generation in key economies globally. Some examples of this include the US, where it makes up just over 50% of the generating mix, Europe where it's just over 25%, and in China, it's fully 80% of their generating mix.

What that means for us is that even setting aside further growth, the current installed capacity or infrastructure will continue to provide a significant market for coal going forward.

2. Consumption to Grow

The second point to note is that the world will not stand still. Global power consumption is forecast to grow at 2.5% per annum to 2020. Physical constraints and economics alone dictate that a significant portion of that growth will be captured by coal. The EIA forecasts that coal will remain the dominant source of fuel for power generation until at least 2020.

3. Supply Security

Thirdly, supply security is also in coal's favour. The geographic diversification of both coal reserves and production mitigate some of the supply risks associated with other fuels. Coal is also safe to transport and store.

4. Clean Coal Technologies

Finally, there are significant potential advancements in clean coal technologies that would underpin the future of coal far beyond the 2020 timeframe; zero-emissions plants and in situ gasification are a couple of these. In addition to a number of clean coal initiatives that it funds in Australia, BHP Billiton has recently become a member of the industrial consortium supporting the FutureGen initiative in the US. This is a billion dollar joint government-industry initiative aimed at the development and proving of zero-carbon coal-fired power generation with associated hydrogen production.

V. Coal Macro-Environment

1. Overview

Today there are a number of key issues that are impacting on the macro-environment surrounding coal, and are worth mentioning here. They can broadly be broken down into three areas. The first two of those are demand and supply, which are really the quantitative aspects of the market – and behavioural, which is the qualitative side of the market.

2. Demand Side

On the demand side some of the points are:

- Variability in growth by region. I am probably stating the obvious here, but there is significant variability in growth prospects for each region and country.

- Threat of substitution by gas remains an issue. Gas is viewed as the 'green' fossil fuel. How much of a threat this is in each region depends on a number of factors, including the specific legislative regime in place, the availability of gas, and the rate of required replacement of current plant.

There are a number of wildcards in respect of sea-borne demand, as well. China, India and the US are all very large domestic producers of coal, but increasingly there are views that sea-borne imports will play a more important role in these countries in the mid-to-long-term. This is because of demand growth, poor-quality domestic reserves, infrastructure constraints, and coal quality factors.

Environmental policies are ever evolving and the demand side impact of those policies must constantly be re-assessed.

3. Supply Side

Key issues impacting the supply side and competitiveness include:

- Price volatility. The recent jump in coal price volatility has implications for the supply side and for competitiveness amongst the various regions and between fuels.
- Port and rail infrastructure issues are constraining further exports from key producing regions and certain importing regions.
- The growth in the sub-bituminous product segment is a market opportunity but also brings with it the potential for limited displacement of bituminous coal.
- High global freight rates are impacting the ability for specific supply sources to competitively supply into certain regions. An example of that is Pacific coal into the European market.

4. Behavioural Issues

Finally, behavioural issues are becoming an increasing factor in the market. Some specific examples of that include:

- Spark spread buying. Many of our European customers are now basing their purchase decisions much more closely on the spark spread available to them at any given point in time, or are seeking to lock in spark spreads in the physical and paper markets.
- Deregulation in the Japanese power market will become an increasing factor in the Pacific and we could see the market evolving in much the same way that the European market has.
- Green power incentives are also impacting on customers buying decisions. While we initially viewed this as a threat, in fact, we're finding in some instances that it's actually creating opportunities for coal. At least one of our customers has ramped up their coal-fired stations because they are able to blend some bio-mass in, and the credits they get for burning bio-mass are such that it makes the overall economics of coal-fired power more attractive

VI. Fundamental Changes in Customer Approach

There have been fundamental changes in the manner in which customers approach their coal sourcing, or coal buying, decision. The European market has, in many aspects, become a fully-traded market with increased spot sales, more liquid paper markets, and generators who are becoming more and more responsive to short-term market signals.

We are seeing greater convergence between all those factors that impact on customer returns: coal, gas, power, emissions, bio-mass, etc. Our view is that as customers increasingly manage their fuel supply position from a holistic perspective, then we must be able to support our equity coal sales by structuring offerings that are responsive to customers needs. We must also have maximum vision and understanding of those factors that are driving our customers' decisions.

VII. Recent Developments in Energy Coal Marketing

1. Floating Model

So how have we adapted our business to this changing environment?

First and foremost we have moved to a floating model and to what we term the ‘One Book’. The floating model simply means that we seek to allow our pricing to float with the market. As discussed earlier, this is in alignment with the BHP Billiton model

The ‘One Book’ may be a new term for some of you. This implies that all global Energy Coal marketing-related exposures are captured in one book, a single book that is updated daily. Not only is this the most direct reflection of the business reality, it ensures the right behaviour in the marketing team. People are measured against the whole and therefore contribute to the whole, not just to their own turf.

2. New Products

As previously indicated we have increasingly developed a greater suite of products and structures that allow us to provide a differentiated offering to customers, and also allow us to understand their business. We have supported this with greater analytical, commercial and structuring capability.A few examples of the products we are offering include:

- Coal that we are supplying from agency agreements. In addition to being a value-accretive service that we are able to provide to coal suppliers, this component of our business helps to underpin the broader product offering that we are able to provide to customers. We have four agency contracts currently, focused primarily in the Pacific market where we have a smaller equity footprint.

- Multi-source supply contracts allow us to optimise our global base of products and our freight and logistics capability. We have expanded our business in this area and now have four major multi-source positions in both the Atlantic and the Pacific.

- Some of the contracts we have are delivered to plant contracts, where we are managing the full product and logistics chain for the customer, and help them to manage their fuel supply risk.

- We have entered into coal tolling transactions as well. By taking the end-product power, we are able to lock in incremental coal sales in a structured fashion.

- In much the same way, we are helping our customers to manage their potential emissions credits shortages in Europe by actively sourcing credits and stapling them to coal contracts. I would point out that this is something that our customers have come to us asking us to do. They have recognised the value of the BHP Billiton global network and model, and have asked that we leverage that in sourcing and aggregating emissions credits.

All of these efforts are focused on generating better risk-adjusted margins.

3. Contributing Factors

It should be noted that there are a couple of factors underpinning our ability to continue to run the business effectively with that increased complexity. These include enhanced global systems. These systems allow us to manage the logistics chains and to de-bucket multi-leg transactions and understand the individual risks and value-add.

We have also developed a joint team of global analysts who provide us with an in-depth view of the market to support global marketing activities.

VIII. Competitive Advantage

We believe it is ultimately our products and services package that differentiates us and provides a sustainable competitive advantage in the marketplace.

Underpinning that position are:

- Our people and capabilities. Supporting our front-line marketers we have best-in-industry back-office teams, traders, structures, analysts, commercial people and middle-office risk management.
- We have a truly global position across equity coal, agency coal and traded coal.
- Our understanding of our customers' drivers is second to none.
- Our ability to actually put the individual blocks together to create a cohesive value-adding product package is also strong. Again, this is backed up by structuring and commercial professionals.
- Our systems are best-in-class.
- Finally we are able to leverage the broader BHP Billiton governance framework in managing this business.

Ultimately this allows us to achieve above-market returns as viewed across the cycle, and provides the organisation with better strategic foresight and optionality.

Thank you. I would like to hand over now to Clay Whipp in Sydney to discuss finance.

Financials

Clayton Whipp

VP Finance, BHP Billiton

I. Introduction

Thanks, Mike. Firstly, this slide recaps the half-year performance, which you would have seen reported previously, with an EBIT of US$308 million, being an increase of 262% over the prior comparative period. The increase has predominantly been seen in the export-orientated businesses, that being the Ingwe, Colombia, and Hunter Valley, with higher export prices resulting from strong demand in both the Pacific and Atlantic markets. I will discuss the variation between those two periods later in the presentation.

II. Significant Reserves

Energy Coal has title to significant reserves and resources that provide for long mine lives and future development opportunities.

1. Marketable Reserves

Marketable reserves around in excess of 1.7 billion tonnes are available for development within existing operations, and further resources are also available for extension of mine lives, and also to be utilised in underdeveloped properties.

2. Geographical Distribution

The geographical distribution of reserves is predominantly to South Africa, as you can see from the top left, at 54%. However when you consider the key market of sea-borne export coal, the split is quite even across the various regions, being South Africa, Colombia, and Hunter Valley.

III. Volumes by Business Units

1. Growth Across All Businesses

When we look at production for the half year, from the operating assets, we've seen growth in total saleable production across all businesses, with particularly key or extended growth being in our key domestic markets, being New Mexico, and also in Khutala in South Africa, which as a cost-plus operation also tends to shelter the business from increased strengthening of the Rand.

2. Export Sales Volumes

Looking to the export sales volumes, we see that Ingwe actually decreased slightly over that period. This was driven by a couple of factors. Firstly, after the fatality that Mahomed mentioned earlier in Douglas, there was a safety intervention that ceased production there for a short while. And also, there was a failure of ROM feed bin at that operation as well.

3. Hunter Valley and Colombia

At both Hunter Valley and Colombia, the growth in those two areas has been as a result of incremental expansions that will see the Hunter Valley firstly taken to 10 million tonnes of export product by 2008, and the Cerrejón operation increase in excess of 28 million tonnes in 100% terms by calendar year 2006.

IV. Fixed and Floating Prices

1. De-Risking Price

As indicated earlier, one of the objectives of the marketing group is to de-risk price on equity product and, where possible, float with market pricing. The ability to achieve this is firstly dependent upon customers' willingness to either float prices by linking them to an appropriate index or alternatively the availability of a liquid paper market for us to de-risk fixed-price customer deals.

2. Atlantic and Pacific Markets

In this regard, the Atlantic market, as Mike has mentioned, is significantly more mature, which enables the marketing group to target 100% de-risk price, or floating price. In relation to the Pacific market, we have seen customers who are willing to link to index. We've seen that increasing, and also increased liquidity in the API#3 market. However, the current limited ability to de-price will restrict near-term opportunities to float price in this region.

3. Progress Being Made

It is evident from the decline in proportion of fixed-price deals that progress is being made to maximise the ability to meet market pricing.

4. Colombian Operation

The Colombian operating has been excluded from these slides. It is marketed by an independent marketing company, under the direction of the shareholders, being BHP, Glencore and Anglo American, and as such is not included in that analysis.

V. EBIT Trends

This graphic shows the trend in half-year EBIT, post merger, together with some of the external drivers during that period.In relation to FY03, the EBIT reduction from the prior year of $346 million was driven by external factors such as price, inflation and exchange, resulting in a $350 million reduction. Portfolio changes, predominantly being the divestment of our Indonesian operation PT Arutmin, reduced EBIT by $75 million, while controllable items including volume and cost improvements increased EBIT by $79 million.In relation to the FY04 year, the EBIT improvement from the prior year of $44 million was again driven by external factors resulting in a $100 million increase. Portfolio changes reducing EBIT by $37 million, while volume and cost improvements increased EBIT by $14 million. Further, there were some one-off items included in this year, including revision to rehabilitation charges and mineral rights relinquishments in South Africa that reduced the EBIT.The half-year to 31 December results were $223 million improvement on the prior period, and this will be dissected further in the presentation.

VI. EBIT Analysis – Six Months December 2004 *v* December 2003

1. Significant Improvement

In fact, in this slide now. I'll just talk to some of the larger movements there. A significant improvement in prices for the six months to December 2004 was seen over the prior period, with the spot reference prices being – predominantly we look at, say, the API#4, which is Free On Board Richards Bay increasing 67%.

2. Strength of Local Currencies

The continued strength of local currencies particularly the Rand, which appreciated by 12% over the period, put pressure on the cost base and also monetary liabilities when converted to US dollars.

3. Cost Variance

The unfavourable cost variance is predominately evident in South Africa, with some offset in the Hunter Valley after lower unit costs resulted from economies of scale due to the ramp-up in production. The Ingwe cost variance resulted from a number of factors, including some operations encountering higher strip ratios, costs incurred to lift in-pit inventories to more effective operational levels, and cost pressures being seen across the industry as a result of the buoyant position in the mining cycle. The use of contractors in these areas identified to maintain volumes while margins are at a high level, and together with some higher maintenance costs, also contributed to unit cost pressure.

4. Hunter Valley Excavator Fire

The excavator fire, which will be discussed later, at Hunter Valley, had an impact on the half-year result as well. However, we do anticipate that a portion of this will be recovered over the second half.

VII. Continued Portfolio Balancing

1. South Africa

At the time of the merger a significant proportion of the CSG's asset base, being 61%, was based in South Africa, and a similar proportion of earnings were also sourced from that region.

2. Hunter Valley and Colombia

The acquisition by the Colombian consortium of Intercor, as well as expansions both in Hunter Valley and Colombia have resulted in a balancing of the portfolio, reducing reliance on Ingwe as the primary CSG driver of earnings. This balancing of the portfolio shelters the impact of the CSG from socio-economic issues in each region, with inflation and exchange rate movements being the primary external drivers impacting local cost performance.

3. Export Market

The focus on the export market as the primary value driver is evident in the expansion of its proportion of our total sales mix by 6% in the period from 2001-to-2004. When we refer to the half-year to December 2004, this trend appears to have reversed. However, this is driven by strong customer demand in the key markets of New Mexico, and also supplied by Khutala in South Africa, rather than a reduction in export volumes.

VIII. Annual EBIT Sensitivities

1. Overview

As discussed earlier, we target to float equity product to market prices, and with a total of 26 million tonnes marketed from our Ingwe and Hunter Valley operations in 2004, and a further 8 million tonnes sold by the independent marketer for the Colombian product, who does not follow the same principles that Mike laid out earlier in agreement with the three shareholders.

2. Specific Sensitivities

At any given time, our sensitivity to price is therefore linked to tonnage that is unsold, tonnes that have sold on index, or product that’s been de-priced through paper market or other mechanisms. Looking forward our sensitivity to price is estimated at $30 million for every $1 movement in market price.

3. Foreign Exchange

In relation to foreign exchange, by far our greatest exposure is in relation to the Rand. Trading at around the R6 to the $, a little higher at the moment I’ve seen, it’s at low levels compared to a number of recent years. Looking at sensitivity, a 10% depreciation of the Rand would increase EBIT by $90 million, including the impact on both costs and the restatement of balance sheet items. Of course, as with any sensitivity, there is always potential for movement in both directions.

IX. Financial Year 2005 Financial Outlook

Although it is not our intention in this presentation to provide earnings forecasts, there are a couple of key drivers of the Energy Coal results, which I would like to provide comment.In relation to the balance of the financial year, we anticipate growth in export volumes, particularly the Hunter Valley as ramp-up continues and some shipments that slipped from the first half are completed in the second. On domestic volumes, we anticipate some decline after strong burn by customers in the first half.With the Rand trading at around 6 Rand to the dollar, and the Australian dollar at the $0.70 range, the average exchange rates for the second half may well be unfavourable when compared to the first half of the year. We have obviously provided some detail in the previous slide as to what the full year sensitivities for exchange movements are.Lastly, we have recently seen a softening in index pricing, particularly in the Atlantic market, prior to colder weather in Europe stabilising those prices. In the first half of the year, the API#4 index averaged around $59 a tonne, while current forward curves would indicate the second half of the year would be between $45-49 a tonne. Again, we have previously discussed sensitivity to price.I will now pass over to Mahomed to talk about the significant opportunities within our operations and growth pipeline.

Operations and Growth

Mahomed Seedat

President, Energy Coal, BHP Billiton

I. Portfolio Actions to Build Long-Term Performance

Thanks, Clayton. I'll talk briefly about operations and growth, and I'll pass on to Darryl and Steven to talk about their respective assets.

In terms of our pipeline, we have seen [inaudible] come through a significant phase of bedding down a number of significant projects. These include the Mt Arthur North and the San Juan Underground projects, as well as the Cerrejón expansion between 8 million tonnes.

We have recently reached agreement to divest Zululand Anthracite Colliery in Kwazulu-Natal here in South Africa, and Wyong in Australia. These investments were considered to be non-core and of lower development potential and priority.We are now moving into progressing a series of organic growth opportunities. The next slide please.

II. Energy Coal Project Pipeline

These opportunities are at various stages of progression and planning. Some of the more significant projects include:

- We have two significant development opportunities around the Mt Arthur coal asset, the first being an expansion of the open-cut operations, and the second being the development of an underground mine which will enable leveraging existing infrastructure.
- The New South Wales Port Project. We are with other core producers in a consortium. We submitted a proposal to the New South Wales government, in respect of this terminal, and we have been short-listed, together with another operator, to submit further proposals.
- In South Africa, we have a number of development opportunities, including the further expansion of our Klipspruit operation. Darryl will talk a little more about that.
- Finally, at Cerrejón, there are further expansion options beyond the approved 28 million tonnes per annum that was approved recently.We will discuss some of the more advanced projects later in this session. I am now going to hand over to Darryl to cover the opportunities in Ingwe. Darryl.

Darryl Cuzzubbo

President & CEO, Ingwe

I. Ingwe

1. Koornfontein, Douglas and Khutala

Thank you, Mahomed. Ingwe is our largest producing asset with six operating mines, excluding ZAC, all of which are based in the Mpumalanga Province in South Africa. The underground operations of Koornfontein and Douglas have relatively short lives left, based upon economically recoverable reserves, which are anticipated to be exhausted by 2008. The Douglas open-cut reserves, however, will provide for a further 29-years of mine life. Khutala is the remaining underground operation, which supplies Eskom under a cost-plus contract.

2. Optimum and Middelburg

Both Optimum and Middelburg are substantial scale open-cut operations with brown-field development options that will be discussed later in this presentation.

3. Klipspruit

The Klipspruit project has commenced with the development of a contractor operation with a capacity of around 1.5 million tonnes per annum, which upon finalisation of the necessary approvals will be expanded to production of approximately 6 million tonnes per annum.Domestic product is predominantly sold to Eskom, utilising conveyers or rail while export product is railed to the Richards Bay Coal Terminal in which BHP Billiton is the majority shareholder.

II. Operational Performance

1. Overview

Next slide please. Ingwe's operational performance has seen continued strong and consistent performance from Khutala. Optimum, however, has seen some deterioration in performance arising from increasing strip ratios. We are also seeing the impacts of poor geology at Douglas and Koornfontein as they mine out their remaining reserves. Middelburg's production profile is expected to and showing strong signs of recovery after various operational problems earlier this financial year.

2. External Benchmarking

External benchmarking activity has been used to identify and demonstrate the potential of extracting significantly more value from the Ingwe operations, in particular through improvements in productivity. This is a key component in management's response to an environment that includes a strong Rand and inflationary pressure, and is included in an overall initiative to realise a step improvement in Ingwe performance. A holistic approach is being taken in regards to this to ensure that not only are the benefits captured in a sustainable fashion, and as quickly as possible, but also to ensure that it forms the foundation to achieve ongoing continuous predictable improvement. The focus is initially on one mine, which presents us with the biggest opportunity, but demonstrated success at this pilot site will then be used to roll out a similar initiative at the other sites.

3. Growing Demand

South African energy demand is growing with current infrastructure capacity anticipated to be constrained by 2007. Eskom have reacted to this by re-commissioning moth-balled power stations. However opportunities are expected around Ingwe supplying to new power station developments. These would likely be structured on a cost-plus basis, much the same as the Khutala operation.

4. Constraints

Richard's Bay Coal Terminal rail line infrastructure remains a constraint for export product. Transportation with historical under-investment and operating issues are preventing the operator from achieving targeted performance levels. Next slide please.

III. Ingwe Growth Projects

1. Overview

The existing Ingwe operations are mature businesses that have been operating for a number of years with existing mining areas in a natural field decline in the period to 2015. As mentioned earlier the underground operations of Koornfontein and Douglas will close approximately by 2008. Ingwe does however have a substantial pipeline of projects to replace declining production levels. These projects, which include a mix of export and domestic products, could generate annual production of 49 million tonnes per annum, and are in various stages of assessment.

2. Klipspruit

The Klipspruit project is currently in feasibility with the focus on project optimisation. This project will be discussed further in the presentation.

3. Optimum

At Optimum the lower quality domestic reserves within existing mining areas will be depleted prior to the expiration of the contractual commitment to Eskom until 2018. These developments, which include the Kwagga North, Schoonoord and Boschmanspoort projects, will access significant un-mined reserves for both the export and domestic markets. The pre-feasibility study will also be completed during next financial year.

4. Douglas

With the underground reserves at Douglas nearing completion and limited export life at the stand-alone Middelburg mine, the Central Complex project will maximise export potential from combined Douglas/Middelburg reserves including pillar reserves at Douglas Colliery, and satisfy the 10 million tonnes per annum contract that Ingwe has with Eskom until 2034. The pre-feasibility study into this will, again, be completed during next financial year.Naudesbank reserve will be a green-fields site that is developed predominantly as an open-cut operation, with a small underground component. The pre-feasibility study is also on track to be completed next financial year.

5. Richards Bay Coal Terminal

Capacity exists at RBCT to export volumes generated by these projects. However in the near term, capacity allocated to Ingwe by Spoornet, the rail operator, is below Ingwe's entitlement at the Richards Bay Coal Terminal. Ingwe's management will work with Spoornet to manage these near-term capacity shortfalls, while our marketing group will continue to optimise the value of the Richards Bay Coal Terminal asset through third-party purchases and entitlement-usage arrangements.

IV. Klipspruit

1. Reserve

The Klipspruit reserve is currently producing around 1.5 million tonnes per annum as a contractor operation with product being beneficiated and railed through the Rietspruit coal handling and preparation plant. The project includes the construction of an on-site handling and preparation plant together with load-out facilities and the acquisition of mining equipment.

2. Planned Production

Production of around 6 million tonnes per annum is planned with 55% of the saleable product targeted to the export market. Board approval will be requested in late this calendar year.

3. Possible Synergies with Anglo

We are currently carrying out a pre-feasibility study in conjunction with Anglo American, referred to as the 'Western Complex' in the project pipeline. The joint development would enable optimisation of the reserve base between the two companies, as well as capital infrastructure held by both Ingwe and Anglo.Thank you. I will now hand over to Stephen in Sydney.

Stephen David

Senior General Manager, Hunter Valley Energy Coal

I. Hunter Valley Energy Coal

1. Overview

Thank you, Darryl. Our Hunter Valley operation is situated south of Muswellbrook in New South Wales and supplies domestic product to Macquarie Generation via a conveyor belt and export product to the Port of Newcastle, 120 km by rail.

2. Operational Performance

In financial year 2004, the mine produced 8.7 million tonnes, with 5.3 million tonnes sold in the export market. Approved expansion plans will see the mine expand production of approximately 12 million tonnes per annum.The half-year results were adversely impacted after one of Mt Arthur's large Liebherr excavators was extensively damaged by fire on 22 July 2004. It was expected to take 8 months to rebuild. However, by working closely with the supplier in France, and chartering an Antonov aircraft to lift 67 tonnes of partially assembled components, this period was reduced to only 5 months. The introduction of the Capacity Distribution System at the Port of Newcastle was not supported by BHP Billiton, which sees an immediate need for increased capacity throughout the coal chain. This will be discussed later in the presentation.We continue to seek opportunities to grow our market position in the Pacific and will now discuss a number of projects that are underway at Mt Arthur to achieve this.

3. Mt Arthur Coal Growth Opportunities

Mt Arthur has a large resource base that provides opportunities. The brown areas indicate the extent of the mined out areas within the current lease boundaries.The green area to the north of the lease indicates the planned extent of open-cut mining after 33 years. This was covered by the investment in the Mt Arthur North project and with the equipment and infrastructure now in place the focus in this area is on process improvement to maximise the return on the assets.The area shown in red provides the opportunity for incremental growth in the Mt Arthur North area through the addition of another overburden fleet, which would add an additional 2.0-million run-of-mine tonnes per annum. In the longer term, we have sanctioned a pre-feasibility study into an underground mining opportunity, which was formerly the Bayswater lease area. In this area, low cost access to the coal seams is available off the existing highwalls.

4. NSW Infrastructure

As indicated earlier our export product is distributed to market via the Port of Newcastle at which the coal loading facilities are operated by Port Waratah Coal Services (PWCS).With demand currently exceeding the coal chain capacity, estimated at 84.5 million tonnes for calendar year 2005, PWCS introduced a quota system to limit supply to match the infrastructure capacity. BHP Billiton opposes the quota system introduced by PWCS on the basis that we believe the solution is to expand the infrastructure rather than to limit output. BHP Billiton has submitted to the ACCC that this quota scheme should be limited to 12 month's duration.The Newcastle Coal Infrastructure Group (NCIG) was created by BHP Billiton with six other coal-exporting companies in the Hunter Valley with the core objective of ensuring that sufficient rail and port infrastructure capacity is available to meet its members export growth requirements. A submission by NCIG to the New South Wales government in relation to a proposal to expand coal-loading capacity at the port has been short-listed and we are working on the pre-feasibility study in relation to construction of a port facility. BHP Billiton and NCIG have been working with Australian Rail Track Corporation to discuss its plans for capacity expansion to 140 million tonnes by 2008, and we believe these plans are sensible. They will, however, need to be implemented as quickly as possible to ensure that rail capacity stays ahead of demand.Thank you. I will now hand back to Mahomed in Johannesburg.

New Mexico Coal, Cerrejón & Briefing Conclusion

Mahomed Seedat

President, Energy Coal, BHP

I. New Mexico Coal

1. Overview

Thanks, Stephen. I am now going to talk about the other two assets that are in our portfolio.

New Mexico Coal, our US business, is situated around the four corners area, aptly named because of the state border interaction in that area. San Juan is a new underground mine supplying the San Juan generating station. The Navajo mine services the Four Corners Power Plant from its open cut operations

These operations are mature business purchased as part of the Utah mining from GE. These are niche businesses with the power customers inextricably linked to the mine, as the lack of railroad stops coal being secured from other mines and the Powder River Basin.

2. Operational Performance

a. Unprecedented demand

We'll talk about the operational performance. Next slide please. With the high price of natural gas, the mine-mouth power plant customers of New Mexico Coal are experiencing unprecedented demand for their generated electricity. Subsequently the mines are producing coal at record levels in their 43-year history.

b. Equipment re-commissioning

To meet the increased burn and to build inventory for major rebuilds on the primary draglines in financial year 2006 and 2007, a third moth-balled dragline has been just brought back into service at the open-cut mine, the Navajo Mine.

c. San Juan Coal Company's longwall operation

San Juan Coal Company's longwall operation, which is the only underground coal mine in the US, which is the sole source of fuel to a major power plant, has raised its production to around 25,000 tonnes per employee year, one of the highest in the U.S. for a longwall. In fact, this longwall is regarded as being around the third best running in the US.

d. Third power plant

A conceptual study led by Sithe Global, as the power plant developer, and BHP Billiton's Navajo Mine, as the fuel supplier, is currently underway for what would be a third major coal-fired power plant in the area. If constructed, the Desert Rock Power Plant is projected to commence production in around FY10.

e. Long-term contracts

With extensions in place to 2016, and further extensions to these contracts highly likely, New Mexico Coal will remain a steady source of EBIT, cash flow and high returns well into the future.

II. Cerrejón

1. Overview

I'll now talk about Cerrejón. Cerrejón will produce around 25 million tonnes per annum in the current financial year, around 27.5 million tonnes in calendar year 2005, with expansion plans approved to 28 million tonnes per annum. The mine will ultimately be able to achieve production capacity significantly above this level, and is well positioned to supply the US and the European markets. BHP Billiton is a third owner and actively pursues the management of its interest, and where necessary utilises BHP Billiton systems and practices where they can benefit the mine.

The mine moves 185 million BCM of dirt per annum, has seven truck and shovel pits in operation, with a total of 27 shovels, and about 150 haul trucks, making it the largest single truck and shovel operation in the world.

The coal quality consists of fairly low sulphur and low ash, with an average heat value of around 6,100 kcal. The mine owns and operates its own rail track of 150km. That runs from the mine to the port, Puerto Bolivar. The port is capable of handling large Cape-size ships, up to about 180,000 tonnes weight.

2. Operational Performance

For the period to December 2004, sales from Cerrejón were in-line with the forecast. Although unseasonably high rainfall impacted on production during November of last year to January of this year, sales were largely recovered through efficiency improvements, finalising of the labour agreement, and the reduction of inventory. Operating costs have been impacted largely by external factors such as the higher royalty payment that have to be made due to the higher export prices, and the appreciation of the Colombian Peso, and the higher diesel fuel prices.

3. Expansion

In 2003, the shareholders approved a capacity expansion to 28 million tonnes per annum, which is running a full year ahead of schedule, and is now anticipated to deliver a capacity of 29 million tonnes per annum with further optimisation.The project is significantly below budget due to improvement projects, which were initiated mine-wide with major benefits driven by productivity improvements that allowed reductions in project capital.This has been an incremental growth project with the expansion of stripping and hauling equipment and associated coal hauling and transport upgrades.

4. Future Growth Options

Currently the shareholders are considering a further low-capital incremental expansion, which will eventually lead to the mine achieving a capacity of 32 million tonnes per annum by calendar year 2008. The expansion is similar in nature to the current project requiring additional mining equipment and coal transport capacity. However it will have a focus on coal handling at the port rather than coal preparation at the mine. This capacity level is the next logical incremental expansion prior to the need for a more significant capital investment and, importantly, includes no ‘regret capital’. That is, under all considered future expansion opportunities and scenarios, this equipment and infrastructure would be required. A pre-feasibility study is currently underway to determine the optimal capacity of the operation, with progression to feasibility anticipated later in this calendar year.

III. Briefing Conclusion

I would like now to conclude and just remind you again of the key issues.

- In Energy Coal we have a significant global business, operating in a very competitive environment.
- We have a well-defined and internally-communicated strategy, with the stability of the four key pillars.
- Our focus on HSEC and continuous improvement will remain relentless.
- We understand our markets, and are well positioned to take advantage of opportunities as they arise, and believe that we have a sustainable future in coal.
- Our portfolio rebuild has been completed, and we are now well positioned for re-investment to maintain and grow capacity.
- We have strong operating assets, and a project pipeline intended to deliver growth.

Thank you very much. I will now open the floor for questions. I would ask that we take three questions from the Johannesburg office, starting from Johannesburg, three questions from London, three questions from Sydney, and then we’ll open up to those people on the telephone line. So can we have questions from this audience please?

Questions and Answers

Question

I’ve got two questions. The first one is about cost increases in the business. I think it’s common knowledge that with costs of oil etc increasing that there is incredible cost pressures, particularly on the opencast operations. I wonder if you could comment on that in respect of your South African, your Australian and all your Colombian operations.

Secondly, if I recall, there's a new rail tariff agreement that's likely to come in place in South Africa for RBCT. I wonder if you could give us an update on that as well.

Mahomed Seedat

On the first one, the cost increases, clearly yes, there are tremendous pressures on costs. The mining industry is growing in significant volumes throughout the world. Suppliers of equipment are stretched to meet requirements. These are all putting challenges on us, but I think with BHP Billiton being a global player we have some strategic sourcing agreements in place that help us not only secure equipment but also ensure that we get the equipment when we require it. Darryl talked a little earlier about Ingwe specifically, but we believe there are opportunities to mitigate some of those cost increases by productivity improvements, particularly in the South African operations.

On the rail tariff agreement, those negotiations, you may be aware, just started a couple of weeks ago. They are progressing; we've still got some way to go, but right now all I can say is that the negotiations are happening in a very, very conducive environment and I'm sure we'll reach an acceptable settlement with Spoornet in due course.

Question

I've got two questions. Firstly, if I can ask Darryl, the Ingwe site, you have some mines closing in 2008 with underground operations; you have some projects in the pipeline. Are you looking in the medium to long-term in increasing output or is it on a slow decline?

The second question I have is a bit more broader. We've seen coal prices coming off a little bit recently. What is your outlook for the next year or two in terms of the pricing?

Mahomed Seedat

I'll take both questions, if Darryl doesn't mind. The first one, in terms of the mines closing, clearly on the export side we're limited by what we can get as entitlement out of Richards Bay, and you may be aware that we forego some entitlement in the Phase Five expansion from 72-85 million tonnes, so that will be a constraint in terms of our export tonnages. Domestic tonnages, we all know that Escom's planning to spend some South African Rand 106 billion, or government's planning to spend some Rand 106 billion on new power station generating capacity in addition to the mothballed operations. Clearly, we see opportunities for us to participate in that, so we can see the domestic opportunities growing. Export, as I said, we can grow it, but it's going to be limited by what we can get out of the export terminal.

On the prices, well, your guess is as good as mine.

Question

Couple of questions, if I may. You mentioned, Darryl, that there's opportunities to significantly improve the operational efficiencies at Ingwe. Can you maybe just give us an idea of what the quantum cost savings possibly could be at Ingwe?

Then secondly, about a year ago I think it was, BHP Billiton looked at purchasing DRAX Power Station. We haven't heard of any other rumours along those lines in the last year or so. Is that type of strategy now off the cards or are you considering them as they come along?

Mahomed Seedat

Okay, thanks very much. I think on the question of operational efficiency and the cost benefits I'm going to ask Darryl to respond, and then on the strategy issue I'll ask Mike Henry or John Dudas to respond to that.

Darryl Cuzzubbo

Okay, thank you, Mahomed. Just in terms of the benchmarking. So, the last three or four months or so we've been comparing ourselves against what's the world best in terms of operating parameters, and you can never 100% compare apples with apples, so you find the opportunities and you obviously work out what you can do. We haven't progressed it to enough detail to where we could put an EBIT number on that, but what we can say is that most of you would be aware of the Phenduka Programme and we have identified more opportunities through the benchmarking and what was promised in the – or forecast in the Phenduka and we're confident that we can get those improvements before 2008.

Mahomed Seedat

Thank you very much, Darryl. Those opportunities we think, when we look at the benchmarking, are significant. On the DRAX, John, are you on the line?

John Dudas

Yes, Mahomed, can you hear me?

Mahomed Seedat

Yes, thank you. Can you comment on the strategy relative to what we tried to do with DRAX last year or the year before that?

John Dudas

Certainly. I think the issue around DRAX was not really to be seen as investing in a power station per se, but more in fact looking for a coal sink opportunity, and in fact the UK in that instance, and Europe, is the highest average paying market for energy coal, and our interest was really in determining whether we could sink more coal, if you like, off market into the highest paying market. At this stage, though, the market has developed quite quickly and we can actually manage those coal sinks via contractual methods rather than capital investments, if you like, with the current power stations in Europe and in the UK specifically.

Mahomed Seedat

Thanks very much, Jon. I'm now going to call for questions from London.

Mike Henry

Yes, we have questions here, Mahomed.

Question

I have a couple of questions. Firstly, in terms of the demand outlook in Europe, how do you see that beyond 2008 when the Kyoto CO2 emissions trading kicks in for real?

Secondly, just could you explain a bit more of the pricing mechanism on the contracts in New Mexico, please?

Mahomed Seedat

Okay, thanks very much. Mike, can you take the question on the demand outlook in Europe?

Mike Henry

I am precluded from giving you BHP Billiton's specific forecasts, but I will say that there's general consensus in the marketplace that demand will continue to be reasonably firm in Europe even post the 2008 timeframe, but of course it's going to depend very much on the regulatory environment that gets put in place at that point in time. And with the way that we look at the market, which is looking at the overall Atlantic basic, we are – or I think the general market forecast is that there is going to be increased imports into the US that would offset any potential slight decline in European demand.

Mahomed Seedat

Okay, thanks. Clayton, can I ask you to respond to the question with respect to the pricing mechanism in New Mexico? Essentially it's cost-plus, but there are slight variations between the underground operation and the opencast.

Clayton Whipp

Certainly, Mahomed. Firstly, the underground operation, the San Juan operation, is really what you would consider a cost-plus operation where costs are passed through to the customer and there is then a return that is calculated basically on the original investment in that business.

Looking at Navajo, there are also some passed through costs in relation to that business, probably looking at taxes and royalties, those sort of things, but the Navajo mine is actually a negotiated, fixed price contract with certain escalators. Thanks, Mahomed.

Mahomed Seedat

Thanks very much, Clayton. Any further questions in London?

Mike Henry

Yes we do, Mahomed, just one second.

Question

The questions relate to projected volumes out of both Richards Bay and from Mt Arthur Coal. There seems to be in both cases problems with access down the track and although I hear that BHP Billiton is uncomfortable with some of the arrangements currently in place, I wasn't clear about exactly when and by how much those volumes could expand over the next, say, three or four years; if you could help us on that, please.

Mike Henry

Did you get the question?

Mahomed Seedat

Yes, thanks, Mike. Just to repeat the question, it had to do with projected volumes out of both Richards Bay and Newcastle. In terms of Richards Bay, Darryl, do you want to take the question?

Darryl Cuzzubbo

Okay, thanks Mahomed. We are actually forecasting for our share to remain relatively stable. There is a project to increase the coal terminal end, the rail line capacity from 72-82 million tonnes per annum, but both ourselves and Anglo have foregone that to allow some of the BE companies and other parties to access that. So, from our part, we're actually only forecasting it to be a relatively minor increase in capacity.

Mahomed Seedat

In terms of the rail capacity, Spoornet, the parastatal that runs that line, has recognised that they have to invest in it, government has made funding available and particularly over the last three months we've seen a lot of activity. There's been a change of leadership in Spoornet, change of activity in trying to source equipment; they're building rail wagons, additional rail wagons at quite a fierce pace of knots. They are going to acquire additional locos; they've moved locos from the general freight market back into the coal market. So, the will is there, the money's available and I believe that Spoornet, within a period, it's not going to happen overnight but within a relatively short period will be able to match the railage capacity back to the entitlement capacity that exists at RBCT.

In terms of Newcastle, can I ask Stephen if you can respond to the question?

Stephen David

Thank you, Mahomed. In terms of overall capacity targeted, I said earlier that the Australian Rail Track Corporation have a definite plan for 140 million tonnes of rail capacity by 2008. That is in line with coal producers in the Hunter Valley forecast production levels. What we are now waiting to see is what will happen in the port, whether – we've put forward, as we said, there's two parties now on a short list with the New South Wales Government and we'll know more later in the year, but the logical thing will be to build a capacity of port that will match what the rail, so we have a consistent coal chain. Thank you, Mahomed.

Mahomed Seedat

Thanks, Stephen. Just to add to that, the New South Wales Government has set quite a tight timeline for proposals to be submitted and we've got to get a proposal in, I think, by 9 June, which is very tight. It has been recognised as a challenge, the available capacity, and there seems to be the political will to resolve this as quickly as possible.

Any further questions? One more question from London?

Question

I was just wondering if you could give us your view, in the medium term, on China. To what extent are they going to be a factor in the export market, but then also do you see them as a big import growth market?

Mahomed Seedat

Mike, can you take that question on China, on the export and the import market, please?

Mike Henry

Sure, thanks, Mahomed. I think the general market view is that China will remain a factor in the export market in the short to mid-term, but we're not – it's not expected that we're going to see the big export increases that we've seen over the past five or so years.

In terms of imports, as I flagged in the presentation, China is a big wildcard. There's a potential opportunity for significant imports into the southeastern region of China as the economy continues to grow and they have trouble meeting demand from domestic coal supply sources. So, it's yet to be seen but a potentially significant wildcard out there.

Mahomed Seedat

Thanks very much, Mike. Can we move to Sydney and take questions from the audience there, please?

Question

I have two questions. The first one is to ask you to expand a little bit on lack of availability of equipment. I know that BHP Billiton does get an advantage over many other producers, given your size and scale, but do you anticipate any delays at all in development of these projects you've outlined today because of lack of equipment availability?

My second question is around your move, especially in South Africa, to go to cost-plus contracts. What margin is enough, given the higher costs for capex, the pretty positive outlook you've given for this market? What do you need on the cost-plus to actually make you forego an increase in the export market?

Mahomed Seedat

Okay, the first question in terms of availability of equipment, I think it's too early to say from an energy coal perspective whether we will see any problems when these projects are finally approved and we start placing orders. What I can base our experience on, on the projects that are happening, in fact, in Australia in iron ore BMA areas, where I think the relationship has helped ensure that we can secure equipment as we required, and I hope that the same relationship and the same trend will be maintained when we get our projects approved and we start placing orders for equipment.

On the cost-plus contracts, Clayton, would you like to take that question?

Clayton Whipp

Yes, I think that one of the points you're looking at there is the mix between export and cost-plus, when we would move between the two, but generally, if we look at the operations that were presented there and were discussed around a cost-plus arrangement, that is quality of coal that would not be available to the export market. So, effectively, we will be maximising our export product from any of these operations and generally, say, with an open-cut operation, often there's an as arising amount of domestic quality product that we can service a domestic market with that otherwise would have ended up in the spoil pile. So, it's not a matter of choosing between the two.

Mahomed Seedat

Thanks, Clayton. Any further questions from Sydney?

Question

I'm just wondering if we could touch a little bit on supply and demand. I mean BHP's made it very clear that they think the shortages in the market will eventually be eradicated as supply comes through. Could you talk a little bit about both the Atlantic market and the Pacific Basin, how you see supply and demand? Some of your peers, like Xstrata, are expecting surpluses this year in thermal coal and, therefore, price pressure on the down side. I'm just wondering, you've addressed China, but there's Indonesia –obviously what your thoughts are there and what you see from some of the other wildcards out there and what you think that will do to supply and demand in the short to medium-term.

Mahomed Seedat

Thanks. Mike, can I ask you to respond to that question?

Mike Henry

Sure, Mahomed. I won't talk to specifics around the short-term. As Mahomed said earlier, your guess is going to be as good as ours around that. I would note, however, that the forward curves of the publicly available forward curves out there show the market remaining reasonably firm in the short-term. In the mid-term, if you look at the Atlantic, I think the general consensus is that demand into Europe will remain firm. You'll see increasing imports into the US, and, therefore, the Atlantic as a basin will remain fundamentally undersupplied and you'll continue to see coal flowing in from the Pacific.

In terms of the Pacific in the mid-term, the forecast is for significant increases in demand which will require material volumes of incremental supply. You may see short-term swings between over-supply and under-supply, but overall I think it's a fairly strong picture for coal in the Pacific as well.

Mahomed Seedat

Thanks very much, Mike, and one more question in Sydney and then we'll go to the lines.

Clayton Whipp

There are no more questions in Sydney at this point of time, thank you.

Mahomed Seedat

Thank you. We have one caller with a question on the line.

Question

Just a bit of clarification on price. You've talked about your sensitivity being $30 million for a one-tonne move in the price, and then you talked about the first half price being $59 a tonne, but your realised price is nowhere near that; and you talked about a second half price could be in the range of $45-49. That would suggest, just at first glance, you're talking about $150 million coming off your EBIT. Can you just clarify your comments around your sensitivity and what prices you've realised and what you expect to realise in the second half?

Mahomed Seedat

I'll pass that on to Clayton. Clayton, if you can respond.

Clayton Whipp

I think the price that you're referring to relates to the, I suppose, the mixed basket of our both export and domestic product. Predominantly our domestic products are on generally long-term contracts and the prices on those do not fluctuate very much. In relation to the sensitivity that we referred to, that was specifically around the export product, where I said that for a full year $30 million impact for $1 movement in price.

Mahomed Seedat

Thanks, Clayton. Are there any other questions from people on the telephone lines? There don't appear to be. I'm just going to circulate now back through the three venues. South Africa?

Question

Just two questions. The first one operationally. You closed mines down when there was the fatalities in Ingwe and obviously that caused a fall in your coal production. Has it been a success to close a mine, or shut down production on the back of a fatality? Has that come through?

Second then, on the back of that, we're going to see, when you say you're going to look at bigger tonnages, but you talked about bigger tonnages from Hunter Valley, you're not talking about bigger tonnages from South Africa, what's the quantum we could expect if you were to run full boar out of South Africa?

My second question relates to, if you look at the size of the assets you've not put your operating assets on in this presentation, but Hunter Valley, I think, is about $0.5 billion, returned $37 million for the first half, double it up, that's $75 million for the year. At this stage of a cycle, that's not exactly very impressive. First of all, is that due to the excavator problems, or is that the reason that you've now got to go forward with the expansions and what sort of a return could we expect from that sort of size of investment?

Mahomed Seedat

Okay, the first part of the question, closing down mines, I'll just say a little bit on that. In BHP Billiton we pride ourselves and we say that we put people way ahead of production and profits, and if it warrants us shutting down a site to get it right, even if there may not be a fatality, we will do it. We will not compromise on that value that we have of zero harm. That will go on. The experience we've had when we've done that, and the chrome operation is a good example of that is when it got fairly serious and we shut the operation down, we spent about three weeks resetting the operations. That was in February of last year and since then, touch wood, we haven't had a fatality in the chrome operations; prior to that we had had six fatalities in the space of about eight months, if I remember correctly. So it's something we will not compromise on.

In terms of the tonnages that are possible from these operations, Darryl, if you want to respond on that. As I said, with the export we're limited in terms of entitlement, so it's senseless producing more than you can export otherwise you've got to sell it at a much lower price locally. And as far as the domestic coal, the sales to Eskom is dictated by Eskom's demand and domestically by customers who take our coal, which is not significant.

Darryl Cuzzubbo

I guess the only thing I'd add to that is you would have seen in our project pipeline we've got quite a few projects that have a differing mix on domestic versus export. So, based on Eskom's growth and based on what happens with the rail terminal will obviously determine what projects we bring forward, hold back, that sort of thing. So, it's very much based on the demand forecast going forward.

Mahomed Seedat

In terms of the Hunter Valley operation, I'll just say a few words and then hand it over to Stephen or Clayton to respond to. It's a fairly new asset. I mean it's very similar to the Hillside and the Mozals of this, and these projects are done on an NPV based on a much longer period than three to four years, and it will deliver the kind of returns that we expect. These projects that we're looking at will certainly make the returns even better or much quicker. Clayton, if you want to add anything else?

Clayton Whipp

Yes, certainly, Mahomed. I think you've covered it off there quite well. Obviously, at the early stage of the development of a new asset you have a significant asset base to service and in Hunter Valley's case, as you've seen in last year's results, we did about five million tonnes, just over, in export product and, as I indicated earlier, we're looking to go to about 10 million tonnes export product by 2008. So, as the economies of scale of this business come into play we will see improved returns in that area.

Mahomed Seedat

Any further questions in South Africa?

Question

On the infrastructure, I'm hearing that rail and portage infrastructure is a constraining factor in some of your production, particularly in Hunter Valley and the case of Richards Bay coal terminal. In the case of Hunter Valley, I'm hearing that the local authorities want to introduce a quota, whereas Billiton is far more keen to go for an expansion from 89 up to 140 million tonnes there. In the case of Richards Bay coal terminal you seem to be more eager for the expansion of facilities there than your partners, Anglo American. Does this reflect your higher confidence in demand and prices, or are we looking at people that don't want to shoulder some of the capital, particularly, for example, Lowpec costs and/or waiting time? What is showing that you're up for these then and do you have that much confidence in putting high tech stuff like infrastructure in, if the coal market's going to hold it?

Mahomed Seedat

I think on Newcastle, in fact the quota system has been in for the past, I think about 18 months, so it's not something new. Certainly in terms of more export capacity, you heard Clayton just mention about taking export tonnages up to about 10 million tonnes. We would like that capacity because it makes us more confident we will be able to export the coal that we're still going to be producing in addition to what we are currently producing out of the Hunter Valley.

Richards Bay, I'm not sure if you have understood us correctly or maybe I've misunderstood your question, but we have foregone our entitlement on the expansion of the Richards Bay coal terminal from 72-84 million tonnes. We did that in the interests of enabling black economic and power companies, a lot of the smaller players, to have the opportunity to export coal they're producing from the mines that they have and that they're going to develop. So, our entitlement is going to remain around 25 million tonnes. The challenge is getting the coal down to Richards Bay. It's one that is operating at – historically has been operating around 67 million tonnes per annum. So, overall, the users have lost the difference between 72 and 67 million tonnes in terms of export capacity, and obviously we've lost just over a million tonnes of that. We are keen on getting that back because we can sell all of the export coal that we can produce. As I mentioned previously as well, looking to the future we're probably going to remain around 25 million tonnes. If Richards Bay is expanded further we'll probably then take a view on whether we participate in the further expansion, and we'll make that decision at the time.

Do you have anything else you want to add there, Darryl? No. Okay.

Question

Question number one: can you tell me how much coal that Ingwe's buying in from third parties at present to make up for the shortfall in its exports from its main mines?

To come back to this issue of entitlement versus capacity on the Richards Bay line, the last three years Richards Bay has had the capacity to do 72 million tonnes. You've had a budget from the members of 69 and you're doing 65-66, and you've just mentioned that Spoornet's delivering at 67. So how much of the problem is Spoornet and how much is it your marketing plans? I mean have the major companies been selling less coal than they want to because of market consideration?

Mahomed Seedat

I'll take the second part of the question and I'll ask Darryl to comment on the buy-ins. I can't comment for the other major users, shareholders of RBCT. Certainly from our perspective we would like to maximise the entitlement we have out of RBCT, because we can sell all of the coal that we can get out of the harbour there. So, really can't answer what the other users are doing.

On the amount of buy-ins, Darryl?

Darryl Cuzzubbo

Yes, so we currently have about two million tonnes per annum of buy-ins, but that's – I mean part of that is to fully utilise the entitlement, but part of it is actually value-add where we've entered into contracts with different other suppliers where we get significant value out of that. Going forward, if we see incremental growth in our brownfield operations, which we are expecting, we could displace about a million tonnes of those buy-ins.

Mahomed Seedat

The other consideration for us is that we've, you know, like Rietspruit has stopped producing coal but the washing plant is, in effect, still in operation, so we have the ability to wash more coal than we produce ourselves, and one of the things we continue to look at is whether it doesn't make sense to buy in coal, wash it through the facilities and increase the product that we can export because it makes economic sense. So it's going to be a value-driven decision depending on the particular time and where we are in the cycle.

Any further questions in South Africa before I pass on to London one more time?

Clayton Whipp

We have one more question here.

Question

I just wanted to ask what kind of increase in demand from the local market, not for export, does BHP Billiton expect as a result of the growth in the South African economy and also Eskom's plans.

My second question is just how much does BHP Billiton expect to get of the increased demand, local demand? Thanks.

Mahomed Seedat

The increased local demand is going to come predominantly from Eskom increasing its generating capacity. I mentioned earlier that they're looking at spending R106 billion; you can work out what kind of megawatts that equates to because I think the old rule of thumb was $1,000 per megawatt installed, and you can work out what additional tonnage they're looking for. Clearly, it's going to be dependent upon the kind of submission we make to Eskom on whether we get – to what extent we get to be supplying that additional coal, as we'll be competing against the other major producers in South Africa.

The second part of your question had to do with increased local demand. As I said, it's relatively small for us. It's not a significant part of our business, but we do take the opportunities when they come and try to bid for that business. I can't give you a number in terms of how much we think the local market is going to grow.

Can I hand over to London for any further questions there?

Mike Henry

Yes, there's further questions here, Mahomed, just one second.

Question

My impression is at the moment that the increase in sea-borne supply seems to be coming from Colombia in the Atlantic and obviously you're participating there, but also in the Pacific, primarily from Indonesia. Can you talk a little bit about how you see the challenges from those two producing areas, and also whether there are any infrastructure challenges that are specific to those markets which may limit their ability to participate?

Mahomed Seedat

Mike, do you want to take that question?

Mike Henry

Sure, thanks, Mahomed. I think Colombia and Indonesia are quite different and you're right that we're seeing expanded supply from both those regions. In the case of Colombia, you really have two major producing assets, one of which we're participating in being the Cerrejón asset, the other one being the Drummond asset held by Drummond. In both of those cases the producers control the infrastructure, so they're shipping through their own ports and are able to expand the infrastructure as required to meet the mine expansions, and they're both very large reserves. So, the general market consensus is that we'll see significant further incremental production out of Colombia.

In the case of Indonesia, a very different situation. You have a few major players but a lot of smaller players as well who are expanding. Not a huge infrastructure issue for them currently, but I think going forward there has been talk about there being potentially issues around their ability to ship coal down the rivers by barge and, of course, there would be a requirement for port infrastructure expansions as well. In the case of Indonesia not all of the ports are held by the people who would be expanding the mines; potentially a further issue there. There is also a reserve issue in Indonesia. The view is that the high quality reserves in Indonesia are being mined out and as we see further expansions it's going to be in lower quality coal and progressively further inland, meaning probably incrementally higher costs.

Mahomed Seedat

Thanks, Mike. Any further questions in London?

Question

Related to that last question, just on the subject of third party coal marketing. Firstly, on the Arutmin contract, what's the duration of the marketing rights that you have there? That may be confidential. And is it the intention to become more active in third party coal trading in the future?

Mahomed Seedat

Mike, I think that's for you to answer.

Mike Henry

In terms of the specific term on the Arutmin contract, that is confidential but it will be in place for some time to come yet. In terms of how active we are seeking to be in third party coal, it's really going to be driven by market requirements, and to the extent that third party coal supports our ability to sell equity coal into our customers, and that's what they're requiring in terms of coal quality, or it provides an opportunity for us to better optimise our logistics chain, then we would seek to do that, but third party coal trading is really about supporting our fundamental underlying equity business.

Mahomed Seedat

Thanks, Mike. Any further questions in London?

Mike Henry

Yes, one further, Mahomed.

Question

Good morning. Just one question related to the electricity market deregulation in Europe. Do you expect any further impacts, given what's happening in Germany? And a related question to technology. Could you share with us your technology innovations to produce cleaner coal? Thank you.

Mahomed Seedat

Mike, again, once again, can you answer them?

Mike Henry

Yes. We do expect that there will be further deregulation in the European market, but I think that in general the marketplace is already incorporating that view into the forecasts around demand. We do anticipate that in countries like Germany and the UK, etc, we'll see further declines in domestic coal production that would lead to further opportunities for imported coal.

In respect of the second part of your question, which was around clean coal technology, we're funding a number of joint initiatives in Australia that are looking at carbon capture and sequestration, other clean coal technologies, and probably the most recent and significant initiative that we're involved in is the FutureGen project in the US. This is a $1 billion project jointly funded by an industry consortium and the US government that's targeting the development of a zero carbon coal-fired power plant that would have associated geo sequestration and hydrogen production along with it. There is about 10 or 11 companies participating on the industry side, of which we've just become a partner.

Mahomed Seedat

Thanks Mike. Can I go to Sydney? Any further questions in Sydney?

Question

Could you please confirm if it's correct to assume that your aim is for 100% floating book, therefore contract for thermal coal contract prices are pretty irrelevant, that we would be better off for all of your export volumes in just following the forward curve for the next year?

The second question is on long-term prices. Have you moved your long-term price needed to justify any of these new projects due to the increased capital that's needed to go into them as costs rise across the board?

Mahomed Seedat

Mike, can you take the first question, please?

Mike Henry

Yes, absolutely correct, we would aim for 100% floating, but as we mentioned in the presentation, our aims aren't necessarily aligned with what the market can accept at this point. In the Atlantic I think 100% is achievable in the near-term. In the Pacific it's going to be much more difficult just given the nature of the market. You don't have customers there who are necessarily willing to agree to index-linked pricing and there's also not a well developed or not a very liquid paper market there either, which would allow us to unwind. So, over time I'm sure we'll get there, but it's going to take us a few years.

Mahomed Seedat

Thanks, Mike. Look, on pricing, we continuously review our pricing. Clayton, would you want to add a little more to that?

Clayton Whipp

Yes, certainly, Mahomed. In relation to our longer-term pricing, that's subject to basically the demand-supply fundamentals and we have regular updates of our understanding of that. I think that your comment around the project, certainly we're not changing our fundamental view of the future prices in relation to our project pipeline. Certainly there's strong governance issues for us around approving projects and certainly we would not be able to do that within the organisation.

Mahomed Seedat

Thanks. Any further questions?

Question

As per other operations, just as a follow-up there, as per other business units, do you require a 15% return on invested capital to actually get these new projects up and running?

Clayton Whipp

Mahomed, I can take that. We require a return on cost of capital, which obviously is confidential within our organisation.

Mahomed Seedat

But we are faced with the same kind of requirements as we have for the other CSGs.

One last question in Sydney?

Question

Couple of questions. Firstly, regarding Ingwe and the synergies apparently available with Anglo. That seems to be a deal that's been talked about for quite some time; can you give us some indication of where the roadblocks might be there, or if it is still a remote possibility or a very strong possibility, and remind us of the timing again?

Secondly, with regard to Mt Arthur North, can you remind us when the domestic contract pricing might get renewed and whether or not there is a lot more room in the domestic market while you're constrained with the local infrastructure?

A very quick final third question. It's interesting that you've decided to go into the FutureGen project in the US. That's been up and running for 18 months or almost two years, I'd guess, and I wonder why you've suddenly decided to do that now rather than when it was originally started up.

Mahomed Seedat

On the first question, on Ingwe's synergies with Anglo, Darryl, would you?

Darryl Cuzzubbo

Okay, yes, thank you, Mahomed. Just firstly, our primary focus on Klipspruit is to get it up as a stand-alone project. So what we mean by that is that we don't need any JV arrangement with Anglo, or anyone else for that matter. We're currently on track to get that to the board for sanction at the end of this calendar year. There is, however, a number of value-added options and one of them does include an arrangement with Anglo, which we've referred to previously as the Western Complex. We are working with Anglo on that to pursue the interests that would benefit both parties, but it won't hold up the project because the fundamentals allow it to stand up in its own right.

Mahomed Seedat

Thanks. I'd just like to add, you know, when the project was initially conceived and to be done with Anglo the exchange rate at the time was around 10, 11. The world has changed since then, evaluations have changed and the position we've taken is we would like to make, as Darryl says, these projects stand on their own two feet and we will certainly look at working with Anglo if it can be value accretive to ourselves and to them by combining our projects by, for example, sharing infrastructure, etc. So that is still on the cards, but our focus right now is to get Klipspruit through the hurdles and approval within this calendar year.

On the issue of the Mount domestic contract, Stephen, would you like to take that question?

Stephen David

Thank you, Mahomed. The contract that went with Mt Arthur North, that expires on December 2007, so it's got just under three years to run. As for opportunities, further opportunities domestically, well we're certainly always looking for if there's value-add domestic opportunities we'll be looking at those.

Mahomed Seedat

Thanks, Stephen. On FutureGen, I've only joined the organisation recently; I can't give the reason why we waited so long before participating. Perhaps, Mike, would you have any comments to make?

Mike Henry

Sure. Thanks, Mahomed. FutureGen's been a project that we've been looking at for some time now and you would have heard comments in the press previously about us considering it. In the initial stages of FutureGen the US government was very focused on getting major US power producers and US coal companies on board with it. The US government recently, and I think it was the middle of last year or late last year, then expanded that out to start looking for international companies and international governments to participate, and that matched up well with our thinking around needing to fund or needing to be actively supporting new coal technologies and late last year we did make the decision to become a full member in that consortium.

Mahomed Seedat

Thanks, Mike. Can I go to the telephones one more time? Any questions from people on the telephone line? Nothing? Okay. Well, I think I'll bring this to a close. Thank you very much. Thanks for your participation.