Chip Goodyear, Chief Executive Officer, BHP Billiton

Ladies and Gentlemen, welcome to our presentation of BHP Billiton's financial result for the first half of fiscal year 2007. My name is Chip Goodyear, I am Chief Executive Officer of BHP Billiton, and I am joining you today from London.

In Sydney we have Alex Vanselow. Alex is our Chief Financial Officer, and he will be making some prepared comments today. With Alex we have Chris Lynch. Chris is Executive Director and the Group President of our Carbon Steel Materials area.

On the phone joining us is Mike Yeager. Mike is the Group President for our Energy Business, and again he is in Houston and will join us with Chris and with Alex in answering your questions later on today.

Let's move to the first slide or at least slide number four, and these represent the highlights for our half year ended December 2006.

Let me begin with the area of safety. People are a critical part of our strategy, and as usual a comment on safety, health and safety performance is an appropriate place to start.

We found that our underlying injuring frequency rates did decline in the six month period ended December, however it is important to note that low injury rates do not necessarily mean low fatalities. Unfortunately in the last – it says year to date, it is actually until today, we have had five controlled fatalities at BHP Billiton. This is an increase from the total number last year which was three.

Once again the issue is not around our systems. It is around the leadership and around the operating discipline to make those systems work. This organisation is committed to an aspiration of Zero Harm. That goes from the Board to senior management, all the way through the organisation. That focus on that aspiration and delivering that is critical for us and we certainly strive for that every day that we come to work.

Now moving on across the business on an operating and financial basis, we did have an excellent first half for this fiscal year. We set six month production records in 10 assets. We had production records in five major products and one minor product. We also hit headline financial earnings records across all those critical financial earnings figures.

Underlying EBITDA was up 32% to US$10.5 billion. EBIT was up 37% at US$9.1 billion. Attributable profit was US$6.2 billion, up 41% from the prior period, and earnings per share were US104 cents per share, and that is up 44% from the prior period. The reason for that greater growth than in attributable profit was due to the share buyback program.

Despite continuing pressures on costs, we saw that increased prices in volumes and a continuation of our Business Excellence Program allowed us to show an increase again in our EBIT margin and our return on capital employed. Now this is a trend, an increase in those two important financial statistics that goes back to 2001. It illustrates not only the environment which we operate, but the efficiency in which we manage our business.

In the project pipeline area, we once again are presenting our new version of the pipeline. We now have 29 projects that are in execution and in feasibility, and that represents a forecast capital spend of approximately US$17.5 billion. Obviously we have completed several projects, and those projects have now been removed.

Again I may make a point that this is just projects and execution and feasibility. There is a whole series of projects that stand behind that in concept, in pre-feasibility and obviously in the area of exploration. But again being able to refill that pipeline and execute those is a distinguishing characteristic of this company.

We continue to create new growth options. The last six months we did announce the acquisition of the Genghis Kahn Oil Fields which is adjacent to the Shenzi deposit in the Gulf of Mexico. I will talk about that a little later.

Our cash flow remains strong and our outlook continues to be positive. As a result we have announced an inroad dividend of US20c per share. That is 2.5 cents higher than what it was at the interim last year, or 14%, and represents the tenth successive increase in our dividend.

We also announced a US$10 billion capital management program. This is to be completed over the next 18 months, and is in addition to the US$1.3 billion that remains in the program that we announced in

August. This will commence with an A$3.75 billion off-market program in Australia to purchase limited shares, and at the same time we will continue our on-market program in the UK.

Since August of 2004 we have announced capital management initiatives of some US$17 billion, and with the completion of today's program, since August of 2004, we will have bought back approximately 17% of the shares that were outstanding, again in August of 2004.

These results in this six month period represent once again a consistent execution of the company strategy around large, low cost, long reserve life assets, a diversified portfolio of resources, and a global footprint that gives us visibility to new opportunities. It gives us a combination of current production and strong cash flow, substantial organic growth opportunities, a value added approach to M&A, overridden by financial discipline driven to long term shareholder value.

So with that, let me hand over to Alex who will take you through the numbers, and then I will come back and talk about some specific things before we go to questions. With that, I will turn it over to Alex.

Alex Vanselow, Chief Financial Officer, BHP Billiton

Thanks Chip and welcome to everyone. We delivered another outstanding set of results for the half year for the seventh consecutive half which is records for all key measures. All time record production was achieved for aluminium, for alumina, for copper cathode, for iron ore, manganese ore, and molybdenum, and this from continued operations. We also achieved record production across 10 of our assets. This is an excellent achievement at a time when demand and prices remain strong.

Chip spoke about our increased EBIT, and I will focus on our growth in EBIT margins and returns. EBIT margin was 47% and return on capital employed, 37% for the half year. Again both are records. This was driven by a number of factors.

We continued to enhance our Business Excellence Program - we have increased focus on systems and predictable operating performance. We expanded our global procurement activities and strengthened our focus on cost. Together with ongoing capacity expansion before the management activities and current strong prices, this initiative is abundant in solid returns and margins.

Our Marketing Group also continues to focus on activities to enhance revenue. Ensuring that our products are priced on market fundamentals will provide less in shareholder value. Our recent TCRC pricing reflects this.

We can also tell you about results. As you can see we are now reporting as nine CSGs. This recognises the size and relevance of our carbon steel material businesses which is reported now as iron ore, metallurgical and manganese CSGs. Importantly though, our customers won't be affected by this change, as we will continue to have a unified approach to marketing these products.

Seven of our nine CSGs delivered increased EBIT. The value of our commodity diversification strategy is evident, while inventory to consumption ratios are low and demand remain strong. Aluminium prices will continue to be volatile. However EBIT contribution from [non-aluminium] traded commodities was US$4.1 billion for the half year. 54% of this is contribution from iron ore, manganese and metallurgical. Benchmark prices for these commodities are locked until April 2008. This will strongly underpin our earnings for fiscal years 2007 and 2008, and to some extent will also cushion us from market volatility.

Now let's review the CSG results in more detail and we will start with Petroleum.

Our Petroleum business returned another strong result. Underlying EBIT increased 12% to US$1.6 billion. Sales volumes and product prices were both stronger. We improved base operating performance which we do see the impact of natural fuel decline across the portfolio. Our Petroleum Business continues to provide us with exciting and significant wealth opportunities. Aside from our 10 organic oil and gas growth projects, we have also announced the acquisition of Genghis Khan at a cost of US$583 million.

We expect petroleum volumes for fiscal 2007 to be slightly below fiscal year 2006 due to the delay of Atlantis First production.

In our Aluminium CSG, underlying EBIT increased 107% to US$840 million. Higher net prices for aluminium and aluminium added US$492 million. Record production was achieved at each of the three South African smelters and Paranam Refinery.

The Worsley Refinery also had its highest ever production due to the successful ramp up of the DCP expansion and the calcining of inventory hydrate. We expect the DCP to be operating at full capacity by the end of fiscal year 2007.

Base Metals, underlying EBIT rose 54% to US$2.9 billion. Once again strong production was achieved, including record copper cathode production. Spence was commissioned in December, three weeks ahead of schedule, and on budget in local currency. We have already achieved our first day of Spence project. The Sulphide Leach Project also continues to ramp up successfully.

Our Olympic Dam expansion pre-feasibility studies continue. We expect completion of these studies by mid next year. We currently have 22 drill rigs onsite. Exploration undertaken up to June last year has allowed us to increase a recorded mineral resource with this ore body by approximately half a billion tonnes of copper containing uranium and gold. Successful execution of this expansion will transform this world class ore body into a world class operation.

Diamonds and Speciality Products, underlying EBIT was US$105 million. We had excellent performance at Richards Bay Minerals for the half year with a firm market for metallic and zircon co-products.

The EKATI Diamond Mine continues to be impacted by the processing of lower grade material. Increasing underground production over the next few years should restore profitability to historical levels. The Koala Underground Development continues to track to schedule and budget.

Stainless Steel Materials EBIT of US$1.4 billion was up a very substantial 284%. Record nickel prices and strong production from Cerro Matoso and Yabulu underpinned this result. All assets operated at or near peak capacity to end of period.

We will have a 21 day statutory outage at Kwinana Refinery during the second half which will impact refined metal production.

Ravensthorpe’s revised budget and schedule were approved and announced in November. This project provides us with a significant capability to delivering increased nickel volumes into a structurally tight market.

In Iron Ore, higher prices and record sales volumes drove a 13% increase in underlying EBIT to US$1.4 billion. WA Iron Ore recorded its highest ever production during the period, however, tire in activities means full year production will remain below the nameplate capacity of 109 million tonnes per annum. Customer demand remains strong and we expect to sanction a further expansion of this operation over the next few months.

In Manganese, underlying EBIT was US$105 million driven by higher sales for ore and strong customer demand. An expansion of the Groote Eylandt manganese ore operation is currently in feasibility.

In Metallurgical Coal underlying EBIT was US$659 million. The Greenfield Poitrel project delivered first product, and the BMA Phase 2 expansion brought on additional tonnage. Increased sales volumes during the period were supported by expanded capacity at our Hay Point Coal Terminal.

Underlying EBIT for Energy Coal increased by 19% to US$243 million. Continued strong demand in the Atlantic Basin drove higher export prices, and our half year production record was achieved at Hunter Valley Coal.

I would now like to talk about an area which I am particularly aligned with, which is Business Excellence. We continue to enhance our Business Excellence program with an increased focus on identifying and sharing best practices globally. An outstanding example is the work undertaken on tyre preservation.

At a number of our assets, various initiatives have doubled tyre life without reducing either safety or operation efficiency. The priority now is to replicate this best practice across all our assets. The resulting savings will be significant. In a challenging industry environment, the sharing of knowledge, systems and processes across more than 100 operations can bring us a significant competitive advantage.

This slide highlights the US$290 million benefit that this drive for excellence provided during the half year and is measured by our Benefits Capture System. This is a significant number. In the context of our total increase for the period, and it is helping us to mitigate cost pressures.

Turning now to the key drivers of change in EBIT. The net impact of higher prices added US$3.4 billion. We captured an estimated 72% of this increased revenue to EBIT. However, the same factors supporting higher commodity prices also created higher input costs. These cost pressures impacted EBIT by

US$530 million, excluding the effect of price link costs, exchange rates and inflation. This is an increase of 5.6% on last year's total cost base, or 5.1% excluding non-cash costs. This is a lower period imperial rate of increased than presented at the full year. In fact it is the lowest rate of half on half increase we have experienced since cost pressures began more than two and a half years ago. This is a positive sign and is the second consecutive period in which we have seen a declining rate. In this environment however, managing costs will remain a key focus.

Approximately 30% of this year's cost increase are structural with the remaining 70% being either one-offs or caused by the heated market which bears a strong correlation to prices.

Of the total US$530 million increased, $130 million or 25% are one-off, non-recurring items within Base Metals such as Cannington rehabilitation and the Escondida labour strike. Another $50 million or 9% relates to non-cash costs such as depreciation.

Now moving into the detail of our cost variance which is calculated on a pre-tax basis. The largest impact, approximately 39% represents higher unit costs from changed mining conditions. This relates mainly to our EKATI Diamond Mine where lower grades resulted in a higher unit cost per carat. Contracted charges have increased because of both higher rates and activity. In certain cases we continue to deliberately incur costs to enhance production.

Cost for fuel, energy and raw materials are higher, but this is more than offset by the revenue benefit of the higher prices we receive for these products.

Now moving on to net finance costs, tax and attributable profit. Our net financing costs increased to US$222 million. This is largely due to the highest average interest rates offset by lower average debt levels and higher capitalised interest. The tax charge for the half year was US$2.1 billion. This is an effective tax rate of 25.3%. The underlying effect of the tax rate included a benefit of 1.6% from the recognition of prior year US tax benefits of US$140 million. We expect a similar level of recognition in the second half of the year.

I will now turn to cash flow. Net operating cash flow after interest and tax increased by 63% to a record US$7 billion. Our net gearing was 20% compared to 29% last year, and our interest grow over was 47 times.

Our priority for surplus cash flow is reinvestment in the business. Capital on exploration expenditure totalled US$3.4 billion for the period. US$2.5 billion was paid out in the ongoing buyback of our UK listed stock, and in funding our 2006 full year dividend. We have demonstrated a strong commitment to both growing the business and returning funds to shareholders.

Since 2001 we have invested US$22.7 billion on organic growth and exploration activities, as well as the US$7.3 billion paid for WMC. In addition we have a project pipeline of 29 projects in development or feasibility. We expect to spend US$17.5 billion on these projects.

By the time we complete today's announced capital management activities however, we will have return and even larger amounts to our shareholders over the same period, US$26.6 billion. Since November 2004 alone we purchased 388 million shares representing approximately 6.6% of our capital.

Let me finish with capital management. BHP Billiton continues to demonstrate strong capital discipline. Today we have announced an additional return of US$10 billion over the next 18 months. This is on top of the increased dividend announced today. This is now our fourth sizeable capital management announcement since August 2004, amounting to US$17 billion in total. Excellent and timely execution has been achieved on all prior initiatives.

We will begin this program immediately with an off-market buyback of limited shares with a target maximum program size of around A$3.75 billion or US$2.5 billion. At the completion of today's announced program we will have repurchased approximately 17% of our capital since November 2004.

So let me just recap. We have delivered our seventh consecutive record of half year results, achieving record production in six commodities. We have held cost increases to 5.1% excluding non-cash costs, the lowest rate of cost increase in two and a half years. This is within a very challenging cost environment. Of the higher price impact during the period, we have translated 72% into EBIT, with our margin and return on capital employed amount standing at a record 47% and 37% respectively.

We have continued to invest in our project pipeline while accelerating returns to shareholders. Today our pipeline is 29 projects with an expected span of US$17.5 billion. All in all we have delivered another very robust performance.

With that I will hand you back to Chip.

Chip Goodyear, Chief Executive Officer, BHP Billiton

Thank you Alex.

It certainly has been an exciting half year from a financial perspective, and in my presentation I went through a number of highlights and hopefully you not only found those interesting, but also somewhat obvious.

What I wanted to do before I talked about the outlook is talk about two areas that might be a little less obvious, and the first one is in Petroleum where the team in petroleum has put together an outstanding effort in terms of all but offsetting the natural fuel decline in our base performance in that business.

We normally tell you that you should expect a natural fuel decline in the order of 8% to 10% per annum. Yet this team was able to manage that to about a 3% decline and this is despite no new fields, a loss of Typhoon which did produce for a couple of months last year, and an unplanned shutdown of our asset in Trinidad.

They were able to do that by continuing to demonstrate excellent safety performance and putting in an outstanding result with regard to their injury frequency rates. So the opportunity to continue to maximise the operating performance while managing the business in a very safe way is an excellent example of operating discipline.

The second thing that I will mention is really following on what Alex said. That is that rate of cost increase, in August I did mention to you that that was the first time we started to see a moderation in the rate of that increase. We have seen the second six month period in which that has occurred. Those things just do not happen automatically because we continue to be in an aggressive environment with pressure on people and a pressure on materials. But as Alex described, the Business Excellence methodology and the Six Sigma methodology had allowed us to continue to find ways to improve the performance of our business.

We now have 700 black belts and 500 green belts that are trained across our business, and over the last several years have aggregated a business benefit or a savings benefit of approximately US$600 million. We have also been able to use our size and scale to source people and supplies that are critical to running our business. And so those two areas are ones that perhaps are a little less obvious than you might get by simply looking at the financial statements. But altogether that has allowed us to take that price benefit to the bottom line to the tune of about 72% of that price benefit as Alex did mention.

So now let me move onto the outlook. Now in the interest of time I am not going to go through each of these areas individually. You can certainly see our comments on the slide there. We see good performance in China. India continues to be strong, Japan and Europe continue to show solid performance, and although we do expect a slow down in the US in 2007, the overall outlook looks quite good.

That comes after 2006, a year when we did see very strong global growth despite a slow down in the United States in the second half of the year. I said in August, we expect that 2007 to continue to be a solid year, and that continues to be the case.

There has been a lot of discussion about the US slow down and its impact on global growth, and what I would like to do over the next couple of minutes is really just go through a few facts with you.

There is no doubt that the US economy is larger than China. GDP in the United States, annual GDP is about US$12 trillion. China is on the order of about US$3 trillion. But when you apply the growth rate to China of around 10% and the United States of around 3%, you can see the incremental growth is far more balanced. And you would also notice that about US$200 billion of the Chinese growth is coming in the form of investments. Obviously that is quite a bit higher than the United States. It is investment growth that is metals intensive, and what is driving the demand for the products that we sell.

So let me move specifically to copper and take a look at what that means, and the impact of a slowdown in the United States. It is far less of an impact than you might have seen several years ago, and certainly 10 years ago. What we are showing here is the copper demand in 2006 versus the copper demand that we saw in 1996. So 10 years ago the US represented about 21% of total copper demand. Today that is about 13%. Over that same period China has gone from 10% of copper demand to about 22% today, and it is still growing.

When you take a look at the overall, the absolute level of demand in 1996, it was about 12.5 million tonnes. Today it is about 17.5 million tonnes. So China's demand in absolute terms has tripled over that period, while the United State's consumption, again in absolute terms is down 10%. If you take a look at India, you can see that that is barely a blip on this screen now, and its potential for growth is obviously quite enormous.

Now the next slide takes that concept and broadens it out to other commodities. In simple terms with the exception of oil, you can see that China represents the largest single country in terms of consumer demand for many of the world's major commodities. And relative to the US, you can see again how India has a substantial way to go here, and there is certainly a lot of potential that that implies.

Now what we would like to do is just convert that into a per capita consumption amount, in order to understand the potential, and in this case China and ultimately India's commodity consumption as we move forward. So the slide you see in front of you now is what we call Intensity of Use. Let me briefly describe that slide, I know many of you are familiar with it.

Along the X axis, we have the GDP per capita. What that is, is an illustration of the individual wealth within an economy, and on the Y axis we have this consumption, in this case copper consumption in kilograms per capita. Now what is not surprising is as the individuals within their economy become more wealthy, they increase their consumption of certain materials, and this would be pretty consistent across all commodities. But when you get to about $15,000 on a purchasing power on a GDP per capita basis, you tend to see that rate of consumption flatten out.

So for example once you move up that curve and buy an automobile, and let's say you buy a Chevrolet, you may then as you get more wealthy buy your Mercedes, but your incremental consumption of copper is not that much greater. But when you do move from your bicycle to your motorcycle to your car, that is when you see that significant increase occur, and that is in the early stage of economic development.

Now we expect China is GDP to roughly double over the next 10 years, and that moves it towards that $15,000 per capita. You can see what happens to the amount of consumption of copper over that time, and that's what drives our business, when you see individual consumption of these products. In the back of your slide pack, in the appendices you will see a similar intensity of use curve for aluminium, for steel and for energy, and I encourage you to look at that. You will see a similar pattern.

But what these slides are intended to show is that a US slowdown does not have the same impact that it might on resource demand, that it might have had 10 or 20 years ago. It does illustrate the potential that we see coming from emerging countries. So while you hear a lot in the media about the impact of a slowdown in the United States on certainly the consumption of resources, it is important that we now modernise the view of that, and recognise that the emerging economies of the world and certainly in a business cycle basis, what we see in Europe and Japan is having a material impact and a much bigger impact than it used to have.

Now this brings us to the project pipeline. It is obviously the critical factor for us in terms of being able to meet that demand going forward. The slide you see in front of you presents our latest version. As you can see there have been a number of changes since the version that we showed you in August. Two projects have been completed, that is the Spence project in Chile and BMA Phase 2 in Queensland, and those have been removed from the chart. There has been quite a lot of focus recently on increasing project costs, it worth noting that many are going well. Spence came in ahead of time and on budget in local currency terms.

A number of projects are ramping up quite well; Escondida Sulphide Leach has produced 50,000 tonnes of metal. Worsley DCP should reach full capacity at the end of the year, and RGP 2 and the Iron Ore Business in Western Australia is outperforming its projections with increased rail and port flows.

I mentioned previously that we had on the order of about 200 projects that sit behind this project pipeline. These are projects, that are in exploration, concept and pre-feasibility stage, but you can see that we have now moved some of those projects onto this chart which again covers just feasibility and execution.

These projects are in the areas of nickel, petroleum, alumina and energy coal. We have also phased the development of the Maruwai Coal Project so that we will start off with a smaller pilot ahead of a full expansion which is scheduled to take place at a later date.

I would just like to take the opportunity to mention Ravensthorpe. Ravensthorpe is progressing well and we do expect it to commission in line with the revised schedule that we have given you previously. Yabulu is now mechanically complete, and although it is designed to take feeds from Ravensthorpe, we will go ahead and commission that with existing feed prior to receiving the intermediate product from Ravensthorpe later in the year.

I might just make another observation about project costs. I did mention that the majority of projects are on schedule and on budget, but where you see issues, they are going to be in projects that are more process related, projects that are more mechanical in nature – and iron ore would be an example of that, and certain elements of project expansion in the copper business have a mechanical element. In other words, steel is involved, conveyors and port systems. Those projects seem to be managing quite well to cost and time.

The projects where we see more challenges, and it is not just BHP Billiton, it is around the world, is in projects that have significant process elements to them, things where you are processing material into more end product, where you are using speciality material, where you are using significant fabrication, highly specialised labour and skilled tradesmen to deal with the implementation of projects like that. And that is where we see the most cost pressure. But again, it is a situation which we see with regard to the projects we have worked on there, Ravensthorpe and Yabulu, certainly making good progress. But I would emphasise those issues around processing are not just a BHP Billiton issue.

Now, being able to continue to add projects to our pipeline is critical. I would like to mention a couple of areas where we are finding new options for our business. First, in Russia, you are aware of our alliance with Norilsk Nickel. This alliance is about eight months old, but we are working very well together as a team, and I am confident that our joint approach is going to find strong opportunity in North-Western Russia and Western Siberia, and those opportunities we would hope to see over the medium and potentially the short term, but again, a lot of real estate in Russia, and it is a place that a company like ours simply has to see in order to learn our way into operating in an environment like that.

Genghis Khan, I mentioned earlier – it is a great example of being in the right place and with the right knowledge to create value from an existing opportunity. Genghis Khan is adjacent to the Shenzi development. On the slide in front of you, Genghis Khan is the hashed mark, and Shenzi is the yellow leases without the hash mark on them. It is clear from this chart that we were the optimum buyer for this project. We knew the area, we had the existing infrastructure being built around Shenzi, and that knowledge and that infrastructure does allow us to maximise the opportunity here. We were able to move rapidly and meet the needs of the seller, and we hope to see production from this project sometime in mid-calendar year 2007.

I think this is an excellent example of where we do use our existing footprint and we can be active in the area of M&A when we see the opportunities create value. We did that with WMC; obviously it was a larger opportunity, but it was one where we saw a particular step for this company. We will continue to do that when we can execute for value.

I did also just want to mention our entry into the largest potash basin in the world. This is a new commodity for BHP Billiton, but it has many of the skills that we find in our bulk-mining business. We have secured a major land position of about 4,300 square kilometres in Saskatchewan in Manitoba in Canada, and we have put together a team in Vancouver who is analysing existing drilling data and undertaking additional seismic and drilling data and drilling activity in order to understand the opportunities that gives. There is no doubt that there is potash; the question is: how do we identify the best area to move forward with the development as time proceeds.

Now, there has been a lot of interest in energy and in carbon emissions and the role that nuclear power might play in future energy development, so I thought it worthwhile to just give you a brief update on Olympic Dam. Olympic Dam is truly a world-class resource, and the more that we drill, the more that we understand; we recognise how fantastic an asset it is.

It is the largest known uranium ore body in the world; it is the sixth largest copper deposit in the world, and a top 10 gold deposit. I would expect this project will continue to grow and be in production for more than a hundred years. But it is large, and it is complex, and it is important that we use the best technology to economically develop this project and to minimise its impact on the environment and minimise the impact on the community. Therefore, the planning activity is critical, and we do see a start-up on your slide there, 2013, ramping up to 2015. That may appear to be a ways away to many of you. In fact, it is actually around the corner, but in a project like that, it has to be done right, and it is important that we do that in order to set up for outstanding performance for perhaps the next century or so.

Let me just show you why this project is so attractive. This slide compares the gross value of a tonne of resource at a number of our base metals operation. You do need to be a little careful here because it does not present capital cost, it does not present the operating cost, but you can illustrate here that a tonne of poly-metallic material that comes from Olympic Dam is very valuable, and as I mentioned earlier in terms of size, it is a resource that does have scale.

In gross value per tonne, it does have a greater value than Antamina and more than five times that of Escondida but again, I do want to caution that it is also important to remember operating and capital cost, and Escondida is an outstanding asset, but you can see here with Olympic Dam, there is certainly a lot to work with. When fully ramped up, Olympic Dam will be the largest uranium mine in the world, but are we confident that the market will be there?

The next slide does show the global concentration and the current high concentration of nuclear power in black – these are nuclear reactors; and then in yellow, projects that are under construction; and in green, the more than 80 reactors that are currently planned. It is clear that you will see significant expansion in nuclear power, nuclear reactors, in China and Russia and in India. You will still see growth in other places, obviously, as energy needs grow and communities accept nuclear as a form of power. It is sales to these environments that will underpin the demand for Olympic Dam uranium.

Of course, we will continue to see nuclear grow and grow significantly, but it is important to note that that is just one element of the energy profile. You will see that carbon-based fuels of energy coal, oil, natural gas and its form of delivery in LNG will also grow rapidly. While their proportion of the total energy mix in the next 20 years or 30 years may vary, all of those in absolute terms will see growth. As I have said a number of times in the past, BHP Billiton travels the world and sees economic growth occurring in some very exciting places. But when we look at that, we do not just see metal; we see energy, and there is no example in economic history where economic and social development has occurred without an increase in energy consumption.

So, having that energy profile is unique for us, and as I have said in the past, when you go into the energy supermarket of the world, you will find BHP Billiton on the coal aisle, on the oil aisle, on the gas aisle with LNG, on the nuclear aisle with uranium. We are not in renewables; renewables will be a very important source of energy in the future, it is just not our skill set. But we are a significant player in each one of those other potential energy sources in the years ahead. So these are exciting times, and Olympic Dam certainly represents an opportunity to continue to grow our business in line with market forecasts.

So let me just conclude with a slide on our strategic framework, and I am not going to go through that in detail. I just wanted to focus you on the things that I see important deliveries for the calendar year 2007, and this is consistent with our communication within the company and an alignment all through our organisation. The first element is people; people are important in any organisation, and they are particularly true in ours. We must keep them safe. The great performance in health, safety, environment and community is important for us and safe people and safe practices are critical for that.

Our licence to operate is critical to our success. We have to work with governments; we have to work with communities in order to develop the resources that the world needs in a sustainable way. We have to deliver our volumes and costs to the targets that we set. In the area of world-class assets, we have invested tremendous money already in the assets that are in place. It is our job to get the most out of those, and we commented on that in business excellence and strategic sourcing and so on.

In the area of projects, on time and on budget. We have to make sure that we deliver these projects, and there is a significant agenda in front of us, and we must do that and do it in an efficient way. Then finally, we must continue to re-fill the project pipeline. We have done that very effectively over the last six years; certainly our global footprint gives us wonderful visibility to new opportunities. I continue to be impressed with the ability of the organisation to identify new ways to put our money to work.

Our capital expenditures in organic opportunities have grown substantially over time, and the ability to do that is something that I think is a tribute to the organisation and to our own financial position to be able to fund those activities. As you know, we generate cash in excess of that. There is opportunity to do it, and it would be our first priority to continue to do it, but we will only do it when a project is ready and it can add value.

Just moving on to the summary, it has been an outstanding half-year. Notice that a record result – seven of our nine CSGs showing increased EBIT contribution over the prior period. Again, looking at EBIT margin and return on capital employed, two critical financial measures, it has been again a trend that has gone back now for five or six years of improving metrics in that area. I have said before, and I will say it again, that these opportunities, these results are a function of when opportunity meets preparation. No matter how good prices are, if you do not have the production, and you do not have the capability, it does not matter how good those prices are, you have to deliver that volume in order to benefit from environments like this, and we have been able to do that over the last five and six years.

The outlook for 2007 to us continues to look solid and looks positive. We expect commodity demand to continue to grow in the medium and long term, and remain optimistic that in the years ahead, certainly the decades ahead. We continue to invest heavily in our growth pipeline – I have talked about that – and our global footprint does give us visibility to new options for the future. Our cash flow does excess the ability to invest in those things. We continue to want to do that, and we will do that when we find the opportunity. But in the meantime, it allows us to continue our progressive dividend policy which we have done now – 10 successive dividend increases and an additional capital management program of US$10 billion on top of the initiatives that we have already done. When we complete that, we will have repurchased approximately 17% of the shares outstanding, just approximately a little over two years ago.

Before I go on to questions, let me just come in on one other item. There is another press release today, and it dealt with my future plans with regard to BHP Billiton. What that says is that I would expect to retire by the end of calendar year 2007. These are always difficult decisions in terms of when an executive would plan to retire. It is a fantastic organisation; it has wonderful people, outstanding assets, wonderful opportunities ahead of us, and that provides an excellent platform to move BHP Billiton to the next generation of out-performers. Moving to the next generation of leadership in the CEO role is quite important. I have been integral to the strategic positioning of the company for the last eight or nine years, and it is important that we continue to refresh and renew the organisation as we move forward.

So, in looking at where the company is – which is in outstanding position – it provides an excellent platform to do that, and being able to revitalise the leadership in this, and particular in the CEO role, I see as an excellent opportunity and the right time to move forward. It is important that we did announce this now in order to clarify that position, and to create a smooth transition process as we move through calendar year 2007. The Board does have a robust succession plan; that process is under way. It is one where we will focus on internal and external candidates. As you are aware, in today's world, it is not the Board's job to find the best candidate to take this role, not limit that by some subset, and the Board certainly will undertake that element of its obligation quite seriously.

But the focus for me, and the focus for this management team and this organisation is to deliver the significant agenda we have for calendar year 2007. We have a big agenda every year, and this year is no different. So, my plans are to focus on that. I do not have plans of going some place after my BHP Billiton experience. So that focus on this company and the obligations that we have to continue to deliver that outstanding performance is where you will certainly see me focused and the management team of BHP Billiton.

So, with that, what I would like to do is take questions. What we will do is we will rotate around our various locations. I think our various locations are basically Sydney and on the phone. So we will start with Sydney. What I would like you to do is address the question to me in the first instance, and I will pass it around to Alex and Chris and Mike as appropriate. So, with that, let me turn it over, and we will take our first question.

Sydney Questions and Answers

Question: The US$10 billion buyback program makes quite a statement. Could you give us some insight to the thought process that the Board went through, and what other options were considered? And also, if a major opportunity comes along over the next 18 months, would you reassess that buyback program?

Chip Goodyear: Sure. When we took a look at the cash generation and the future that we see with regard to the outlook for our business, and then take a look at what our essentially balance sheet looks like, what our capital structure looks like, it was clear to us that the opportunity there for utilising cash to return to shareholders was certainly there. Now, as Alex said, and I have repeated now for probably eight or nine years, is that our first priority is to reinvest in the business. So we have been doing that. We have been doing that in a material way. Projects have to be ready in order to take that investment opportunity. We continue to do that and find M&A opportunities like Genghis Khan.

But when we do find excess cash, we do not see it as value-added for shareholders to simply build up cash on the balance sheet. We can in that process probably generate 2 or 3% interest income, but that is not sufficient for you, and it is not sufficient for us. So, when we see an opportunity like that, it gives us an opportunity to return funds to shareholders. Now, we have a progressive dividend policy; as I say, 10 successive increases in dividends, and that policy of a progressive policy would look for us to continue to increase dividend as we go out. But we then had to say, okay, what is the best way to return money when it is excess to the project opportunities that we see. And here we saw that a share buyback was we thought the best way to do that, dealing with the fact that we do have a global shareholder base.

With regard if we saw a significant opportunity, would we readdress this? I guess what I would say to that is that we are starting right away with the US$2.5 billion that we are doing in Australia. We continue to do the on-market program here in the UK, and remember now, the enterprise value of BHP Billiton is pushing US$125, US$130 billion, so I would expect that it is unlikely that we would see something of such size that we couldn’t deal with that in some other way. Now, if there are some strange things that happen or some incredible thing, we could certainly look at that, but I would expect you will see us execute this program.

Question: Just following on from that, if I look at the progressive dividends, you put up a chart six months ago that sort of highlighted an increase of 29% on your dividend. You have trimmed that back to 14% increase this year; your profit is up 40%; your payout ratio is 19, your gearing is 20%. I commend you on the US$10 billion. It is in excess of everyone’s expectations, but if I look at what we are going to consistently get back, it still seems quite low. I was wondering if you could comment on that? Secondly, just trying to understand, the coking coal price settlement probably came in, bringing it back under US$100 – just wondering what the rationale was behind that? Was it markets, was it customers or whatever?

Chip Goodyear: I will turn over coking coal to Chris in just a second. But I think it is important that you look at the overall returns of capital to shareholders. And Alex showed a slide of that, or it was a subset of one of the slides he showed. Certainly what I would like to see is that continued progressive dividend policy, in good times and in more difficult times. I think that is a distinctive characteristic for a diversified company like ourselves where we are not seen as simply one that moves with the winds of the product price.

We said over time, that our strategy is to stabilise cash flow, and a consistent dividend policy, again, in good times and in more difficult combined end prices, will be an opportunity that I think can separate this company from perhaps some of the others. But I would encourage you to take a look at the total returns to investors, not simply look at the regular dividend itself. Again, I would look over time. If you look, it has been a continual increase, again, going back over the last at least three or four years, I guess. Let me turn the next question over to Chris on the coking coal market.

Chris Lynch: Thanks Chip. I guess the coking coal issue, the first thing to observe there is that it is coming back off a very high peak. With our conversations with our customers, the question really was around where that price should settle. I do not think there was any real concern about which direction. The market is more in balance these days. Key differentiator with coking coal versus most of the other commodities that we talk about is the self-sufficiency of China, and also what we’re observing in the market, with the high price that induced customers to migrate down the quality scale as far as they could, and all of those factors feature in why we ended up settling where we did. But we accepted that is an accommodation between us and our customers.

Question: Chip, you gave obviously a lot of detail there on your views on an impact of a slowdown in the US and what that will do to metals demand and, more importantly, the focus that we should have on China. What I am particularly interested in is also the sort of price sensitive behaviours that you have seen. Obviously we have seen substitution; we have seen increasing scrap usage in the copper market. With the recent price weakness, have you seen a change in that behaviour, and do you see the move towards substitution slowing, and also potentially a slowdown in the utilisation of scrap? Secondly, just more of a development issue, just on Atlantis, I am hoping someone can give us a bit of detailed explanation of where we are at, and what sort of time line we should assume for first production and the degree of ramp up and how quickly that will occur? Thank you.

Chip Goodyear: What I'll do is I'll turn Atlantis over to Mike in just a minute. Let me talk about substitution a little bit. Marius Kloppers is not on the call, so let me try to handle that. Substitution does take time. We did see substitution occurring in elements of the copper market. I think as you mentioned, plastic pipe and plumbing and so on, but also in the area of heat exchanger, radiators, various things where you saw the customer trying to move to an aluminium based product, along that line.

So, I guess what I would say is, you are continuing to see some of that substitution. It won't necessarily turn on a dime. Just because you've had a reduction in price that goes even four weeks or eight weeks, that all of a sudden doesn't change the customer's view about that. They have to change their production process and changing it back does take time. I think you need to be aware that once people do change, it is sticky; it is a challenge to get them to change back. I do think the industry is certainly aware that customers are under pressure that way.

Now, having said that, when price did fall, you did see an increase in consumption in certain marketplaces, certainly in the near term. But I think that is probably more of a stocking-destocking issue as opposed to the end product demand all of a sudden switching back to utilising copper in pipes. So, again, I think the message is, it is sticky. I think we need to be very sensitive to that. I think the customer is not going to change their product mix one week to the next in terms of how they produce, but it is something we have to keep our eye on.

With regard to Atlantis, let me just turn that over to Mike. Mike is on the telephone, so I don't see a face there, but Mike, would you like to answer the questions on Atlantis?

Mike Yeager: Yes, Chip, thank you very much. First of all, in regards to the overall project itself, we have continued to make extremely good progress on the top sides commissioning and the drilling, so the main project, as we updated last time, has continued to progress to our expectations. We have had this publicly reported incident with one of the heavy lift vessels, one of only two or three in the world that can lift the heavy pipelines off the sea floor and connect them to the Atlantis structure itself. We are using a vessel called the Balder, and its had an incident where its having to undergo some repairs.

This is going to delay our start-up beyond what we had hoped, right at the end of this fiscal year, right at the start of next fiscal year, for several months. BP, the operator, and ourselves continue to progress with Hereema, the owner of the Balder, repair plans, and those are going well, but clearly we are going to have some level of deferment here. We aren't quite sure what it will be, but BP is talking about sometime being back up before the end of the calendar year 2007. We are optimistic that maybe we can beat that a bit, but we are looking at a couple of months here most likely out as far as maybe three or four months at a minimum, and certainly we'll know more about it as it progresses. So, Chip, project going well, but clearly got an issue here and we are trying to sort it out.

Chip Goodyear: Mike, there was also a question about ramp up; do you have a comment on that?

Mike Yeager: Certainly what we are looking at is the minute that we do get the project available, get the Balder back in position, we will get at least three of the main flow lines hooked up; that will probably give us around 150,000 barrels a day initially – 130 to 150. We will be sharing the vessel with other projects. It is the most likely outcome. So, as we talked about last time, we will probably be looking at a split start-up of bringing on part of the field and then taking a small break and bringing on the rest of it. But having the extra time here will also give us more wells, more drilling capacity, and should allow those two ramp ups to be more aggressive than we would have otherwise. But there will be some split in there, and that is our most likely scenario at this time.

Chip Goodyear: Great. Thanks Mike, and I would just comment, that as you move into the summer in the northern hemisphere, weather can be an issue, and certainly as Mike talked about timing, as you get later into the summer, which would mean August and September, that obviously can have an impact also. Okay, let's move to the telephone.

Question: Hello, Chip. Two questions for you. Firstly, the South African coal operation, it is one of the areas since merger with Billiton that's probably under-performed and disappointed, and we have seen various people go through there and it still continues to under-perform. I am just wondering, what is the outlook for the South African coal operation, and any plans how that can be brought up to expectation? Secondly, the cash flow was very strong out of operating cash flow. I am just wondering if there were some significant reductions in working capital, either through lower inventories or something like that?

Chip Goodyear: What I will do is ask Chris to do Energy Coal and then let Alex make a comment about the cash flow. Let me just say on Energy Coal, particularly South Africa I think is your question, that it is an area that has under-performed. I do not think it goes quite back five years. It had certainly a very good early phase in the merger, but it is one that has been a challenge and that we're working certainly hard on.

But I would say, I talked about Energy as part of my discussion on Olympic Dam, and we do see Energy as a critical area for the globe and for BHP Billiton, and we do see that diversified nature of Energy Coal, petroleum, the oil, gas, LNG and uranium is all part of that long term strategy. So, that is important, and within Energy Coal it is important that we get South Africa right. So with that overview, let me ask Chris to handle Energy Coal first, and then just transition to Alex on the cash flow issues.

Chris Lynch: Thanks Chip. At one of these recent presentations, Bob Kirkby described these assets as his mid-life crisis. Probably the good news to say is that the husband has decided to stay with the family, and the assets have now moved to a stable state, but still in need of continuous improvement. So we will see that occurring over the next several months. Recently we appointed a guy called Wayne Isaacs. Wayne is one of our probably deepest experienced miners, with both open cut and underground mining experience. He has run the Illawarra operations; he has also run the Ekati operations, and most recently was in the New Mexico operations. So he is probably about as good an operator as we can put to that task.

EBIT for the six months was US$35 million versus zero for the same period last year, andUS$7 million in the half at the back end of the 2006 year. So there are some processes happening there that are improving. We have some activity around some of the assets. The Koornfontein sale, we have a process under way for the sale of the Optimum assets, and I think some of those things, once they are cleared and out of the way, will again even get greater focus on improving the operations.

Elsewhere in Energy Coal, generally very good performances – record production at Hunter Valley; Cerrejon is going well; New Mexico going well as expected, given some of the outages that we have had there. So, all up, a business that we are keen on. We want to get Ingwe right, because we see we have got a significant future in that South African basin. Alex, do you want to take over?

Alex Vanselow: Thanks, Chris. Your point on cash flow is very right. There was a very strong cash flow. A lot of it came out of the cash working profit, and how much we managed to flow that into EBITDA etc, but there was a significant assistance also from the lower copper price at the end of the period and oil price which made working capital that much more less in terms of growth.

Question: Look, two questions. One you started the presentation talking about safety and fatality increase being, you seeing that strongly as a function of leadership, can you just talk about are you seeing this flow through to other aspects of the business, i.e. cost control and project delivery in any particular businesses where this is biased and some of the positive moves we can see in that going forward and the second question was on the carbon tax issue, the global carbon tax issue. Which of your businesses do you see at most risk other than the obvious coal production, and the sort of work you are doing around that issue?

Chip Goodyear: Sure, let me start with the question about safety. You are absolutely right it is a core deliverable, it is not something we say we have got to do also, in fact we have got to do that right or we are going to damage or long term business opportunity. And you have used the term functional, it really needs to be, the way I would really adjust that comment a little bit, it is actually line management responsibility to deliver the outstanding safety performance that we expect and certainly from leadership the aspect to a zero harm. And are we seeing what I would see the impact of that in other parts of the business, because when we say that you can not run a safe operation we do not run that operation. So we do see that if there is an issue of safety we shut operations down. So that certainly will impact the business and its performance.

Now again we do find different levels of maturity across our safety profile at BHP Billiton. Some are outstanding and some are less mature, 10 assets set production records in the half year. You are not going to set a production record unless you keep producing. So we had that performance and yet we had some that were more challenged. I would say though that the focus on this is absolute and is a fundamental activity.

What we have done is focus, done what we call a laser focus. We need to make sure that we are tailoring our approach to each asset and that has allowed us to say where are the issues, let us focus on those, the actions in the assets and make sure we are putting our efforts in the right place. But again it will impact our business performance if we don't get it right, and yet we do have some outstanding performance.

In the carbon tax area I will make a few brief comments. Chris Lynch does sit on the Prime Minister's panel on emissions trading that is looking at that and he may just want to make a few comments. But what are we doing around that, we have been active in this area for quite some time. Not carbon tax per se but in greenhouse gas and energy efficiency. We have had targets for reductions of these items that go back to 1995, we have been active in Carbon Trading schemes in Europe, where we have been a significant player there - assisting in creating a green coal by stapling credits to coal. We have been funding clean coal technologies in Australia and in the US and coal is certainly an important area but it does extend across a number of our businesses also. We are revising our policy with regard to greenhouse gas emissions that is something we hope to distribute or communicate in June of this year. I think what you will see us do is obviously look at all of our targets and so on but find ways we can bring our own employees, and in the communities in which we operate, into the area of managing their carbon footprint. Chris do you have anything to add?

Chris Lynch: Chip, perhaps, I want to be careful that I don't sort of impinge on any of the undertakings we have made at the Emissions Trading Task Force but I think the key thing in terms, the first thing probably would be to say that we would prefer to be talking about a carbon cost or a carbon pricing mechanism as distinct from a carbon tax. Tax is a very emotive word and that may be a little bit of directional stuff. And I think the second thing is that whatever that pricing mechanism is it needs to be market based, it needs to be transparent, and it needs to be liquid. And with those I think all the things that Chip talked about with regards to our programs to reduce energy consumption, working positively on some of the technology side to clean up vis-a-vis clean coal, the emissions trading activity that Chip has alluded to. And it also opens up an opportunity on a couple of fronts as well. One is in mitigation activity and the other one obviously for our business is the uranium opportunity that must come from uranium's inevitable place that it must play in solving this problem on a global basis. I think that is probably as much as I would take it at that stage Chip.

Question: Chip, just with the declining rate or cost increase that you have portrayed in the Chart there, can you identify, be a bit more specific as to what exact areas you are seeing the easing in since that peak half in 06 and also going forward what sort of normalized level of cost increase would you sort of accept?

Chip Goodyear: Well let's see, I mean to the second question we try to be as efficient as we can, I mean the ultimate goal we have as you know, I mean it goes back for many, many years, is we love to say a 2% real cost decline in unit cost. That is our objective. Now certain environments, and we are certainly in one, where that is certainly an aspirational goal. But would we like to get to the point where we are continuing to be more efficient in driving real costs down? Absolutely, that is our goal. In terms of specific areas there is going to be many different things across the organisation where you are going to see little things. The Business Excellence activity is one that is quite broad ranging. You do not see huge projects, you see little projects that all in aggregate make a significant difference. You are seeing fuel management issues, you are seeing efficiency. You are also seeing a situation where trying to manage some of those labour costs that we have, particularly around contractors and so on. But Alex I am not sure, do you have anything that you would like to be more specific on with regard to savings?

Alex Vanselow: Yes, another area that we have seen some traction as well is areas that you do not normally see transparency in the results, which is the network of excellence around the assets we have, now a series of networks. And people log their issues and get input on those issues from people that are experts in them, and across the globe from other operations. So we are seeing quite a bit of traction that you do not have to learn as you go, that there is the whole input globally that helps and assists in getting it right the first time. And on top of that the global procurement Chip, I think that is an important area where we manage to leverage the hundred plus sites and common procurements and have better logistics and better end value price to those operations. So those two combined, they are generating significant impact.

Chip Goodyear: So we have seen dragline efficiencies, we have seen improvement entire life in some assets up to 50% and those things do manage some of the cost issues.

Question: I have both a macro and a micro question. Macro is more involved with your view on supply demand Chip. You have given a relatively rosy outlook for 2007 demand across the metals, certainly versus a very strong 2006, but could you actually comment on the supply side where since a bottom in 2002 in both exploration and CAPEX you have seen global industry spend increase dramatically, back up substantially above levels that we saw in 95 in the last CAPEX peak. There has been a lot of delay of projects over the last two to three years, when do you think eventually this supply is going to start hitting?

The micro question is more energy coal focused out of Newcastle. Could you give us some feedback on the fall over the quota system, the increase in costs this has had on your energy coal sales and what you think is, should be the end outcome of that?

Chip Goodyear: I will let Chris handle Newcastle in just a second, and let me try to deal, probably ineffectively really, with your supply and demand, because there is not just one answer to that, it depends on the commodity that we are talking about. Lead times in our business are going to be significant, and whether you are looking at generally a brown field situation or a green field situation will have an impact on that. Some areas you are going to see rapid change. And Metallurgical Coal is one good example where we saw with higher prices production coming out of China, production coming out of other places where you cannibalise the energy coal infrastructure and move met coal. You will find other situations like nickel where the lead times to develop nickel projects are quite significant and because each deposit requires its own chemistry you end up with having a unique situation almost each time, and I mentioned earlier the difference between mechanical things like moving coal and process things like turning nickel ore into a nickel product. So there is not just one answer but those will come through, you are right, we have seen delays, we have seen shortage of people, we have seen shortage of materials, we have seen regulatory issues that have slowed development down, but eventually those things will come through, but it is going to vary by product. And I would just say though that one economics will allocate capital to those places where excess return is available, it is a question of how long that will take, and again future time will tell. But we remain optimistic as I think some of the charts showed about what we would expect to see from emerging economies of the world. And when you start buying those multipliers to the existing need to move, to increase the resource base, that puts huge pressure on the industry because as I use an example in the past 10 years ago you might find that a 10% growth in aluminium demand in China might mean you need three hundred thousand tonnes of additional aluminium every year. Today growth rates are higher but if you use 5% off a seven million tonne a year demand you actually need more volume. Even though the growth rate may slow. So those are some of the, I would say the laws of large numbers that get into our business.

Now Chris can I hand Newcastle over to you?

Chris Lynch: Thanks Chip. We haven’t actually seen a great deal of impact within this period, it is probably an expectation that it is currently getting worse is probably the expectation that we will have a bigger issue in this current half than we have in the past half. And further rail has improved quite significantly, so the issue really does hone in the port. Quota systems are never a good system, they basically subsidise inefficient production. So we do not really enjoy being part of a quota system. And reaction to that is that the third port at Newcastle is currently in feasibility. 100% of that port will add about thirty million tonnes of capacity on an annual basis and we are progressing that through our processes as we speak.

Chip Goodyear: Thanks Chris, I think the important message there is the infrastructure is critical to the success of our business, and places where we have access to that infrastructure and can manage it we get great efficiencies and create some true world class performances, and when that gets cannibalised in some way we find that that is more of an issue, and certainly the issues in Western Australia around our rail system illustrate one of the risks. Because we put a significant investment into that we are creating that asset running at a seven sigma level of performance, so six sigma is one in a million faults, that is running at a one in ten million fault. And that is not something that happens if you simply essentially cannibalise that rail line into utilisation by others, and it will impact long term investment in that area.

Question: Question with regard to iron ore please. You mentioned that the WA operations are probably exceeding budget but you also said you are not likely to change your forecast for the year at not being able to meet the hundred and nine million tonne theoretical capacity. Could you just talk a little bit about whether or not there is some upside on the WA operations in view of the good performance to date and also a little bit about, a summary please on the latest expectations about how you grow the WA iron ore business in the next stage.

Chip Goodyear: Okay, well those questions will go right to Chris and I would just say that it is important that when we see certain things occurring, in other words good performance at pieces of the set that makes it deliver, that is a great sign for us, but obviously there are other pieces of that that are either in process or development or so on. So we like those good performances but again we have to look at the entire set when we think about long term issues. So Chris, to the question about expectation about this year and what might be the next development situation with WA iron ore.

Chris Lynch: Thanks Chip. Well firstly we have had quite a bit of expansion activity underway there as we spoke about earlier in the presentation. RGP2 was completed and came in on time and under budget. RGP3 is in train now and this is really where most of the issues are at the moment is regarding tie in activity, and those expansion projects. So in terms of whether we can meet name plate capacity and so on, we are certainly aspiring to do as much as we can because there is still a robust market out there.

One of the things that we are trying to do on a systemic basis is there is a challenge in front of the work force there now to see if they can not get two extra ships per month. Now that requires a very good connection from mine source all the way through to the vessel, and we have had some good success on that to date and we will continue to do that. It actually highlights the importance of that infrastructure linkage and we actually see that as one total system. So much so that we have currently got some product coming from the mine to the car dumper straight onto the loading conveyer. So it is very much a linked system there. Ian Ashby running that operation has really got a very, very focused and motivated group underway in Western Australia and we are confident about the guidance that we've given and we'll be trying to improve on it if we can.

Chip Goodyear: I would say, sorry go ahead Chris you have got to go to the next step out there.

Chris Lynch: Sorry, the next step is RGP4 which will take us up to about 152 million tonnes. We would expect that to be in front of the Board within this calendar half, so that, we've progressed that project, it will be, assuming Board approval it will be executed by a team that have executed very successfully over recent years in that area, we will be retaining a lot of the same contractors and so on, so we would have a lot of confidence about their ability to deliver that project. But that will take us up to a hundred and fifty two million tonnes or thereabouts.

Chip Goodyear: I think on your first question the compressibility of those tie ins is very difficult to assess, and that is one of the reasons you see some of the comments around the expectation for this year.

Question: Hi Chip, who should I send my CV to for your job?

Chip Goodyear: Don.

Question: Don, okay. Hey tell me, I noted from the quarterly just gone was that the inventory was de-stocked across a very broad range of your assets, I think it was about eleven of the thirteen products that you cover. I have picked that up across other larger companies as well. How do you see that across the pipeline of your peer group and the industry, going into the type of economic outlook that you see going forward, is not only the supply that you talked about before slow to respond but the pipeline just is not there? Can you give us any feel for what your inventory levels are sites in relative or absolute terms?

Chip Goodyear: Sorry the first part of your question was product inventories at sites?

Question: Any way you would like to measure it, just interested in, they seem to be very low because they have been de-stocked at least over the last quarter or two, and they are running very lean from what I can pick up. Just wondering whether you had any relative or absolute numbers that you could put on that?

Chip Goodyear: I will you what, I don't but I will see if Alex has a comment, but if you look across, I want to say customer inventories also, high prices have tended to have customers be more frugal in acquiring new supply, and that is what you would do managing your business. There is a risk element to that but in any case with prices where we have seen them, you have to be, as a customer, you have to be very sensitive to building inventories. So my general expectation is that across products that customer inventories would be low, and listen in this type of market it would not surprise me at all that we try to get that product to the customer as soon as we can. Alex I am not sure if you have a general response or a specific response?

Alex Vanselow: No, specific would be pretty hard because then you are talking about inventories across the Board. What I can tell you is impact on inventories on changing cash flow and that has had some sort of increase in inventory levels but the percentage of that that has corresponded to average prices or cost of production because of the change in the cost increase, that is quite significant, it is not necessarily an increase on the total inventory level. I think the total inventory level across the Board has been quite flat between the two half periods.

Question: Yeah hi Chip, two questions, firstly on oil prices. I am just wondering if you guys had time to participate in the negotiations and whether or not you push the equalisation issue that you were quite vocal about last year, and were you happy with the 9.5% outcome? And secondly just on coke and coal you have talked up India a fair bit in the macro section of your presentation. Just wondering when you look at the project pipeline there is not a lot going forward in coke and coal expansion and I am just wondering with world class effort at Bowen Basin, what are the growth options there? Is there a major step change required in the way rail and port infrastructure, and you look at what you've done with the success at Hay Point, where you've owned the port and maybe build another one or do you look at the expansion of third party ports in Queensland?

Chip Goodyear: That sounds to me like both those questions are yours Chris, the first one around the iron ore negotiations and then the second one around expansion opportunities in coke and coal, so let me turn that over to you.

Chris Lynch: Okay, thanks Chip. Yeah Mark the iron ore negotiations I think were against a backdrop of probably pretty solid agreement about price increase that was really just to quantum. They were conducted in a similar basis to previous periods where we are happy with nine and a half 9.5% price increase, we think that is a suitable accommodation between market realities and our customer needs, and that will be the benchmark price. Vis-à-vis coke and coal I mentioned earlier that the big difference in the coke and coal market has been the self sufficiency of China, and certainly at the prices, where prices have been over the last couple of years, it is very difficult to displace some of that Chinese production. But having said that we have probably got eight of the ten best expansion opportunities in the Bowen Basin as you mentioned, and I think that is, those growth opportunities are there, and will be executed in due course. I think what we have done is bring that forward in a more measured basis than perhaps was the view a couple of years ago.

You will also note on the pipeline the Maruwai project Chip alluded to earlier but we have modularised that basically to really test the operational capacity and ability and so we will have a small plant there in production by the end of 08 with a view to a bigger project coming downstream. So I think there is plenty of scope there, it is a function about making sure that we can sort of see where that demand will come from and when it will be needed. And I think the infrastructure points are valid. We obviously enjoy far better success, and I think others do also, where you control your own infrastructure. So that would be in our thinking going forward.

Question: Thanks very much. Just looking at the project pipeline Chip you do say you have got a substantial number of projects that we have not seen yet. What is the likelihood of seeing some larger projects coming through in the next 12 to 24 months, and then being able to execute those within say a three year period or would we be looking at execution of new projects that come onto the pipeline say post 2010?

Chip Goodyear: The larger the project the more, I would generally say the more complicated project, and the ability to compress time in these things is difficult. So if you are saying can we come up with some multi billion dollar project that we can squeeze into the next three years I would say Craig in all honesty that would be a stretch. And as I have said before it is certainly great to go out and plan all these things but if you have not done the work up front and you end up with a project that does not work it does not matter what the product price is.

So I think we have to be realistic, what you would expect to see fill in the shorter term are going to be smaller things, add on things, things can build off existing infrastructure and things that are in place and then big chunky things you get more visibility to, and probably the biggest one, I mean there are a number of pretty big things, you are generally aware of what they are, but there is no doubt that Olympic Damn would be one that would take up a fair amount of space when you look at that project pipeline, but that goes out obviously several years as we have mentioned, started up in kind of calendar 2013.

Question: If I look at the result, up 40% in your share prices flat year to date, you have brought back 4% your issued capital. You are trying everything, you are running hard, and the share price still is not going up, I am just, how frustrated are you and what are you and the Board thinking about? Your giving back cash was commendable, but it still does not seem to be enough. What is it you and the Board think you need to do now? Because you said predictability is what makes a company good, you know, I mean trading at less than ten times earnings against a market on eighteen X resources, it must be frustrating and I am just wondering what else you are thinking and what do you need to do? What do you think the market is missing?

Chip Goodyear: Well you know those are always interesting questions but what we can do is manage those things that we can control. And that is fundamentally we have got great assets, let's manage them well. The cash that we generate from those businesses, we have got to reapply in value added things. Sometimes that is M&A, sometimes that is organic growth. And we need to keep our capital structure in line so we are efficient at that. We have never been one to go to zero gearing or something like that. So certainly when you look at the way that stock trades in the near term it is going to be subject to many different things, some of which is, a lot of which is out of our control. But what can we do, we can continue to perform, and that is all you can do.

And I think certainly the buy back, I would not look at the buy back as gee we have got to race out and buy back the stock, I think it is good value there, but we have to drive this business for the long term, and keeping our capital structure in line is what that is about. It is not about hey, frustration of the stock price is too low. That is an added benefit, it plays on top of our long term strategy. But talking to us about how does the market trade, the real experts are probably sitting in the room, sitting in the room with you. That is the group you need to be talking to, and obviously your clients and so on. What we can do is control and manage the things that we know how to do, and listen, long term value will find its appropriate level, and our indication is not only around capital management, in other words let's keep our capital structure in line, but we do see good value there. And we have a good understanding of markets, we have an excellent understanding of our own business, and that is what I think makes a good long term success story. Short-term how did the stock trade today or tomorrow or over a month. That is subject to what other whims that frankly are not in our control.

Okay, we are out of time, I appreciate everybody's time today, it has been an excellent half year. It is obviously coming on top of a significant period of time where you have seen our EBIT margins grow, where you have seen our return on capital employed grow. The highlights are there in front of you. I think the things that we need to do as I just mentioned is control those things we can. Run our assets well, apply capital to value added opportunities and manage our capital structure in line with long term value.

Our strategy, large low cost reserve projects diversified across the world using a global footprint, understanding markets and products, and delivering our technical skills, our country risk management and our market knowledge to create long term value.

So we may not have gotten to all your questions today, I encourage you in Australia to talk to Jane and Leng if you have other questions, and certainly for those that are in the UK market and the US market, between Mark, Tracey and Ivan, be sure to give them a call. Again thanks for your time and we look forward to seeing you six months from now. Thanks.

London Questions and Answers

Question:
Chip you spoke a little bit about some of the structural increases that we are still seeing and the rate of increases is slowing, but there still are increases coming through. Can you talk a little bit about your thoughts on the economics of metal production going forward? I mean what does this actually mean for incentive prices for new projects going forward?

Chip Goodyear:
Yes, that's a good question. Your question is how high are prices, particularly structural increases in prices, resulted in an increase in what the long term average price might be. There is no doubt we're seeing that, I mean you can simply look at energy prices and say energy is a big impact on our business, you are going to somehow have to offset that. So there is some pressure on that, but I would also say that you are seeing prices in a number of products that you don't need to see in order to incentivise production.

Now you may see that long term prices will be above what we might have traditionally thought was an appropriate level, but at the same time we have seen prices move pretty dramatically. Now when will that come into balance? Certainly it hasn't yet, despite many people thinking that it would, and that seems to happen every year, but eventually you will see traction to some of the supply side issues.

But I would say, as I have said in the past, that we continue to be excited about what we're seeing in developing economies around the world. Information technology has allowed people to see that you can get to a better way of life and I've been in China over the last 10 to 15 years, five or six hundred people have come out of what we would call poverty and you need resources for that, you need copper, you need aluminium, you need steel – that's communication, that's infrastructure, that's transportation. So I can't give you an exact answer, it's going to move from product to product, but have you seen an increase in what that average price must be for an attractive return, the answer to that is yes you have, but how much it is, that is going to depend on the product itself. Next question?

Question:
Just a question on your buy-back program – $10 billion is a big number, but 18 months is also quite a long time. Just wondering about your thinking. Why you have pegged out such a long period and how sensitive that is to commodity prices and what kind of commodity prices you are assuming to achieve that timeframe?

Chip Goodyear:
Why don't I go ahead and answer that. 18 months is a long time, we always say 18 months, and we have always beaten it dramatically. So it does give us flexibility, I don't see it depending on commodity prices and that's always a big statement in our business, but remember our strategy has been low cost asset base and a diversified structure which we feel stabilises cash flow. And so we look at the sensitivities, we look at the downside and we have never been cavalier with regard to statements like this, and as I said, we have always

outperformed them so I think you can consider that's what we will do, we'll strive hard to make that happen. So that's probably the best answer to your question.

I remember when we first announced one there was scepticism about whether we actually executed and I think we did it in three or four or five months, and that's what we would do. We have a long track record of doing what we say we're going to do. Another question here and then we'll go to the telephones.

Question:
Two questions. One is you spoke about a $23 billion capex spend so far, but clearly not all of that is in production. Could you give us a percentage of those assets which are currently contributing to free cash flow or percentage of asset base of the total Group contributing to the cash flow and how that might change over the next 12 months? Secondly, just in terms of the stock that you have bought back so far, you know 6.7% of the capital; could you give us some indication about the EPS accretion you will get out of that?

Chip Goodyear:
Let's see, in terms of the amount of the capital expenditure, as Heath points out, there are a number of projects that are currently in execution, like Atlantis and Ravensthorpe and others that are obviously assets on the balance sheet but not producing cash flow. I'm not sure – Alex, do you have a number like that? If you don't, we can come back to you and let you know what that is.

Alex Vanselow:
I think we come back on that one, yes.

Chip Goodyear:
Yes, because I used to calculate that regularly when we were worried whether we were going to hit a 15% return on capital employed, but at 37% I'm not too worried about hitting the 15%.

And the second question was EPS accretion – I mean I don't know exactly what that number would be, but maybe we can give you a ballpark figure, but that has taken place now over the last three or four years and again we can give you a number on that. Alex, we can just get back to him.

Alex Vanselow:
Chip, just on the last we have was the 44% to 41%, was 3% just on that one.

Chip Goodyear:
Yes, relative to, that's what we get on the impact of buying shares back, but there is an interest charge on that, so we will come back, but that's going to probably be what you expect, something like that. Let's go to the telephone.

Question:
Just a few questions, first one on Petroleum. There's strong and persistent rumours about the sale or partial sale. Question, under what circumstances would the Board consider a sale of the Petroleum business as it stands today? A question just on operating cost pressures; you have indicated they seem to be easing. Are you seeing heat come out of the capital cost pressures, in particular I guess in the area of contractors, some great pressure with perhaps some additional capacity. And just a specific question on depreciation, in regard to coking coal there is a pretty significant rise, when you look at the number year on year it was up 65% yet the carrying value of the asset was only up 27%. Where there any specific factors we should take into account in that depreciation charge in coking coal?

Chip Goodyear:
Ok, let me hit Petroleum and I will hit the contractors and then I will ask Chris to just comment on anything about coking coal and the depreciation levels.

Petroleum is an important part of our portfolio, we see great opportunity there. We have been able to execute an agenda there that has been outstanding, certainly in the exploration area, and we see, I think anybody who has followed our business, and the opportunities that we have there, we think it is quite unique and I think very few companies of our size would be able to demonstrate, do a tangible illustration of projects that they have, that they can increase the production at the rate that we can over the next several years.

So you said under what conditions would you ever exit? Listen, we always have to make sure that our businesses are generating excellent long term value and that we're a good owner for those things. So if we ever can't be generating good, long term value in this portfolio or we can't demonstrate that we can get value for our shareholders, then we'd have to consider an alternative, but that is not where we are today.

Mike and his team have done an excellent job of refocusing that on the critical issues of operating discipline, which I mentioned, so I would expect you will continue to see Petroleum as a part of this portfolio, certainly as we demonstrate our capability to ramp up the production there.

The heat in the contractor market – there are certain areas where we actually have seen that come off somewhat. You have actually seen some of the contractor heat come off a little bit. Western Australia continues to be a challenge and there are a lot of projects going on out there so it's variable depending on the local markets. And then Chris or Alex, would you like to make a comment on the question about depreciation in coking coal?

Chris Lynch:
It's actually a fixed charge Chip, but it's tied to a write off of some assets that's approximately $30 million of, it's actually a piece of equipment that we didn't feel comfortable in operating it. It's a dryer for coal on the way into the customer plant and that's the main impact there.

Very good, next question on the phone.

Question:
Morning Chip. Could you just confirm whether you will be actually cancelling the shares that you will buy back going forward or will you hold those in treasury for the time being?

Chip Goodyear:
Alex, you can confirm that we had cancelled share – just let me turn over to Alex.

Alex Vanselow:
That's right, we periodically cancel those shares, I think just last month we cancelled 67 million shares.

Chip Goodyear:
Ok, well let's move here. Any questions here in London? Do you have a question? Let me start here, I'm sorry, and then we'll continue around.

Question:
A couple of questions – just looking at your project pipeline, I note that you have a number of projects in execution in copper or producing from recent projects, but looking forward I see no primary aluminium projects or copper projects. I assume there are some in the background? Can you talk a bit around opportunities in most of your businesses longer term, growth opportunities? Secondly just in your outlook you talk a bit around the Chinese imports and I know in the past you have made comments on different commodity markets in aluminium, coal and iron ore around trends going forward. Can you update us on where you see those trends emerging in 2007 and longer term if you feel like it?

Chip Goodyear:
Ok, I tell you what, this is a good one that maybe I will ask Marius to comment on. So Marius, the first one is around aluminium and copper, and just remind me again?

Question:
Yes, the growth prospects for that structure.

Chip Goodyear:
Growth and then what we see with regard to China and its influence on, I guess particularly those markets, and if we want coking coal we'll go to Chris. So Marius, can I turn over to you?

Marius Kloppers:
Yes sure. You recall that our practice is to only show projects in feasibility or execution on our bubble chart and that is again what we have shown here today. Obviously beyond that we're working at a number of earlier stage opportunities that are in proof of concept or pre-feasibility, and I think the most important of those projects I can

talk about – just briefly in copper we believe that the Olympic Dam project will appear on that bubble chart sometime in the middle of next year when we finish the pre-feasibility study and we move into feasibility. Obviously we feel that that is a very exciting asset and one where certainly from a resource point of view, it is not impossible to contemplate additional expansions of that going forward in the future.

The second project in copper that I would like to highlight is the so called Resolution copper project in which we hold 45%, Rio Tinto 55%. This is another very exciting high grade, probably block cave, underground project in the US. Once again early days, but very exciting. So those two projects, together with the embedded growth options that we have got in our assets, we believe give us a very, very strong pipeline and then obviously we are in the process of ramping up two assets at the moment.

Secondly in aluminium, I think the aluminium business has been characterised by triggering its growth embedded options in its existing assets over the last five years. I think within the portfolio perhaps the most exciting opportunity going forward is in the Worsley asset where we believe certainly the resource base will in due course, particularly if the capital cost environment slows down a little bit in Western Australia, will support an additional expansion and Chip has just spoken today about our efforts in Guinea where we are getting very close to an agreement to buy into a late stage project which has got a substantial lead over the competition. Those are the main growth opportunities as I see them. Obviously they will appear on the bubble chart as we go ahead.

I didn't understand the second question completely, but a few comments about China and copper and aluminium. I think over the last year we have seen considerably de-stocking in copper and that has lowered the apparent growth in consumption of copper to china over much of the past year. I think we are starting to see that re-stocking has got to take place and that apparent demand has got to pick up. All of which is positive for the supply/demand and longer term we don't see any reason why copper's growth in that economy won't continue according to the same proportion, to GDP, to copper consumption that we have seen in other countries with a maritime economy nature.

In aluminium I think perhaps the same story with one small exception. China is likely to, despite fiscal disincentives, to remain an exporter of partially finished aluminium semis and so on and continue to use its smelting capacity to export, but again from a consumption point of view, there is no reason to believe that that growth intensity won't continue basically on a linear basis at this stage with GDP growth.

Chip Goodyear:
And I might just add that with regard to the project, one of the things the guys continue to do is find opportunities for incremental expansion and those tend to show up later and those can be done sooner and that's part of what Marius is mentioning. The only thing I would say is I think your question was around what is happening around processing in China and I said China, maybe India. But we continue to see those environments as places where processing is going to be a competitive advantage and what we try to do is position ourselves as resource to supply those process facilities. We see that ownership of resources where we see a strategic strength, not necessarily the processing the product, which is always going to go to a place that is going to be more efficient in applying people and capital to that activity. Ok, let's take another question here. Why don't we go back there, then we come here and then we can go back to the telephone.

Question:
Two questions if I may. The first one relates to potash: you obviously have plans here to build up that business. What are your views of organic versus acquisition-driven expansion in this area? That's the first question. The second question is a more general question: you clearly have decided to move on by the end of this year, and some companies don't see this as an obstacle to making transformational deals, but maybe you can give us an insight into what your company thinks about changing a company prior to the departure of a CEO?

Chip Goodyear:
With regard to potash, it's the same as every other business we're in. And that is, where can we find the most value? And that would drive every decision we make. So the way I look at that is we see a good opportunity within organic growth, as we described. If there is good opportunity in acquisition we'd certainly look at it, but things that we can control is on the organic side, so that is where I'd expect us to see us focus.

And then with regard to doing transformational deals during transition periods for CEOs, my view is that's possible. This is an organisation that has a deeply embedded culture and process that we go through, and we are aligned to this value agenda and I think you will find that this team can work through whatever environment we are in and make those things happen. Ok, any questions?

Question:
Chip, could you or one of your colleagues give us a practical illustration of the detail that you go into when you're looking at supply and /or demand it your various commodities? Over the years you've been very good at giving us some insights but I'd like to understand a little more how do you actually go about it?

Chip Goodyear:
Gosh I will tell you, what time is it? You wouldn't believe how detailed we go into this, and I have to say I think I've said that - I said it a long time ago actually, but I hadn't said it recently - but the fact that our teams are on the ground and even at the executive level I think our Executive Committee has fifteen people and seven or eight nationalities. Our business is done in local language. It's done by, in often cases, nationals within that environment and the data that we pull is great. And I tell anybody who will listen including politicians who work on policy, that every day, day in day out, 165 days a year, customers buy $100 million of product from us. And we make a decision to sell them $100 million of products. And policy is great but when people put their money where their mouth is, that tells me how good things are or how difficult things are, and nobody has the footprint that we have around the world with fundamental resource to make business happen. So I think we have got an outstanding position on that. Now that becomes a huge data source.

I'd like to describe – I was going to turn this over to Marius but I just want to make sure we only have so much time, because Marius used to look after the marketing activity, but let me just try to summarise and say what we do is, we do macro work to understand how economies are developing. Like I talk about fifty years in China, what policy statements coming? They see a knowledge economy. They look at us, that's what they'd like to be fifty years from now. So what does policy look like, what's happening in regional and national level and then what's actually happening in the commercial transactions that are taking place? Is product going in? Is it going out? Are they making money? You'd be interested to know that margins in China are rising. We talk about a slowdown, true, but we go out and talk to our customers and we are seeing margins rise. Things are good in China. But the same thing happens in India, Europe. North America we sell about 8-10% of our product so that's not unlike the slide I just showed you. The world has moved on from the US running everything we do.

So perhaps what we can do, and maybe someone in investor relations can give you maybe the support to answer your question in more detail, but I think it's a distinctive advantage. I think we have got more to do. I don't think we know what we know. I don't think we know what we know. That's an important statement. We have done a great job but people know a lot in this company and we have got to make sure it gets to the right place. But it is quite detailed, and it is quite good information. Good question, but let's see maybe somebody can just give you the support on that. Ok, telephone? Can we go to the phones?

Question:
Look, I just want to ask you about the buyback, sometimes people do buybacks because they're targeting capital structure and they're making a statement, not so much about the value of their shares but about the use of cash. I wanted to get your sense about - was the buyback just capital structure or is it in fact sending a signal that in a year you think the shares are undervalued and that's the best use of your cash?

Chip Goodyear:
Yes. What I mean by that is we have to run our business to the fundamental drivers of long term value and that's capital structure. What's the optimum capital structure for this organisation? I think ever since you've seen me I've said that's a strong single A credit, and we have metrics around that and that has been consistent ever since I sat in the CFO role. Now at the same time we are, I'm going to say fortunate, we certainly look at where we are trading and when I'm looking at multiples, I'm looking at NPV. I'm looking at relative evaluation and we're in a fortunate position today where we can say capital structure and repurchasing your own shares comes into line, where it make good sense when you take both of those metrics. So when I answered your question yes, on both of those characteristics we see a consistency to value an opportunity in capital structure.

Question:
A couple of questions. First, price participation through the TCRCs - the contracts changed through the year. When are we likely to see that coming through on the cost side? You have obviously talked about cost coming down in that regard. Now the second one. I noticed that your exploration number in the cash flow statement dropped form 348 million to 304. We are obviously down in Cape Town at the moment - huge excitement about

what's happening in the industry. And yet BHP Billiton is going backwards as far as expenditure is concerned. Maybe just go through a bit on that - your exploration policy. And then the third one is – and it may be a bit parochial - but energy coal in South Africa. We have certainly seen the volumes drop, not always Transnet's fault, we have also seen that you are pulling out of the contract in Optimum. Just maybe you could give us an update of energy coal in South Africa.

Chip Goodyear:
Ok Ross thanks. Now you're not seeing me go yet, I've still got another year ahead here so we can continue these conversations at least over the next period of time.

On the TCRCs I will ask Marius to answer that question. We'll come around and then we'll go to Chris to just talk about energy coal in South Africa and what's happening.

Let me answer exploration. I think what you're seeing there is actually oil and gas exploration cash flow. The number you gave would be the aggregate of oil and gas and minerals. If you look at minerals alone, I think you'll see that that expenditure continues to go up, so I think that's what you're seeing. With that let me turn over to Marius first on the TCRCs that might come through, and then turns over to Chris on energy coal.

Marius Loppers
Ok, yes good morning. Perhaps two comments on the TCRC's The first is not to neglect the fact that not all of the tonnes that we produce are open to renegotiation fully, and we do have some price contracts that are priced over multi-year terms. So I just wanted to note that we shouldn't blindly just extrapolate from that. And then just given the duration time of contracts I would say that it's between a six, to a twelve-month lead time before those renegotiated figures leak into the majority of the tonnes and obviously that happens progressively over the percentage that is open to renegotiation.

Chip Goodyear:
And Chris for energy coal?

Mr Chris Lynch
Yes, thanks Chip. And just to cover up on energy coal in South Africa. In recent times Bob Kirkby had mentioned these assets were in a mid-life crisis and so on and that there was a need to stabilise the operations. That's certainly taken place over the last six months or so. If you see the EBIT numbers they have improved from the period on period comparison with zero last year and about 35 million of EBIT this year. Now that's for a lot of reasons but it is stabilising and they are moving now to the phase of ongoing improvement and stability in those operations.

Second thing to point out is that we have put into position there in running that business Wayne Isaacs who is one of our most qualified deeply experienced miners, both in underground mining and in open cut. Wayne has previously run the Illawarra Coal assets. He ran the Ekati Diamond assets and he's also run the Navajo, the New Mexico coal mines. So he's a very good resource and he's now in place heading up those assets.

We are going through some processes to rationalise some of the holding in terms of the Koornfontein sale and the process around Optimum. But also we have got some good growth prospects for the Douglas-Middelburg Optimisation project. So all in all I think we are in the process now of continuing that improvement. The guys are working very hard at getting those incremental runs on the board and I think as soon as we can move in, or the sooner we can move into the phase of having a positive motivation in front of that team in terms of some of the project work, I think we will see even more improvement. So we remain very strong. We are committed to those assets and to that precinct. There's obviously a lot of good resource there and we'd be very happy to be participating there in the longer term.

Chip Goodyear:
And understand as I mentioned, energy and how important it is for a global economy. And within that energy coal is important and within that the operations in South Africa are important. So it's critical that we get that right. Nothing else on the phone. Anything else here?

Question:
Morning. Two questions, first one on met coal, I was just after some colour on the profitability as we find a global change in profitability compared to the 8% drop in the year on coking coal price. And second question on free

cash flow generation – if I look at the simple indicator which is the free cash flow through EBITDA – compared to the former years we find a much lower number in the first half. So my question is could we get some colour on that? And should we expect a catch up in the second half? Thank you.

Chip Goodyear:
Ok. The profitability of met coal, Chris, we will let you talk about that. And then the question about the cash flow, what you're saying is that the cash flow as a percent of the annual cash flow, is that it? Ok. So the ratio of cash flow in the first half, the EBITDA versus what we have traditionally seen. We have seen more cash coming in the first half. What should we see in the second half? I will tell you what, why don't we turn the first question to Chris and that's the profitability of energy coal, and then Alex if you have some comment mainly on the timing of cash flow in the half year period.

Chris Lynch:
Ok. Thanks Chip. Yes, I guess the key thing with the Metallurgical Coal business and perhaps one of the distinguishing differences is that China is essentially self-sufficient in Metallurgical Coal, and so the degree of both penetrations of that market but also the impact on the broader market of Chinese demand is far less apparent in the Metallurgical Coal area. If we go into, and you've seen that in the last two years really where prices have come off what was quite a high peak two years ago, and they've come down in each of the last two years in response to that situation. If I go to the cost structures I think a couple of things that are at play there. Probably the biggest challenge in the Queensland Coal operations is the high strip ratios and also some unfavourable impacts from the strengthening of the Australian dollar, and underlying inflation and so on. But if you look at the volumes, the volumes are up year on year and we are well placed. And also we have some very good growth prospects in training, or available to us in Queensland Coal but also in you will see Maruwai there with a small pilot project coming early, should be in operation next year, next calendar year, and then a bigger project coming out into the future. So all up I think you're seeing price revert to something a little bit more realistic in the longer term and we are continuing to work on our cost structures. But stripping ratios are probably the key issue in Queensland.

Alex Vanselow:
Ok, I will handle the cash flow and I hope to help your understanding. There are a lot, of course the cash work in profit is the main component there and that will depend on a whole bunch of factors, but in terms of ratios what we have seen on this half as well, was a substantive pay of dividends from some of the subsidiaries, that we are unlikely to see that same level of pay on the second half. So you would expect a lower ratio on the second half.

Question:
Chip, I have got three questions for you. First one I'm intrigued about what you have said about potash and I was wondering whether you could perhaps outline the business strategy for the Diamonds and Specialty Products business going forward. It's been a bit of a back water in the portfolio in recent years. Maybe you could just outline how that's going to develop? Secondly, if you could give us an update please on where Cabrillo Port is at the moment? And then thirdly, given your profile in energy and in aluminium, do you see any opportunities at the moment for using any of your energy assets for providing obviously energy inputs into expanding your aluminium business? And how do you see the general dynamics of stranded power at the moment?

Chip Goodyear:
Ok. Let's see here. Marius, I might pass the third question to you about energy and maybe then I will supplement it,. And I will handle Cabrillo Port and I will talk about potash and Diamonds and Specialty Products. But Marius feels free to supplement when I turn it over to you.

I am not going to tell the people in Diamonds and Specialty Products that it was a back water. It wouldn't motivate them. But what I would say is that it actually is a very important area for us because it is the area we not only look at operating assets like titanium and diamonds and other things in the past, but it is the area we look at new things. We have some very creative people there and they're looking at how our skill set applies to a particular opportunity. And there are many things we are not in but potash is one. So the opportunity there we see, as I said bulk mining, moving materials that are what we do. I have said in the past we probably move more material every day than anybody else, probably over four million tons a day. That's four million a day. And we know how to do that stuff. And I think that's where we see an opportunity in potash. But you will always see Diamonds and Specialty Products as one that is continued to have an entrepreneurial element to what we do. And in addition, to progress their activity in diamonds and titanium. So diamonds we have various exploration activities around the world, and titanium in Richards Bay but also Corridor Sands. So there are tangible things but it does help us look into the next generation of resources we might look at.

Cabrillo Port is again, just to describe that, it is the LNG port on the West Coast of the United States. It is trying to do business in California and getting environmental permits is a real challenge. But it is something that we think if we are successful, will give us a wonderful option with regard to providing energy into the West Coast of the United States. In that case it continues to go through its approval processes. The Environmental Impact Statements, I believe the finals have been issued. Those have a set period of time in which they get a comment on them and then there is a decision and I think we are looking at, the goal would be sometime this year. I think it's by the half year we'd expect to do that. But it continues to be a challenge. I mean, you certainly have a lot of interested parties who have issues here, but I think the underlying issues in Cabrillo Port are actually very well managed, and the Environmental Impact Statement indicates that. But again I think this year hopefully we will see whether that is actually going to go or it won't go. Stay tuned.

With that Marius, want to turn over the question of energy and aluminium to you and then if you have anything to add on Diamonds and Specialty Products.

Marius Kloppers:
Yes, perhaps on Diamonds and Specialty Products first. Just again in that pipeline of those 200 projects and so on, just to emphasise some of the things that are in there, obviously include the exploration activities in Angola where we have spoken before. We went in very early and we think that we are probably one of the most advanced parties there and we continue to be very optimistic about growing our Diamond business from one mine to multiple mines over the year, over the next couple of years.

Similarly speaking, given the synergies that we have got available in Mozambique through the operation of the Mozal smelter, which gives us an operating presence there obviously, that has completely changed the way that one can look at the Corridor Sands project that we inherited from WMC. And again that is progressing very well. So both the businesses that we are already in, you know, we hope to add opportunities there and then obviously the guys are looking at new businesses as well.

In terms of the aluminium and energy, I think that we haven't identified any areas where there's a natural complementarity between what we have got at the moment. Mike continues to push very hard on the Gulf of Mexico which is where the major growth agenda is and we are, you know, we believe that our focus for aluminium growing perhaps smelting is more in areas where energy is more naturally stranded. And so we have been looking in other areas and one of the comments that were made at the Indaba here in Cape Town today, was about what we are doing in the DRC. So we are more looking at those sorts of places.

Chip Goodyear:
All right, I would agree with what Marius said. We will look at those as separate businesses. That they are not tying our energy to our aluminium. If that happens, great, but we need to create economic propositions in both those places. Because we have got the energy guys looking in places where we have markets, not looking for stranded stuff. But we want the aluminium guys looking for the stranded stuff. So that's where we get the most, the best outcome.

Question:
Talking through your projects, you are obviously operating in some areas that are a bit more risky than others, or countries that are a little bit more risky than others. So I was just interested in how you factor those risks in? How you price those risks when you make your investment appraisals or when you come up with a measure like a desired rate of return?

Chip Goodyear:
Yes, absolutely. We certainly look at country risk in a number of ways. I mean, just to give you an idea, we manage it on the ground. We get close to the communities we operate in and that's the best way to manage your protocol risk. We then connect with governments to make sure that they understand what we are doing and we can align with their objective. And then I think most importantly we, I'd say not most importantly, I think quite importantly, is we have a financial position, a diversified set of assets across many different regions, that allow us to absorb the financial risk that comes there. How do we do that? We take a look at the sovereign credit spreads and make adjustments based on those issues that we see as critical here.

But let me just make a statement, because I actually really love that question and I have had it continually over time. If you look at our asset base, I bet 90% of it is in single A-rated countries or better, and that's wonderful. But we also have some outstanding businesses in Mozambique, in Colombia, Pakistan, Algeria and we have been able to make those things work. And while other companies in our business, who are used to operating in say developed economies, come in and say yes we want to go there. But when they are there they're going to find not only are we there but we are there with success. So we know how to work in these environments and we have gotten great returns and great performance. So it's not just kind of 'gee I hope it works'. We have got a track record to show it.

Mozambique is such an outstanding example. If you look at our industry and think we are not one contributing to society, go to Mozambique. You will see how it's done right. And we use Mozambique when we talk about things like Guinea, and the government in Guinea talks to the government in Mozambique. And I can tell you we have one huge supporter in Mozambique, and we are committed to a win-win outcome in this organisation. If we don't, if we ever lose that, we are going to lose our license to operate. So, we can manage it on the ground and we can manage it at the government level, and we can mange it financially. And the success there I think speaks for itself.

Ok, let's see, one more question? Nothing on the phone. Anything here? Ok. We wore you out, probably for the first time ever.