

TRANSCRIPTION

Chris Lynch – Group President of Carbon Steel Materials

Welcome and thanks for your time today.

Good evening here in Sydney and good morning in London.

My name is Chris Lynch. I'm the Group President of Carbon Steel Materials. The Carbon Steel Materials Group, as most of you are aware, comprises our iron ore, metallurgical coal and manganese businesses.

Joining me in the presentations today will be Peter Toth, our Marketing Director. Peter is in London today and he'll be taking us through some market conditions and our responses to those.

Also, on the podium here in Sydney is Ian Ashby who is the President and Chief Operating Officer for Western Australian Iron Ore. On Ian's left is Dave Murray who is the President of Metallurgical Coal. And on Dave's left is Peter Beaven, the President of the Manganese business.

I'll just brush through our disclaimer but if you could please take some time to read the disclaimer, we'll talk a bit about the forward-looking comments in today's presentation and so on.

We won't be talking financials today obviously within two days from the end of the financial year. That would be a little too much to expect. So we'll give that a pass.

This slide is really talking about the strategic frameworks for BHP Billiton. I'm not going to spend a lot of time on it but you will see each of the presenters will have a slide of this ilk linking their activities in the businesses into that corporate strategic framework. It links very well. It's the platform by which we go through in terms of the total corporation and everything within this Carbon Steel Materials business can also link into there.

But suffice to say, our purpose in life is really to create value by supplying the raw material needs of our customers in the steel making industry.

Our demand for our products is extremely robust. The "stronger for longer" theme is alive and well in the Carbon Steel Materials business. And we see ourselves as very much a very major force of stability within the overall BHP Billiton framework as well. We have significant critical mass operations. They are very stable operations and also we have the benefit of annual price negotiations for the bulk of our products and that gives us an underpin of greater certainty perhaps then some of the screen-traded commodities with the price volatility.

We have leading positions in all of our commodities. We're number three in the global seaborne iron ore market. We're number one in the seaborne metallurgical coal markets and we're number one in manganese ore production. So strong positions and our location for most of the assets based here in Australia gives us obviously a great opportunity to supply the Chinese growth market which is particularly the case for the iron ore business.

We also have a unique set of growth options and you'll hear a lot more about that from each of the presidents as they go through their particular business portfolios but we do have a great suite of projects both under construction and others to bring later as the time is appropriate.

There are, however, some pressures and none the least of which of these is costs. There is pressure on operating costs in terms of pressures basically reflecting the demand that we benefit from on the sales side. One of the issues there is how sticky are those costs and, obviously, our challenge is to maintain variability in the cost structure. So, we combat cost increase pressures with business excellence with the improvement methodologies and so on. We combat it with strategic sourcing where we are trying to access lower cost and lower total

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cost of ownership of inputs. And we have a relentless pursuit of elimination of waste in our operations.

There is also pressure on the capital cost of construction of projects and also a resource -- part of the reason for that is actually a resource scarcity in terms of the human resource necessary for completing projects. That has a twin edged sword effect. We think that our projects that are under execution are going pretty well in terms of on-time and on-budget. But the projects that are in pre-feasibility and feasibility we are finding are taking longer to progress through those toll gates. We expect therefore a slower supply response. But also becoming more expensive to develop. On the basis of the negative side of that is obviously those two aspects that they are more expensive and they are slower. The positive side of that is that it probably puts a bit stronger underpin under ongoing prices.

The presidents will cover the issues about new production in each of their areas, so I will leave that to them to progress. With that, I am going to hand over to Peter Toth in London. Peter will take you through the overall dynamics for the global steel market and then each of the presidents will talk a bit about our response to those dynamics in the steel market. Perhaps, before I do, just to give you a little bit of focus about where my priorities have been in terms of my focus within Carbon Steel Materials since I have been in this role. It is largely five areas. First one is safety. Safety of our people is the most fundamental issue. So we have got to make sure we are on top of that. You will see an improving trend in safety that the guys can talk about over their last 12 or 18 months of performance. People and culture, we have got a lot of needs to further enhance the people skills in our business in total, in total BHP Billiton and in total mining industry. So we need to do a lot of work there in the culture of excellence across the organisation. Working a lot with relationships with regards to, firstly with customers, secondly with host governments and communities where we operate, and thirdly with joint venture partners. So, we have got a lot of work to do with regards to relationships and I think the guys are engaged in that.

Within the existing operations, the main challenge there is that virtually all the operations are operating flat out, and so there is very little capacity to recover from any unforeseen outages. For instance, with last year with abnormally wet weather in the Pilbara with a derailment, it was very difficult to make up the tonnages going forward.

And then finally on growth, we have to grow our operations. That is okay, no problem with that and we have got to grow them from a base of a very cost competitive suite of assets before we start the growth. We have got good growth projects underway. We have got further prospects in mind, I gave you the comments earlier regarding the pressures that will be on that growth. So having said all of that, I will just pass it over to Peter Toth in London, and Peter will take you through the market conditions and so on. Thanks, Peter.

Peter Toth – Marketing Director of Carbon Steel Materials

Thank you, Chris. Good morning to all of you in London, and good afternoon in Sydney. My name is Peter Toth and I'm the Marketing Director of Carbon Steel Materials. I would like to take the opportunity today to review the global steel industry situation as we see it today and going forward, as well as look at the specific supply and demand situation in the iron ore and the coking coal industries. The manganese market overview will be provided by Peter Beaven as part of his industry and asset overview.

Before I start talking about the steel industry, I would like to just take a quick look as Chris suggested how the CSM marketing activities relate to the strategic drivers of BHP Billiton. What we do in marketing spans the full range of strategic drivers, averaging from developing the future pipeline of marketing talent, extracting maximum value from our current asset base, providing a best in class in analytical, technical, marketing and supply chain capability,

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developing and maintaining a customer relationship and of course, providing marketing solutions to all of the growth opportunities, be it greenfield or brownfield, of our assets.

Turning my attention to the steel industry, many of you have perhaps seen this slide before presented by us and what's changed since the last time is that we've added yet another year of spectacular growth to the steel industry in 2005. We continue to change the scale on the left hand side to be able to accommodate the magnitude of these numbers, and we have well and truly now taken the question mark off after the label of the new Golden Age. China has taken this industry from an 800 million tonne industry to a 1.1 billion tonne industry over the last five years, and we anticipate this trend to continue.

Not perhaps the growth rates, but certainly the growth trends and in the short to medium term it will be driven by China. It will be supported in the medium to longer term by the BRICS economies.

Looking at the short term demand outlook, you see a very positive picture developing. You see that in 2006, the steel industry will grow somewhere in the range of 70 million tonnes. And the encouraging thing is that about 30 million tonnes of this will come from non-Chinese production, and if you look at 2007, the expectation is that similarly about 60 million tonnes of growth, 20 million tonnes of which will come from non Chinese economies; a recovery of steel consumption in Europe, a robust steel demand environment in North America, India continuing to surprise on the upside. We are seeing a globally very positive picture lying ahead of us in terms of the steel industry. With these 6 per cent and 7 per cent growth rates, it provides a very strong foundation for steel making raw materials going ahead.

Looking at China of course which is the growth, and remains the growth engine of the steel industry, as you can see between 2002 and 2005 the Chinese steel industry added a total new capacity of about 170 million tonnes. Now looking ahead you can see our forecast which, one sure thing about forecasts of course is they're always wrong. But nevertheless we're seeing this trend continuing. As I said before, not at the same rate, which is a positive thing. Because what we're looking for here is sustainability. But certainly the same trend.

What do we base this forecast on? It's quite a comprehensive bottom up analysis of the drivers of steel demand in China, and the processes that are driving it are continued urbanisation and continued industrialisation, both of which rely very heavily on some steel intensive industries to perform. Building roads, railways, pipelines, airports, cars, residential building, etc. One important element while you analyse the Chinese steel industry is to look at to what extent do we think that China will rely on exports to deliver this growth forecast. China has been a net importer of steel right up until September 2004, where it became a net exporter, and those two lines have been criss-crossing ever since.

China has from time to time relied on exports to address its excess production capacity, but fundamentally the Chinese steel industry does not want to become an exporter. What's driving the Chinese export industry is long term contracts and long term relationships as well as taking advantages of the price arbitrage that exists between the domestic and the international market from time to time.

A 25 to 30 million tonne export steel industry in China represents about 7 – 8 per cent of its total production and this is a very sustainable situation going forward. The Chinese steel industry policy clearly addresses this issue in terms of China not wanting to become a steel exporter. Recently the increases on export taxes of semi-finished steel products exports and the reduction of rebates in finished products has very strongly underpinned that sentiment.

Just taking a quick look at the rest of the world in terms of steel production and demand growth forecast, we are looking at Russia providing a positive environment, predominantly by infrastructure investment and industrial drivers. Russia is certainly positioning itself as a low cost steel producer and exporter, and in order to achieve that, it will rely heavily on domestic iron ore and coking coal, being self sufficient in both of those.

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India, with a very low per capita steel consumption of about 35 kilos per head, this number compares to something like 250 kg per head in China, is very well placed to support domestic growth and to support those 50 million tonnes of projected steel capacity, increased projects that are in the pipeline. The Indian steel industry will grow, supported by the domestic iron ore industry, but will rely on imported coking coal to be able to be successful.

Brazil is again positioning itself as a low cost producer and exporter of semi-finished steel products. Good opportunities for domestic growth. Will be supported by domestic iron ore of course, but similarly to India will rely on coking core imports to achieve that. And South East Asia, which is currently importing about 50 million tonnes of steel products, is very well placed to absorb new production domestic capacity domestically and will rely on imported iron ore as well as metallurgical coal to achieve that.

So turning my attention to iron ore, you can see the spectacular growth rates in terms of iron ore demand over the last couple of years. Iron ore demand is very strongly correlated with Chinese steel production growth and since 2002, since the beginning of the Chinese boom, the Chinese market has well and truly absorbed all related capacity in the global iron ore production system. Forecasting this, again strongly correlated with steel growth, we see about 75 per cent of future iron ore demand growth to be driven by the Chinese market, and by about 2008ish, China will represent 50 per cent of the total global seaborne iron ore market.

In terms of supply, supply has been slow to catch up. The global iron ore supply has been caught unawares by the Chinese demand as it relates to the market in terms of tonnes from both the major as well as the minor producers. This shortage of supply has created a situation where recently we've seen an increase in lower grade marginal higher cost producers filling the supply gap that exists in the market. I will come back to that a little bit later. This analysis assumes all the publicly announced capacity expansions that have been made and makes no attempt to change the timing of that, as to what was announced.

Looking at the Chinese iron ore demand, it's important to form a view with regards to the Chinese domestic iron ore production, which is a great influence obviously on the seaborne demand. Chinese domestic iron ore production has grown steadily over the last couple of years, but it's clearly not able to keep up with the total demand environment, and since 2004, more than 50 per cent of pig iron produced in China relies on imported iron ore, and that trend continues strongly into the future. The increases in domestic iron ore production have heavily relied on low grade, high cost marginal capacity to come into the market. With the continued increase of demand and the structural change in the China steel industry with regards to more efficient blast furnaces in coastal areas the reliance on seaborne iron ore demand is very clear and very strong. This slide I think captures the very essence of the iron ore supply and demand situation today and gives us a good framework in terms of predicting what it may do in the future.

Taking the Chinese steel industry in 2005 which produced about 350 million tonnes of steel; that translated into about 500 million tonnes of iron ore as everything converted into a 63 per cent product equivalent. What made up this supply? About 120 million tonnes has come from domestic captive or long term contracted producers. An additional 180 million tonnes came from long term seaborne suppliers selling their product on long term contracts priced at the benchmark.

These two have been traditionally the suppliers of iron ore into the Chinese market but in recent years these two have not been able to meet total demand and you see the development of about 200 million tonnes of shortage or a gap that is currently supplied by marginal high cost producers be it both domestic in China as well as imported sources.

This segment of the market underpins a deep and liquid and heavily traded spot market trading at a significant premium to the benchmark price. As long as this segment of the market persists we will see a continuation of both the spot market as well as substantial supply premiums.

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How will this develop? You will see the red line continuing to shift to the right as steel production increases and iron ore demand increases. There is a race to catch up in terms of captive capacity. It's receiving a lot of investment from the Chinese steel industry for obvious reasons and, as you know, all the major producers are expanding their production for the benchmark import segment to increase. As these two lines converge into the future, if and when, we will see the market come back into balance but that's not for some time yet. If I would have done this graph on a delivered cost basis taking into account landed costs you would see that Australian iron ore continues to be the cheapest source of imported iron ore into China.

Moving onto coking coal, I would like to emphasise the fact that comparing the demand environment of iron ore with the demand environment of coking coal you're certainly not comparing apples with apples. If you look at pig iron production in iron ore importing countries you can see growth rates of 20-something plus per cent. If you look at the pig iron production in coking coal importing countries you see growth in the single digits. The difference between the two is, of course, China where in the case of coking coal China has been able to respond with domestic supply to its steel production increases.

The situation with regards to China's hard coking coal: it is important to understand that first to be able to draw conclusions to the seaborne market, from a historical high of about 10 million tonnes earlier in 2005, the demand for seaborne material has now dropped as low as 2 million tonnes and the reason for that is twofold. One is the ability of the Chinese in that coal industry to respond to demand domestically as well as the price differential that's developed between the price of domestic iron ore in China and the international price of metallurgical coal.

Of those two million tonnes that currently exist in the market we supply most of that on the basis of our quality, of our reliability and on the strength of our customer relationships. Predicting that line going forward is difficult because it does rely on the interaction of domestic demand in China, the continued ability of domestic supply to be able to meet that and the price differential between the Chinese market and the international market.

As I mentioned before, the metallurgical coal market is different from the perspective of not directly relying on the Chinese or on seaborne supply to meet Chinese demand. It also has a great positive in terms of its broader geographical diversification of its market base. If you look ahead, as I talked about earlier, the Brazilian and the Indian steel industries rely on imported seaborne coking coal requirements to be able to be successful. New coke plants as well as the merchant non recovery coke sector in India will continue to fuel seaborne metallurgical coal demand. So will the traditional markets in Asia or Japan, Taiwan and Korea as well as investing in Europe with some assistance from the closure of some German mines and I've addressed China previously.

Other than these geographical elements it's important to look at some other factors in terms of influencing seaborne demand going forward. One is our view of it with regards to the US market of being able to supply into the international seaborne market and the extent of that will depend greatly on the reserve base of the US supply as well as the cost structure of that supply in the particular price environment going forward. Another element to look at is, of course, the quality considerations, the technical aspects of the interaction between semi soft and hard coking coals both at a technical level in terms of bigger blast furnaces, asking for more efficiency, more PCI, pulling more hard coking coal as well as the economic considerations of the price differential between semi soft and hard coking coal.

Pulling this altogether in terms of trying to predict a coking coal demand going forward requires the analysis of a number of scenarios from a slower rate of growth to more robust faster growth rates. This will be determined by the interaction of those complex variables that I have just talked about in terms of the global pig iron demand, the Chinese pig iron demand, the growth of coke capacity and the extent of Chinese coke exports and hard coking coal imports.

If you take a moderate to strong scenario we can see the market growing by as much as 50 million tonnes between now and 2010 and in a market that's relatively balanced at this point in time, this will require substantial investment in mining as well as infrastructure capacity going forward. Where will this supply come from? Obviously from Australia and to a smaller extent from Canada and it will be offset by some reduction in US supply.

Summarising all that, I would like to leave you with the thoughts of the steel industry that it's forecast to provide very, very favourable growth in the short, medium and longer term underpinning very much a 'stronger for longer' view. In terms of iron ore, we see it to be continued to be supplied from Australia for some time yet and China will drive this industry forward. In terms of metallurgical coal, we similarly see very robust market conditions existing from the longer term. In the short term we will see some fluctuations depending on how those variables that I've just discussed will play out.

In a CSM context we're very well placed to benefit from both of these in terms of the spectacular China growth pulling iron ore demand and the slower but more diversified steel industry or market base pulling coke and coal demand. With that I'll conclude my presentation. As I mentioned, Peter Beaven will cover the manganese aspects of the market and I'll pass it back to Sydney to Ian Ashby to talk about our iron ore business.

Ian Ashby – President and Chief Operating Officer of Western Australia Iron Ore

Thanks Peter. Good evening Sydney and good morning London. My name is Ian Ashby and I'm the President and Chief Operating Officer of Western Australia Iron Ore. Today I intend to talk about four elements of the business – safety, our production capability, our business performance and improvement and our growth projects and future.

I'm showing the strategic framework of BHP Billiton. It's an important framework for us. I've lined up the elements essentially that I'm going to talk about today and you'll see these elements in successive slides. Some highlights for us for the last 12 months: we've had a significant improvement in our safety performance, we've had a strong year with respect to production sales and demand, albeit we've had some interruptions to our business due to weather and a derailment. We've also got a lot of tie-in activity happening with our growth projects. The good news is our growth projects are on time and on budget and we're also laying the foundations for future growth and I'll talk a little bit about that later on.

Turning to safety, we've had a step change improvement in our safety performance with a 40 per cent reduction in our total recordable injury frequency rate. That's primarily been the result of some very strong leadership focus and some focus on risk behaviours at all levels in the organisation. As a part of that, we're realigning or aligning more strongly our contractors to our policy standards and practices and we hope that that's going to help us improve even more into the future.

We're also taking on some more systematic approach to our workforce and this does include our contractors as well. That's around fit for work fit for life and fatigue management. Our aim remains zero harm.

This next slide talks about our production capability and the good news here is that our capital investments are delivering. For example, we set ourselves a fairly aspirational goal in quarter four of this fiscal year, the one that's two days from completion. That aspirational goal was to try and crank out 29 million tonnes. We have been able to do that for a reasonable portion of the quarter. That in light of not having all of our RGP2 infrastructure online.

Fiscal 2007 is going to be, however, another difficult year. We've got all of the RGP3 tie-ins happening and we also dropped Goldsworthy out of the mix because we're upgrading Berth C at Finucane Island. The supply chain is, in fact, affected for most months during next fiscal year

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and the bottleneck effectively is toggling through rail dumping and ship loading. We will offset that with some of our business improvement which I'll talk about a little later also.

Our margins remain strong, as you would expect, but there are operating cost pressures, some of which Chris alluded to. We've held our operating cost increases to about *seven per cent* [post briefing correction – should say 17%] over the last fiscal year with some fairly significant focus on what's driving our costs. Inside of that there has been a significant increase in our contractor costs, our mining contractor costs in particular, where we've been playing some catch-up from conditions existing over the last five years. There's been some labour rate increases, some CPI adjustments and some forex on spare parts that the contractors take care of.

Into the future, general costs pressures, we think that they're going to increase albeit there's probably been a plateauing. It's probably still an upward trend but not as sharp as what it's been. Some of these costs are going to be sticky going forward. Certainly wage and salary rates are likely to be sticky. In the case of our business, royalties because of rates and tonnes will also be sticky.

We're actively addressing these cost pressures with initiatives through our group procurement activities, for example, and certainly our business improvement activities. Costs for us in fiscal 2007 will be a key focus as we build a sustainable business for the future.

I mentioned our business improvement. We're focused on incremental capacity. That's where the real value is for us. We're employing extensive use of our Six Sigma methodology that's been in and around the company for the last five or so years. We're also drawing on our global networks to help spread best practice.

I have mentioned that the focus for us is on our bottlenecks. The bottleneck is shifting essentially through our logistics chain downstream of the mining operations. The key focus for next year is particularly around all elements of our rail cycle. We're not only dealing with what's happening from a day to day operating perspective and our growth projects. We're also focusing on the future. We've had an extensive drilling program under way for the last couple of years and particularly this year, this current fiscal year. We've just closed the books on that drilling program. We've drilled, I'm reliably told, 417 kilometres of drill holes. We have 90 geologists and 16 drill rigs in the Pilbara and we've spent about US\$50 million.

We plan to sustain that level of activity probably to around 350 kilometres a year spending the same amount of money over the next five years. The reason for that is we have a great resource base, we want to expand that resource base, we want to look at further expansion of our business. We're targeting prospective areas in and around our infrastructure.

Our growth projects:

RGP2, continuing our track record of being able to bring our growth projects in on time and on budget. RGP2 is another success story. We've commissioned Orebody 18 last month. We've also commissioned Orebody 25 crushing and screening modifications again last month. We should be running the first train through car dumper 4 in the next couple of days.

RGP3 is under way, construction activities are progressing well. We have also commenced activities on the berth at Finucane Island and about 60 per cent of that project is committed and we remain on track for first production in the last quarter of calendar 2007.

Looking a little bit further a field and Chris alluded to this, RGP4 is in feasibility study. It takes us from 129 million per annum which is the RGP3 rate to a nominal 152 million tonnes per annum and contemplates a new mining hub at Newman to look after Whaleback and satellite ore bodies plus the associated rail and rolling stock.

Clearly there is some construction pressure in Western Australia. It's a very hot market at the moment. Hot to get people to participate in engineering activities and even harder to have people participate in construction activities. There's a lot of cleanskins going up to the Pilbara to build our projects. We have seen about a 30 per cent uplift in construction costs over the last 12

to 18 months, so that's a challenge for us and we'll work through the RGP4 feasibility study to make sure that we can deliver value to our shareholders.

We're also studying growth beyond 152 million tonnes per annum and that pretty much dovetails into the exploration work that we're doing in the Pilbara.

In summary, we're in a strong position to keep delivering our projects. We've got a first class project team that's got a track record of delivering on time and on budget. We're actively protecting our margins through cost management and our business improvement activities. We're studying future growth and expanding our resource base. Notwithstanding, fiscal year 2007 is going to be a difficult year as we bring on yet another stage of growth and deal with those tie in activities. But we are also laying the foundation for our future. So having said that I will hand over to Dave Murray.

Dave Murray – President Metallurgical Coal

Thank you Ian, and good evening and good morning to everyone. My name is Dave Murray and I have been involved in the metallurgical coal industry for about five years now, ever since the merger, and for about the last year looking after the BHP Billiton part of that business. And what a remarkable business I have found it to be. It is notwithstanding all the moving parts that Peter Toth was talking about, it has over the years and through the cycles delivered some fantastic results, fantastic cash flows and some fantastic earnings. And it gets this ability and has this uniqueness because it sells and produces, or produces and sells a very scarce product. The product is found only in a few basins around the world, and even fewer of those basins are in fact serviced with any infrastructure worth talking about. What makes Billiton's position in this business so attractive is that it owns resources in three of those basins and has world class mines in two of them, and in fact owns infrastructure in two of them, or certainly is very influential in infrastructure in two of them. And what makes it even better is that it has options available to it in the high end of the spectrum, the quality spectrum to supply the needs of the customers.

The growth options fit very well with BHP Billiton's growth options, the project pipeline fits, as does the rest of the triangle. But the one I want to highlight is really the financial strength. Much has been said in recent times about construction costs, much has been said about cost pressures, much has been said about volume, but after all that the business will again reward its owners with some fantastic reserves and cash flows for this year.

So I will walk you through this business, I will look at operating performance, look a little bit at cost, the cost drivers, and hope to leave you with the impression that we focus in on these costs and look at the projects, both those underway and those that are in the pipeline. But before I get down there, I think it is appropriate that I stop like everybody else and talk about safety. It is a value, it is a value within BHP Billiton and it is of value within the metallurgical coal business as well. And it is getting the attention that it deserves, both in terms of leadership and in terms of systems. There is no doubt that all that is pay and benefit, and we are in fact hurting less people.

But from time to time we need to focus on some specific areas that need specific attention.

Fatigue management maybe not be an obvious one to you, but if you think about it there is increasing pressure on production and construction crews up there, different accommodation arrangements, much more itinerants having to travel to work and so on, fatigue management is the issue we need to focus on.

The aging workforce, from two aspects, one is just the retention of skills, we are using some of those experienced in doing things safely, and then I talk from personal experience, old bones need better looking after than young bones. So there is a different mindset that we have to approach there too. Then skills and experience, clearly a concern mentioned many times tonight

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and will be mentioned many times in the future, but one aspect of that is that many of the contractors, not all of them, but many of them, do not have the same level of skills and experience in the employees as a whole, and BMA is a good example where we have managed to keep our own employees accident statistics reasonably flat, but clearly from that graph you see we need to focus more on the contractor activities, something that we are clearly doing.

In terms of production I have here the three operating entities, producing entities of BHP Billiton. The first one is BHP Billiton Mitsubishi Alliance. Clearly BHP Billiton has 50 per cent of that, and that is showing continual growth. The big change in BHP Billiton attributable to our Mitsui joint venture in Queensland is the end of the Riverside reserve. However, that has been replaced by Poitrel, a reserve which is ready to go and will be fired up later this year and will be up to three million tonnes within the next two to three years. Then of course we have the Illawarra asset, 100 per cent owned by BHP Billiton that is showing very good improvement in performance, probably the best, going to have the best year in the last six years.

Sticking with Illawarra and production we have started a new mine called Dendrobium, as you've heard, to replace an old one called Elouera, we've installed a new longwall at West Cliff, we have on surface, we are waiting to go underground at the moment, undergoing tests at the moment a new longwall for Appin. We have invested in the washeries there, we have invested both in people and in systems and I think at last we are starting to see some of these benefits go through, as you can see from a previous slide some good improvements there.

At most of the BMA, BHP Billiton Mitsubishi Alliance mines, they are performing very well, rail, port and most of the operations, albeit at the top end of their range. So if they do have mishaps through weather or some plant downtime there is a struggle to regain that. As what happened at Saraji and Blackwater where they, for a number of reasons, not least of which was the overheated contractor market up there, had some shutdowns, which overran, which put coal exposure under pressure, and it was difficult to recover from that. But I think on balance the teams up there really need to be congratulated on doing a good job in some difficult circumstances.

The jewel in our crown, in BMA's crown, is Hay Point. I really say that in all sincerity, it is an advantage which we do have over our competitors, very difficult to replicate. From there we can control train loading, blending, shipping, you name it. That is operating very well again, at the top end of its maintained capacity, so any mishap there is difficult to recover from. But on balance they are doing well. And of course the other thing about Hay Point is we can choose when to expand it, we don't have to ask anybody other than the Alliance partners.

Costs slide, I put this up, many of you would have seen it as a schematic which illustrates I think quite effectively costs associated with increasing depth, as you mine down dip as well as the cost of increasing the amount of coal that is uncovered with truck and shovel. It is fairly self explanatory, but what it says is that because the drag line has depth limitations as you get deeper, you have to introduce truck and shovel, and truck and shovel is three times more expensive than drag line, so your costs increase. Or alternatively if you want to produce more coal and you need to do it quickly and you can't buy a drag line, (a drag line will take three years to get ordered and everything), then you have to use truck and shovel and that again is more expensive.

So clearly the focus has to be on that, to keep that to a minimum, it's 52 per cent of the total structure of BMA. So the more we can do there the better, and there are a number of activities on the go, a stripping study. I don't think this is a silver bullet but at least it is getting the organisation to think differently about its business. These mines were designed 30 years ago around drag lines, it has now got a big component to truck and shovel so it is thinking differently about that. Universal dig and dump drag lines, a new technology with draglines, we have said a lot about this and it is proving effective. We have got 33 draglines, even a small increase is going to have a huge impact on us. We have done five of them and we seem to be getting about 10 per cent improvement, we think we can get more but currently about 10 per cent per

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machine. 125 per cent load, suspended load as we call it, through technology, we can reduce the stress on a machine and therefore we can put more in the bucket every time we load it, and that again is improving the productivity.

The last, or the second last, we call the last drop, and that is really about minimising coal losses. So that is not about stripping *per se*, it is about throwing less coal away, and that in effect means we have to strip less. If you think about that 5 per cent of BMA's tonnage is two and half million tonnes, that is half a mine. Just by not throwing away 5 per cent of the coal, losing it through the process. And then last of all clearly we have to look at the efficiency of truck and shovel itself.

This pressure on our costs, and I've got six graphs up here showing the increases in the number of these costs over the last couple of years, some of them very, very significant. There is a buzz phrase, sticky, non-sticky. I guess you could say the top line is more sticky than the bottom line, but I leave you this one thought. That most of us in the industry that have been around for a while have spent more time taking costs out of business than putting costs back into business. So in a less heated market and over time I am pretty sure that a lot of these costs can ultimately be removed here, we can get back to a normal environment if you like.

I have to say that the overheated market does bring its benefits, it has created a brilliant platform for us, and a very good example of that is the tyre shortage. And I use the peak data as an example, because of the tyre shortage they've had a look at the usage of tyres and in fact over a 12 month period they've managed to reduce their tyre usage by 47 per cent. And that is a benefit that will stay there forever, so we are forced into these circumstances, finding ways to improve it and that will be around for a long time. And clearly business improvement via Six Sigma is alive and well and many tens of millions of dollars have already been saved, and as we get better with the process I am sure we will introduce more savings.

We've also invested in cost improvements. Many people think the Blackwater plant was about expansion - sure it can produce a little bit more coal, can wash a little bit more coal than the old three did - but really that whole motivation for that plant was cost reduction, and when the plant is eventually completed at the end of the year, the cost per tonne of washing it will be reduced by about two dollars a tonne. So that is an investment in cost reduction.

Sometimes things go away and sometimes you have to take things on the chin, especially when it relates to safety, health and the environment, and the best example I have is at Illawarra, where for many years the miners, there is under mine surface structure, and the decision has been taken in consultation with the community and authorities and so on not to continue undermining these rivers, and that has required a complete redesign of the underground operation, and as one would expect and as you can see from the diagram there that has introduced some cost inefficiencies, and in particular is related to the ratio between development which is the most expensive part of the business, about 20 per cent of the total cost, C1 cost of the business, the ratio has increased in relation to long wall development. But it is something we have to do, something we are prepared to do and something that we are doing, so it will eventually wash through in two or three years, but it is something we are going to be doing so you can expect that cost to be in there, and then long wall continuity will clearly also be affected in the next couple of years.

Turning to the projects, firstly Queensland, notwithstanding the very stressed environment, in construction environment that is up there, BMA will successfully bring to conclusion a number of projects that it started recently. It did a de-bottlenecking at Peak Downs, did a reasonably big de-bottlenecking plant modification at Saraji and that is currently being commissioned. Broadmeadows was introduced as a cost saving exercise. If you think of it: for less than a hundred million dollars we created a mine that can produce almost three million tonnes. That is up and running, it has been ramping up, it is looking so successful that we are now thinking about widening the face so we can make it even more efficient.

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Contract stripping at Goonyella, that was a two year process. If the rain would stop we will finish in the next two days, that is on time and on budget and that again is a cost saving exercise and a resource utilisation exercise. It will reduce the strip ratio and increase the amount of coal that that mine can uncover, and that set the mine up for a long time.

Then of course Hay Point expansion, the first stacker reclaimer 56:54 and yard changes will be commissioned in the next quarter. That will take Hay Point up to forty million tonnes, and then the second stacker reclaimer will be commissioned towards the end of the year, maybe slightly into the first quarter of next year, calendar quarter, and that will take Hay Point up another three to four million tonnes to have a total name plate capacity of forty three.

Poitrel as I said, that is replacement tonnage in the Mitsui joint venture, it is efficient because it is shared infrastructure with Millennium, we share a plant with Millennium, and that is ready to go and there will be coal out of there in the next two to three years.

In terms of the projects ahead of us there are a number. Maruwai: the feasibility team continues to look and better understand the challenges of that particular mine in that particular region, and that is progressing. We will be looking at the potential of a fourth long wall at Illawarra; that is somewhat dependent on a conveyance system which is the front end of that study and that is happening right now. We have a range of options in Queensland, ranging from expanding of Peak Downs, Goonyella, all of them are very cost, capital efficient because they piggyback on existing operations. And they are all at various stages of review.

The next big decision that I think we are going to have to make is the expansion of Hay Point, whether we put the third berth in or not, and that decision will be made probably in the next two years. But in all these evaluations clearly the market is important, but it is not the only consideration. The construction environment, the cost of that environment, and in particular resource availability, not only just in the construction part but even in the design and the upfront front end loading of these projects has to be a consideration.

So in conclusion, ladies and gentlemen, it is a great business. It really, truly is. The customers think so because we have managed to supply them with most of their needs over the years, a reliable supplier, and I think they would admit to that. The fundamentals remain strong, we haven't changed our thinking on the fundamentals. The timing may be somewhat different both through market but also because of the construction environment we found ourselves in. I think you have to accept that with so many moving parts there will be fluctuations from the long term directional trend. The core business is sound, we have world class assets and world class infrastructure. We are delivering projects, are is a number which will come in on stream in the near future, and then we have a wonderful host of options available to us to supply our customers needs going into the future. Thank you very much.

Peter Beaven will give you the last piece of the picture.

Peter Beaven – President Manganese

Thanks Dave. Good morning, good evening. I'm just going to take you through four aspects of the manganese business. The first is just to touch briefly on our strategy, our safety and some overview on our operational performance and the growth that we have in plan.

Just in terms of our business itself, BHP Billiton owns all of its manganese interests via its 60 per cent owned share of Samancor Manganese. The other 40 per cent is owned by Anglo American.

We think we have the leading manganese business in the world. It has the largest production of seaborne ore in the world. It also has one of the largest production capacities of alloy, particularly high carbon, the high carbon ferro-manganese, and we have the only non-Chinese producer of manganese metal. These assets are all low-cost, they are spread geographically

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across South Africa and Australia, and so are well-placed to deliver into what we supply to, which is global markets.

We have a very, very deep and long-standing customer base, and that customer base is built on forty years of interaction, but also because we understand each other's businesses very well. We are an integrated player so as we supply ore to our customers, we understand exactly how their business works. That I think is a great advantage.

In terms of the financial contribution to the shareholders, again I think it has been historically a high return business and we expect that it would continue to do so.

We have got some strategic challenges and we, as per the other CSGs, we've shown the pyramid and what we're doing in regards to that. Clearly, again, zero harm on the HSEC side is a key focus.

We have a relatively stable workforce and it's very experienced but it's somewhat ageing. We have some challenges in retaining and getting the best out of those workers as well as attracting the best talent to our remote sites, particularly on the mining side.

In terms of our asset base, we have to keep a very, very sharp focus on our cost side. It's a very competitive business and we'll talk about that in a moment. In addition to that we just need to make sure that we extend our excellent relationships with our customers and we've got some plans to do that.

Then finally we have a great resource base and we need to extend that, we need to extend it and sustain it via brownfield and greenfields drilling, and we've got some plans in regards to that.

Then at the top of the pyramid we have growth options. We have growth options both in ore and alloy and we'll talk about that in a bit more detail.

So just to turn to the safety briefly; we have some challenging operations, we have furnaces and we have an underground mine. As I said, I think that we have to be extremely focussed on the whole safety aspect of things. We operate in different cultures and in remote sites but I think we understand the risks very well, I think they're pretty well managed. We were pleased to see that in fact one of our key lagging indicators, the TRIFR, we've managed to reduce that by over 50 per cent over the last two years and we'd expect that trend to continue into the future.

Now just some words on the market itself. As Peter said earlier, I think I'll just take you through some thoughts. Firstly on the ore side of things, the demand side is really driven by two aspects, and this is the seaborne market as opposed to the global market.

The first is the obvious one which is the underlying steel demand, which as we've seen is healthy, and so that's in good shape. But the other element is the interaction between domestic sources of ore and the seaborne market. There are two key domestic sources of ore and that's in the Ukraine and the other is in China. I think rather like the iron ore side of things, the Chinese industry has responded, their ore industry, but we see that due to the fact that it's actually very low grade, it's about an average of 22 per cent and most of it comes from underground mines. We just don't think it's going to be able to keep pace with the underlying demand in China. So we would see that it would continue to grow until about 2008 or 2009, plateau and then start to drift away. So in fact that would create a further opportunity for us to continue to see a growing manganese ore, seaborne ore demand, even if the steel industry growth slows down, as it inevitably will.

So far, so good. Unfortunately we also have a very vigorous industry and we've seen a lot of supply increases, it's very rapid. Not the same as what you heard about some of the others, from coal and iron ore. Our competitors have put on a lot of capacity in the major producing countries, Gabon, Australia, Brazil and even South Africa. We've seen a few of the marginal players, the small marginal players also pop out of the woodwork. I think this is going to be a key underlying trend to the industry.

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So what does that really all mean in terms of the supply and demand? This graph is kind of simple, it's simple because it really matches the potential capacity that we've demonstrated in the slide before, versus the demand that we saw. Clearly it doesn't necessarily mean because you have capacity you actually produce it. Generally speaking you wouldn't, otherwise you'd have to stock an awful lot of ore, as we can see from this graph. But I think it is a simple method in Australia, which is that this market will remain highly competitive going forward. So we are going to have to be right on top of our game.

In terms of that competitive market, and here's just a slide showing a bit on how we've travelled in terms of our market share, something we track quite closely. You can see the top line there, the market share of the four biggest producers, that's Assmang, ourselves, Eramet the French company, and CVRD has declined quite significantly over the last ten years.

The wavy line is actually our share of the global market. Again the basic trend, although it has ups and downs, is somewhat down. We've seen two periods in particular of market share loss, the first was 1999 through 2002 where there were a couple of new entrants, pure play iron ore players and then subsequently in the recent past where we had some large players come in.

I think our challenge here is that given that we own the bottom end of the cost curve at GEMCO and there is an underlying demand growth in the market, I think the challenge for us is to actually see how we can in fact take advantage of this demand opportunity, and not in fact lose further market share, whilst at the same time clearly ensuring that we make adequate returns to our shareholders.

The alloy side is a little bit more complex, there is a lot more players, the industry structure is highly diversified, there are no real barriers to entry, there's a great deal of spare capacity which is unused at any one point in time.

What you see here is a slightly busy graph which is some data from the International Manganese Institute. It shows really that relatively small adjustments in supply and demand create rather large movements in the price, the underlying price. So what you have is an underlying volatility which I don't think is going to go away.

I mean in the near term, we've just come through a period of destocking and depressed prices, there were some production problems at a number of alloy producers, that in turn has resulted in what we see are some very strong prices now. But even then there is the complication that those prices are quite diverse on a regional basis, very strong prices in the US and not so strong in China.

So all in all I suspect what we're going to see going forward is a lift in the alloy price relative to what it was historically. That lift is driven essentially by an increased cost base at all of the alloys and I think it's a global phenomenon. But the underlying volatility and industry structure of the alloy industry is not going to change.

So in summary, the demand side is good and healthy on the ore as well as on the alloy side of things, but the supply side is vigorous and is able to respond very quickly. As I say, on the alloy side we've returned to balance after a period of oversupply. But these material differences in alloy prices, as well as the underlying industry structure, are driven by excess capacity in China.

Some words now on our operational performance. As you would expect, this is a market driven commodity, in terms of our performance we had a super year in FY05. We had a perfect storm of great alloy prices, great ore prices and excellent underlying demand for the volume was very strong. You can see that on a graph of ore and alloy, you can see the very strong growth through to 2005. We were in operationally good shape to produce into it.

The inevitable hangover has set in and we've had to adjust our production on the ore and alloy side accordingly. So you've seen a bit of a downturn in that, both on ore and alloy.

In addition to that, what we did is we actually I think did a smart thing which was we deferred a degree of maintenance and so on in 2005, tried to ramp up as much production and sell into the

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strong market. Again, so what we've found in FY06 is that we've had to catch up that maintenance, that's obviously increased our costs for FY06. It's something of a one-off, we hope it is, in any event.

In addition to that we've had underlying cost increases, as have all the rest of the CSG. So just a few more words on the underlying cost increases. Here are a couple of pie charts as to what the underlying cost drivers are for our business. You can see it's quite complex, it's not quite as simple as Dave's where he can focus on one half of the equation. We have a number of things that we have to focus on all at the same time. Yeah sorry Dave, it's not that simple.

But I think one of the things that I'd just like to point out here is that you can see that the distribution costs are very high, a very strong contributor to both ore and alloy, as is electricity on the alloy side of things. Those suppliers are in fact parastatals in most aspects, Eskom and Aurora Energy and Spoornet in South Africa. So we have limited control over those costs.

Just to give you a sense of this: some of our products that we sell to PE along the 1300 kilometres that we rail it to Port Elizabeth. Up to about one-third or even two-thirds of the total FOB cost can be represented by Spoornet costs, so you can see why we focus on these things.

Then just a little bit more on some of the detail of some of these drivers. I think on the logistics side we've been hit with very strong increases from Spoornet. They've got a very large maintenance backlog, they're trying to catch it up and unfortunately they're hitting us with above inflation increases. I think that's something which we have the most concern about for the longer term if that doesn't reverse itself.

Fuel is a very big issue for us obviously. We've got open cut mines at GEMCO as well as Mamatwan and Hotazel. We've seen some very steep increases there. The electricity cost again, we've seen some above inflation increase. The labour cost again is something of a concern.

We have obviously got plans to try and deal with this. I mean we have seen in 2006 savings we've identified and delivered of over \$10 million. We've got a substantially higher number identified and budgeted for, for 2007. We have a number of specific projects that we have underway which should hopefully return us back to something more akin to what we saw in terms of a cost-base some years ago.

In particular at Hotazel we've done some smart mine planning. We've managed to reduce our strip ratio at Mamatwan for a period of time. We've established the technical feasibility of using a lower grade sinter at Metalloys. A lot of our sinter from Mamatwan goes to Metalloys, our own alloy plant south of Johannesburg, and that's going to allow us to take out the DMS plant from the sinter process for great periods of time.

We've switched a lot of production away from the underground mine into the open-cut mine at Hotazel and that's allowed us to reduce our contractive workforce by about 250.

I think importantly we've begun a process with Spoornet where we've sat down with them and we're going to re-establish a more cooperative partnership type relationship with these folks. For each other's sake we've got to find a way to create efficiencies and reduce costs. I think it's important that we both get on with that.

At GEMCO we have initiative to rebuild the front end of the beneficiation plant, the feed preparation area. We think that's going to simplify the process considerably, it'll reduce costs by about 15 cents a unit. At the alloy side of things I think we're going to refocus, we have refocussed ourselves essentially on instead of chasing tons which was a smart strategy, as I say, into a high price environment, we've gone back to a real focus on process reliability, availability, efficiency and costs. I think that'll pay a lot of dividends going back to basics.

Some words on the ore side of things. As I said earlier, there is an underlying demand opportunity. There is a competitive market but we have what we regard as the best asset in the business, so we think that we have a fair share of that underlying demand growth. We are

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running essentially at capacity at GEMCO already. There's a bit more probably, it'll get used up this year. And then, at Hotazel, we are somewhat constrained at Hotazel from Spoornek capacity constraints in fact. But we think we have a very healthy return on investment in growing the capacity. Essentially what we can see here, is a complicated diagram but I won't dwell on it in any detail. But essentially we de-bottleneck the Bene plant, that is our bottleneck. At the front end of that, the feed prep area, it will create an additional capacity of a million tonnes a year. It will cost in the order of around 150 million for a 100 per cent share of the capex. We will probably get it online half way through 2008, and as I say given its very strong resource base, its excellent geographic location close to China, the growing Chinese, key Chinese market. It's got a very high quality product, and it's very low cost and in fact this de-bottlenecking will further enhance its cost position. So we think that will be, even in an environment of a very competitive ore market, we think that it will provide a very healthy return to shareholders.

Alloys are a slightly trickier game. As I said, the industry structure is not as attractive as ore, and in the past returns have not been as strong. But we did expand, we put another 20,000 tonne a year furnace into Metalloys last year, and given that there is a lot of efficiency from utilising existing infrastructure there, we had a modest capital investment of US\$12 million. And that looks like it is going to have very rapid payback. We will continue to look at those sorts of opportunities as we go along. But I think essentially in order to really provide a decent return to shareholders, if you're going to go for large scale expansions, you really need to find a new way of doing things.

We've entered into a joint venture with Kumba. They have a technology they inherited from the old Iscor. In fact it was technology that they had originally developed for iron making but they've adapted it for alloy making. It's called Alloy Stream. The advantage of it is that it essentially can reduce your operating cost. You can use finer ore material which otherwise is not usable in the current submerged arc furnaces. It has better efficiency in electricity consumption and it uses an induction heater, not the slightly technically challenging electrode.

Essentially I think we're a way from establishing the commercial viability of this. But there is a demonstration plant up and running, it's technically feasible and we have a feasibility study under way which we will complete and produce. We intend to put a 30,000 tonne a year high carbon plant, probably in Metalloys some time at the end of 2008, beginning 2009. And so it's a very interesting piece of technology. We will see how we go. What it also obviously does is it supports the South African government's drive for increased beneficiation of ores into alloys, so we're seeking to support their initiatives on that side of things.

So just in summary, we have what we regard as a very strong business. It is a growing business. It is highly competitive, but we are the pre-eminent business and we have no thought of actually losing that position at all. So with that I will hand back to Chris.

Chris Lynch

Okay, just to touch briefly, to complete the circle around our various operations, with regard to Samarco, you're probably aware this is a 50/50 joint venture with CVRD in Brazil. It currently runs at around about 15 million tonnes per annum capacity of iron pellets. They have had a slightly lower production in this current half. Largely around customers holding off a little bit about the price negotiations. That backlog has now cleared since the negotiations have been confirmed and settled. They have a full expectation of making up that volume in the second half of the calendar year. They do run on a calendar year basis.

The other thing that's happening there though is in October of last year we approved an expansion project for mining expansion, concentrator, the 400km slurry pipeline and a third pellet plant at the port, and that's all under way. It is looking very good in terms of on time and on budget, and expected to produce first product somewhere during the 2008 period, pretty

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much as planned. So that's in good shape and we actually do get a lot of transfer of good practice out of that joint venture, which is great.

So moving through to just sort of summarise a little bit up, and then we will have some time for some questions which is probably where the bulk of the value will be extracted from this process, but in terms of summarising our position, we're very much in the camp of 'stronger for longer'. The issue really around the overall demand in the global steel industry is strong and robust. Obviously that's fuelled by China in many ways. You've heard already about the different implications for our businesses based on China. We see ourselves as a major force of stability in regards to BHP Billiton's overall performance, based on our stable operations, significant critical mass and also the benefits of that annual pricing which does take away one of the variables for us.

We're well placed to serve that Chinese demand that I referenced earlier, location wise particularly for iron ore. It's a great opportunity for us. We have the leading positions, very strong positions in iron ore. I mentioned we're number three in the global seaborne iron ore market. We're bringing RGP2, the growth project, RGP3 is under way, on time and on budget. The Samarco third pellet plant is under way and later we will bring the RGP4 process which will take us up through to the 150 sort of numbers.

In metallurgical coal, number one in seaborne metallurgical coal; projects coming on line, and a great suite of projects to execute going forward. And in manganese, number one in ore production and the Gemco expansion which we would expect to bring for approval later in the year.

So we have a good position to be there. We also have a superior customer offering in terms of we do have a one stop shop, in terms of all the product range that we can offer to our customers. We have customer centric marketing, and we also have the technical marketing support and the logistical support available to our customer. So we can basically satisfy customer requirements and offer them unique solutions. And that is unique in the industry.

We also have a lot of cases where we control and run the infrastructure, and that's a mission critical part of our operations. We do see a significant benefit in that. There are challenges in the market place. We talked about them earlier but just to reiterate the operating cost challenge, we combat that with improvement initiatives in operating business excellence programmes, the strategic sourcing process. We also have the fact that our operations are running flat out. There is very little capacity to make up any losses that occur for unforeseen circumstances. So be aware of that and just sort of understand that in the event that we do have any outages for the likes of unforeseen weather or whatever, it will be very difficult to make that up.

And the third part, the third challenge is really this construction market, shortage of good quality resources: getting hold of the A team is difficult. We've had a great benefit from the continuity of projects in the Pilbarra, but anybody trying to do a new project today, trying to access the A team for the construction of that project would be very, very difficult. We're seeing increasing cost pressures on projects that are in feasibility and pre-feasibility. We expect that they will be slower to market. I mentioned earlier the twin edged sword about that aspect.

So, all up we've got a customer base that is quite strong and robust, that are growing their businesses, and we're delighted and excited by the challenge of providing their raw material input needs to participate in that growth. So with that I would like to sort of wrap it up. We will go to questions. In terms of the Q and A, first thing if you could state your name and the organisation you're representing. We'll start here in Sydney just to make life a bit easier for a start. In the first instance, if you direct the question to me, if I can answer it, if it's a soft one and nice and easy I will take it. If not, I can pass it on to the Presidents here and Peter Toth in London on the market basis. So with that could we have a first question from Sydney.

QUESTIONS AND ANSWERS

Question: My question is centred on coking coal. I think last time we had a site trip up to the Queensland coking coal operations, Dave, you were quite enthusiastic about the growth prospects and the expansions coming through, and we had what was then quite a bullish outlook for coking coal, and the outlook now seems to be tempered a little bit, and I'm just wondering what changed over that 18 month, two year period, to maybe temper some of that outlook? Because it doesn't look quite as bullish now as it was then.

Dave Murray: I don't think we have changed our mind. I still think the fundamentals of the growth are still there. Absolutely. Where we have probably been brought back to reality is the ability to execute what we said. It's proving extremely difficult to get people to design and construct whatever we want to build up there. But having said that we are bringing on a lot of production and the Hay Point expansion right now. So a lot of what we told you up there is in fact happening. It's the next stage coming through which is being delayed somewhat. But the fundamentals of the business we don't see as changed at all. The timing of the execution will have changed, absolutely.

Question: And in terms of production, for fiscal '07, are you able to give us any guidance on what sort of level we should be looking at, given that you are bringing on some capacity?

Dave Murray: Well, what I can say is that we are ramping up Poitrel; there's a de-bottlenecking of Saraji - hopefully some of the production problems that we had at Saraji aren't going to happen again. And we've got Broadmeadows in there. So I can say it will be up and we will produce - I don't know what the number will be - somewhere between where we are now and the Hay Point capacity is where we will end up.

Question: And a final question on iron ore, I think this is for Ian. Just looking at the charts in your presentation, it looks like production for fiscal '07 is going to be flat on FY06. Would that be correct?

Ian Ashby: Yes, that is correct. It's about a 1% uplift I think primarily impacted by those Goldsworthy tonnes coming out and the RGP3 tie-ins.

Question: Once that's through, what could we expect in terms of ramp up after that? Would it be a 12 month, 24 month type ramp up?

Ian Ashby: RGP 3 ramps up almost to capacity over c. 12 months after construction is finalised, so FY08 sees the majority of the RGP3 ramp up.

Question: Just two questions. We've talked about the costs in the short term a lot. There's a fairly heavy component of fixed costs in iron ore. You are going to bring on significant capacity. How quickly can we see you get the benefits at the cost line, and to what degree should we be anticipating costs rolling over? Let's even just assume that we maintain the sort of current levels of inflation if you like, in wages etc. How do we see costs evolving. I think that's the key factor for determining our NPV analysis etc.

And the second question, just on those capital costs. It's interesting to me that we talked about it a lot, but I noticed that most projects did come in on budget, and that sort of tells me that we've got heavy contingencies in the system. I'm just interested to know what sort of levels of contingency do you think are appropriate to build into your capital projects at this point in time.

Chris Lynch: Regarding the cost structures, I think it's very difficult to get a generic one size fits all answer on the cost structures. Both the Western Australia market and the Queensland market are both hot. I think Western Australia is probably a bit hotter, particularly with regard to the project activity - if you just think about what we've got underway over there as BHP Billiton, with Ravensthorpe, North West Shelf, some minor stuff at Worsley, some stuff going on at Nickel West and the stuff that Ian's talked about in the Pilbara. So you will see that pressure. You also need to go to the granularities about things like royalties, things like fuel and the like. So I don't really think I can give you a one size fits all answer to the question regarding the cost

structure, other than to say that I think the guys have referenced this on the way through their presentations. I would refer you to those charts in the presentations, because you will be able to make your own judgements about where you think those various items might go going forward. We do think they are tending to plateau, but there is still an upward bias but it's obviously at a lower trajectory than what it was previously.

With regard to the capital costs and the projects on time and on budget, I think we do spend a lot of time in the pre-feasibility and feasibility stages trying to get this right. One of the things that we've had with regard to projects is that whilst in the various tollgate phases you have seen quite a bit of change to budgets on the way through. That's part of the reason why they stay there a bit longer. That's the opportunity really to generate the response to offset some of those pressures and if you don't get it right in that phase then you're probably going to pay for it at your peril in due course. I think when you see things come in on time and on budget that's all good and that's what we're trying to achieve, but those budgets may well have been increased on the way through the feasibility phase. From pre-feasibility into feasibility might have seen a step-up in the capital cost. I guess the way that I would characterise it is we want to make sure that we do things properly. I've talked about the adequate resourcing and so on from external suppliers. The same applies internally as well. We have got a limited capacity of skilled project people. Where you can keep those people in place in the same business, that's a great advantage and we've had that advantage in iron ore.

So the budget that we take to the board for approval, we should expect to be able to get pretty close to that; but it is a function of whether that's a bigger number that we actually take for approval than it would have been six or 12 months ago.

Question: Coking coal – Dave, I appreciate you mightn't be able to give us an actual production number for FY07 but can you give us an indication of the capacity that you expect at each of the three major operations when the current projects are completed, and what year do you expect that to be?

Chris Lynch: I'll maybe make a general comment before handing over to Dave. One of the things that I want to make sure we to avoid is putting ourselves on the rack for this month, that volume and that type of stuff. I think we've seen enough examples of that where dynamics change and you do or don't want to do that for any particular reason. I think the market that we're in today in terms of execution of projects is significantly different to how it was two years ago or three years ago and so this does alter your certainty about delivery, particularly with regard to timeframe but also for cost.

I think we had the dream start as a merged entity with regards to project delivery. We had a good situation; we were investing counter cyclically if you go back to some of the aluminium investments in Africa and so on with Mozambique and the like. We could therefore do well in terms of delivery on time and within budget. This market today is totally different, so I would say there is delivery risk and in terms of both cost (higher costs) and schedule (later rather than sooner).

Having said that, I'll pass over to Dave and he can give you a bit of local colour.

Dave Murray: Hay Point, once through its commissioning of the first stacker reclaimer, will have got to 40 million tonnes or thereabouts on an annualised basis. When it's commissioned its second stacker claimer (which is at the end of the year), it will be operating on an annualised basis of about 43-odd million tonnes. I think that's the right place to be investing because that gives you the elasticity between the market and production, arguably, the expensive part of the chain.

In terms of the mines, Broadmeadow in its current configuration, when it's ramped up will be - depending on how we choose to mine it - somewhere between two and a half and three million tonnes. That's its name plate capacity. Saraji has been de-bottlenecked, and depending on the quality we present to the plant, throughput is between seven and eight million tonnes.

Goonyella is roughly the same as it always has been. Blackwater, the name plate capacity of the plant is between 12½ and 13½ depending again as to what product we choose to put through the plant but it's in that sort of ballpark. Poitrel is three million tonnes of semi soft and PCI/thermal, call it two million of semi soft and one million of the PCI/thermal. Does that help?

Question: A couple of questions if I may. The first one, given what we've seen in the US in terms of interest rates rising and potentially continuing to rise over the next year or so, is there going to be an impact on US demand from that and if so what do you think the impact might be? The second question was to do with the iron ore price negotiations and the behaviour of the Chinese this year in not accepting the price agreement that the Japanese accepted. Do you think that next year we might have differentiated pricing and/or do you think it may be the Chinese are leading the negotiations rather than the Japanese?

Chris Lynch: Maybe just one point of clarification. Obviously the iron ore negotiations have pretty much completed now and the Chinese have actually accepted the 19 per cent increase on both lump and fines. I'll ask Peter Toth in London to respond to those couple of questions, but maybe just to address the US interest rate question; obviously that has had some impact in financial markets in recent times and I think we need to continue to monitor that.

Peter, do you want to maybe talk a bit about the specifics of the US steel industry and the impact? I know from your presentation that you had a view about the likelihood of movements in that market in any event, so perhaps if you wanted to pick that up.

Peter Toth: Thanks Chris. The US steel industry actually continues to surprise on the upside so far. If I recall correctly the statistics for the first half of 2006, I think steel demand increased by about 11 per cent on a year on year basis. The supply response to that demand was somewhere in the range of about two per cent and that actually has resulted in the price arbitrage that I was talking about - sucking a lot of Chinese imports into the US market. Despite the overall economic situation in North America for the first six months I think the steel industry has continued to perform very, very strongly. What we see for the next six months is obviously a bulge in activity of restocking. The US is desperately low on steel stocks so I think that will continue to fuel domestic steel production going forward. Certainly for the remainder of 2006 I am very optimistic about the US steel situation.

With regards to the iron ore prices, as Chris said, we have had settlements with all of our customers in all of our markets now. It was not about China not accepting the Japanese or the European price. Perhaps the decision making mechanism in China takes a bit longer than in the other markets, but ultimately they have reached their own conclusion with regards to the market circumstances and accepted a price that appropriately reflected that market situation.

Next year is next year. I wouldn't like to comment about what's going to happen next year. The Chinese steel industry very actively participated in this year's price negotiations and I expect that that will continue next year as well.

Question: My question relates to the iron ore market. I can think of probably 150 million tonnes of potential new supply that has either been financed or in projects that have been approved by wannabe iron ore producers. That's about equal to what BHP Billiton will be producing after RGP4. My question is whether or not BHP Billiton thinks the market is that good by say 2009/2010 and would they care to reflect on this potential diversification of supply and what impact, if any, that may have on the industry?

Chris Lynch: I guess the first thing to say is that there is often quite a margin between stated intent and actual production coming through. I think a lot of the commentary that we've made on the way through the presentation here today would indicate that our belief is that it is going to be more and more difficult to bring on new supply in terms of probably three things - quality, timing and cost. I would hate to be trying to access a first rate construction project team in this market if you had no background in this market. That would be a very, very difficult thing to achieve with any sort of certainty.

Having said that, we fully expect that there will be other capacity that will come on in various forms. Whether it's at that magnitude or not is a totally different question - where the market will be at that time I think will be a function of a lot of factors. I think the overwhelming situation that we believe will be the case is that supply will be slower than anybody would anticipate under normal circumstances. It's just a function of you cannot bring new production on as fast as you would like or as fast as you might have been able to do in the past several years. I think that you need to temper some of those dynamics.

Peter Toth, do you want to refer a little bit more to the market dynamics and how we're seeing that in terms of other capacity coming through?

Peter Toth: I agree with your comments, Chris, in terms of the market. We're seeing a continuing growth in demand with regards to iron ore globally and specifically in China. You can see the characteristics of the supply that are filling the gap at the moment. I think the three major producers are bringing on about 200 million tonnes of new capacity between now and 2010, and again the tonnes and the timing we show here relies on externally published information. We'll have to wait and see, in terms of the timing, how that all comes into the market. So, yes, the question of how strong and for how long the market will grow and how quickly and in what shape those new tonnes will come into the market will depend on the circumstances. As Chris said, and I think it's well put, the quality of the product will determine where it sits on the quality scale in the customer's requirements and very importantly where it will sit on the cost curve in terms of competitiveness in a more balanced market.

Question: I just want to get back to project evaluation. We've talked a lot about costs, the fact that some projects are staying in pre-feasibility or feasibility longer. Partly, that will enable you to be more accurate in your costs. When costs are moving up so quickly, you've clearly got relatively poor visibility. So has that impacted your assessment of sustainable prices going forward, and how do the two interrelate? Have you started to move up your expectations of pricing to reflect a permanently moved cost structure?

Chris Lynch: Thanks. I know you're personally aware and a lot of people in the audience are aware of the process we go through with regard to our price protocols. We did have some modest increases in our long term price protocols at the last revision. They are still significantly below market levels - obviously you wouldn't want to be justifying too many projects using some of the commodity prices that you are seeing in the market today! But I think that it is part of that double edged sword I talked about before, about some of the cost structures, about construction cost and difficulty of generating new capacity. I think it does give a little bit more strength, a bit more underpin, to the ongoing commodity price.

Re your reference to our toll-gating process and the approval processes and so on, yes it is tempting to be faster on the basis that costs are increasing as you take the time to go through the analysis, but I think the downside risk of that is pretty extreme. The key thing to do with projects is to get them right when you start and be sure that you've got a project that is going to survive through the long term cycle that is going to be there. So yes, we have seen some modest increases in the underlying price protocols, but nothing that is reflective of the more recent prices we're seeing.

Question: In terms of getting people for projects, you mentioned that it is very difficult to get the A team these days. Is it also the case that it is difficult to get the B and C teams, and is that significantly increasing the technical risks of your project delivery, and could we reach a point where you will actually delay or postpone projects because you can't get the people?

Then just a second question on the manganese market being in oversupply. I was just wondering if you could talk about the propensity perhaps to maintain rational behaviour from the market, and how far would BHP Billiton be willing to cut production to maintain prices?

Chris Lynch: I'll send the second question to Peter Beaven, but on the first one - would we delay projects if we thought we couldn't do them properly. Absolutely. We wouldn't go ahead

unless we believed we have a team in place that could take it through. In fact one of the absolute fundamentals in the approval process is to say exactly who the teams are, both in terms of our internal team who are going to deliver the project, and any third parties that are engaged on the project. We want to know about those people, specifically about the people that are going to be the leadership part of that group. So one of the big benefits in the CSM business is that we've had some continuity of projects, and so we've been able to retain the same contracting firms and in many cases the same people to head up some of the projects. So iron ore has benefited from that to a very large degree. But would we stop a project if we thought we were getting the D team and we weren't confident of the outcome? Absolutely, we wouldn't go ahead if that were the case.

Peter, pretty tricky area that they want to get you onto with regard to supply and so on, but I think maybe one quick comment on the manganese market; we do have the pre-eminent position in ore production, and it is really a question about where we are on the cost curve. Peter maybe you could address the specific question?

Peter Beaven: We don't set the price in that market, but can have an influence over it so we will retain a sensible approach, in our own interests. But it is also clear, as Chris was saying, we have what we regard as the pre-eminent position in the market, we have the pre-eminent asset in the market, and there is an opportunity there to expand it, and we intend to. Because notwithstanding as I said earlier the fact that it is a highly competitive market, we have the position on the cost curve, and we will retain the ability to make a decent return.

Chris Lynch: Okay thanks Peter. We might go to the phones, do we have any questions on the phone?

Question: Good evening Chris, just a couple of questions. Firstly I wonder if you could provide some interpretation of the comments out of China, that the difference between the landed prices from Brazil and Australian iron ore need to be discussed. The second question is on the construction costs. You talked before about maybe seeing some sort of plateau in your operating costs. Do you think we are going to see a plateau in the construction costs at a high level before tapering off, or are they still going up? Have you got a view on a time frame when you think that we might see some need not to bring in so many clean skins into Western Australia?

Chris Lynch: Okay, well addressing your first question with regard to the landed costs, I guess we do remember last year's negotiations and the concept that was put on the table for landed cost differential. Peter Toth's slide earlier in the presentation showed in spades the great benefit of the Australian ore going into China, so we don't see any downside in that issue being addressed in terms of our book. I think it would be productive for the Chinese industry really to review their total cost structure, but I think you'll find that on a landed cost basis, the Australian ore into China, particularly given the quality, is a great underpin for the steel industry there. So the more that that's addressed, I think the better. It's not something that we're sort of going to die in a ditch over extracting price for, but it does point to the fact that there should be a good underpin on our volumes based on that freight differential advantage.

With regards to construction costs; no they haven't plateaued, in fact anything but. I think there are three prongs to that sort of issue. It is quality, it is time and it is cost. We do have to make sure that you have the horses in place to go ahead successfully.

Our projects are robust and they can take a certain level of cost structure and still be quite or very robust. But the key is can you execute them successfully? As I said earlier, if we don't believe we can then we wouldn't proceed. So if you see us proceeding it's on the basis that we believe we can do it properly.

But I don't think costs have plateaued. There are some cases in other businesses where we've sort of drawn breath and said, no, that doesn't make sense. In CSM's case we've not got to that position just yet.

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Question: Good evening gentleman. First a question on iron ore imports from India into China. I just wanted to see what your view was there in terms of market share, and if you had any projects in mind to develop iron ore production out of India as a hedge?

The second question relates to the manganese alloy businesses which has been lacking quite a lot of production discipline as you know. Do you intend to participate in consolidation, and do you think that some of the Chinese alloy producers have been making operating losses lately?

Chris Lynch: Let me have a crack at both of those and maybe, Peter, I'll hold you in reserve for the second one.

With regard to iron ore imports from India into China and whether or not we'd have any plans about production in India and so on. India is one of the countries that we do have some significant business development interests in. There are several others as well but India is on that list.

The issue about imports into China in general, I think they were referenced in the prior question; quality and landed cost. Australian ore has got a significant advantage. So we don't have any compulsion to operate in India, but if we see the right value equation in any sort of business development opportunity then we'd be prepared to take it. But that has to be based purely on value and we haven't seen that equation just yet, but we are continuing to look in India and in several other places.

With regard to manganese alloy and the like, obviously we had a pretty big spike in alloy pricing and so on during the course of 2005. Markets have reverted since then, but we'd expect that they'd stay pretty stable. Peter, maybe you want to give a bit of flavour there?

Peter Beaven: I think there are two parts to that question. The first was whether we're going to participate in any alloy consolidation. I think just on that one; in the alloy market, the industry structure is highly fragmented, particularly on the silico-manganese side, less so on the high carbon side. I think it's something we would struggle to really see ourselves as taking a leading role in. It's just a very tough ask.

On the second part of that question, Chinese producers making losses. I think yes, when the silico-manganese prices were hovering around the 600 mark, no question I think that people were suffering. The result was, as always, as rapidly as capacity can be brought on, it was brought off again. At any one point in time, we think roughly 50 per cent of the capacity in China is shut in. So yes. But at the prices at the moment, probably not and so no doubt we'll see alloy production increasing again.

Question: Good morning and good evening. Peter Beaven mentioned in his presentation that manganese was looking at possibly expanding and part of the expansion area would be in Africa. A few slides on you mentioned that global expansion growth could come from South Africa. Could you go into a bit of detail on what the constraints would be, if any, to expanding in South Africa? Thank you.

Peter Beaven: I think it is well known that the resource base is there so there's no question about that. The question is really about the costs of extracting that resource and importantly shipping it to the coast. That is the key constraint.

So I think - as we said earlier - it's critical that ourselves (Samancor) but also I think the industry - have got to get together with Spoornet and we've got to sort this problem out. It's not only the Spoornet side of things but it's also actually the port side of things and Port Elizabeth, as you know, there is some uncertainty as to exactly what the long-term future of Port Elizabeth as a port is past 2012 or 2014 or whatever the rolling date is. I think we would like to know what the long-term plan is from Transnet on that aspect. So I think it's something that we and Transnet have got to work together on cooperatively in order to ensure that South Africa does in fact get its fair share of that demand growth.

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Chris Lynch: I think we've got another four questions on the phones. I'll come back to those in a second but do we have any further questions here in Sydney?

Question: Just two quick questions. Just firstly, just on the iron ore price market in China and now that you've had the 20 per cent rise. Where does the spot market sit relative to that now and how do you see it going forward?

Secondly, just listening to everyone talk about this manganese alloy business - highly fragmented, small position from BHP, highly volatile - it doesn't seem to me to be the sort of business that you want to be in. Just wondering if you could comment about that as well?

Chris Lynch: I'll get Peter Toth to cover the first one, I'll cover the second one first and then I'll come back to Peter.

With regard to the manganese alloy business, obviously our manganese business is based off the back of ore and the alloy is sort of a good adjunct to that. But you're right in terms of scale. It does have a fair degree of volatility regarding its return so it does have different characteristics. It does give us also an opportunity to participate in that market and see firsthand the sort of applications and use of the ore. Peter would you have anything you wanted to add?

Peter Beaven: I think the other thing you want to remember is that yes, the return is volatile but over the cycle, say five years, almost inevitably there is a spike somewhere along the line. If you take the returns on the business on average, they are adequate. It's not spectacular but it's adequate. We have well placed assets.

Chris Lynch: With regard to the Chinese spot market and so on, I think it's a little bit early to be calling too many shots there but Peter Toth, do you want to maybe talk a bit about the amount of head room there is in regard to that spot price on a landed cost basis?

Peter Toth: Not surprisingly, after the benchmark price settlement the Chinese spot market prices started to move up and it's a bit too early to say where it's going to land. If you subscribe to my theory with regards to that substantial high cost marginal capacity filling the supply gap in China then inevitably the spot market will continue to exist and will trade at a substantial premium.

What is going to be the new level of differential between the spot price and the benchmark price in this new year and this new environment is too early to call, but there will be some and it's already making a move up.

Chris Lynch: Did you hear that Peter? The quantum now – the gap?

Peter Toth: I don't want to comment on the size of the gap other than to say that there is a movement up and that there will be a gap.

Chris Lynch: You heard a couple of the guys mention fatigue management. We are approaching that point, so we do have a couple of last questions? Are there any further questions in London?

Question: Two questions if I may and they are inter-related. When you look at the long term iron ore price, and I mean the long term, in real terms in the seventies and eighties or until the early eighties you had seen a significant spike. The real price has increased fourfold. Could you just remind us what were the underlying factors and given that the real price was so much lower still today to the real price back then do you feel that the environment is a similar one today and the drivers could be similar? That's the first question.

The second question, in 1982 the real price started a long decline into 2000, coming down and the explanation I was given for that was that the Japanese buyers or steel companies started to negotiate away. Do you start to see that negotiating away to a certain extent in your negotiations as well?

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Chris Lynch: I think I can roll the two questions into one and maybe cover that off. I think there have been a lot of changes in the industry in the sort of timeframes you referred to. To find a parallel for the Chinese growth story, I know it's a bit clichéd now, but you do have to go to fairly unique times, certainly in the modern era, to look at things like post-war reconstruction or industrialisation of the US in the late 19th Century to get the same sort of metals intensity of growth. These are the sorts of things that are happening with regards to the rate of urbanisation and the build that's going on there.

I think you've also had some consolidation on the supply side of the industry. You're going to see more and more consolidation on the steel making side of the industry as is evidenced in the market at the moment. I think there are those sorts of aspects, so in terms of drawing too many parallels backwards it's an issue. I think just the robustness of the demand that's there today is unprecedented and it does provide a pretty solid underpin.

Question: I've just got two questions and one is on the iron ore dynamics in relation to what's happening in the steel industry vis-à-vis industry consolidation and China. Maybe you can just outline or give us an indication in terms of what sort of changes you expect in the next five years on that front in terms of opportunities and challenges. Secondly, an extension of the question in terms of the manganese market; is it possible to possibly separate the ore from the alloy? If so, have you ever looked at that? Thank you.

Chris Lynch: In terms of the dynamics in the consolidation in the steel making side of things, that's obviously very topical. We currently have a great relationship with both Mittal and Arcelor - both of those are solid customers for us. If you like, the consolidation that takes place in a free market or an external market driven transaction such as that is not a lot unlike the consolidation that takes place when customers get together and buy as a block or negotiate or have a lead negotiator negotiate on behalf of a group of customers who follow that lead negotiator.

That buying consolidation, if you like, has been in place for quite some time. The Japanese industry have bought on that basis and so on and you've seen recent developments elsewhere. I think that sort of consolidation is there. The other side of the equation is what value does that consolidation have vis-à-vis the steel company's customers and their ability to extract a higher price or a synergy or value difference based on that consolidation. I think there are those two aspects there.

With regard to the manganese market and whether you can separate the ore and the alloy, well obviously you can. Our business is really based off the back of the ore supply position and the alloy, I think as Peter commented, there are reasonable returns there albeit quite volatile. We do get some benefit from seeing further downstream with regard to that alloy production. But, yes, certainly you can separate the two and the question would become does that make sense for you at any given time? Any further comment Peter?

Peter Beaven: Yes, just to reiterate the earlier point, a large part of last year's super result at the EBIT line came from the alloy side of things. It's not immaterial when these returns are super, plus year in year out they are quite capable of returning reasonable amounts. The final thing I'd say is that the alloy volatility in the context of BHP Billiton is minor. I think that's important, the context of manganese within BHP Billiton needs to be remembered.

Question: I think you're close to answering my question but I just really would like to ask what impact BHP Billiton expects from a proposed formation of Arcelor Mittal on the overall markets and what impact you expect on price negotiations if the group is formed? They have said they would look to take a leading role if the group was formed in their negotiations, thank you.

Chris Lynch: I think I have addressed most of that in the prior answer but just to reiterate, I think the consolidation of buying power is something that's not foreign to the industry. We've seen that. As I said before, we do have an excellent relationship with both of the components of that transaction in various businesses. They do have some degree of self sufficiency in some products so that obviously has got to be factored into the equation but I don't expect to see a

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great deal of change there but I mean these are dynamic times that we're in and next year's negotiations, as Peter Toth alluded to, is next year's negotiations. But having said all of that I think the key issue really is consolidation generally. It's probably a good thing for the steel industry and on that basis it should be a good thing for raw material suppliers to that industry.

Chris Lynch: I think that we have exhausted the questions so with that, thank you very much for your time. This is obviously a dynamic time to be in the Carbon Steel Materials business, our customers are growing very strongly and robustly and we've got the great opportunity to participate in that growth with them and assist their growth by supplying their raw material needs, so if we can do that with running our assets excellently and bringing the growth projects on that we have in train and in mind then we can play a part in their success.

So thank you very much for your time and we look forward to catching up with you again at some stage in the future, thanks very much.

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