



“BHP BILLITON’S IRON ORE BUSINESS – CURRENT STATUS AND FUTURE OUTLOOK”

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INTRODUCTION

Last year, I spoke about strong global demand for iron ore, record production and shipping results and said that we believed these conditions would continue for some time into the future. In some ways, I was wrong.

The rising star of China, coupled with continued strong demand from our long-standing customer base has meant that we are now experiencing a major boom, beyond what we even projected 12 months ago.

Regardless of the size of the increase in demand, BHP Billiton Iron Ore remains committed to supplying the ore that our customers need when they need it, both now and into the future. We maintain a world-class resource base, efficient and expanding production infrastructure, well-established marketing network and close proximity to the industry growth centres in Asia.

My message to you today is this:

- During the last 40 years, BHP Billiton Iron Ore has established a proven track record as a leader in the global seaborne iron ore business.
- We understand that our fortunes are tied to those of our customers and we have consistently and over a long period of time expanded production to meet our customers' demands.

- We have a high quality and abundant resource base and a wide product range to meet our customers' expectations – including competitive value-in-use products.
 - We are committed to continued, low-cost, flexible expansion to meet future market demand; and
 - As always, we provide benchmark technical support to assist in optimising the use of our products.
- **Snapshot of the Business**

I want to reacquaint you briefly with our Iron Ore business, before discussing the current demand environment and how we are responding to this challenge.

Our business is structured into four main operational areas in which we employ about 2000 staff and about 3000 contractors.

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

These operations include:

- Extensive iron ore resources supporting a range of mines across the Pilbara;

- 696 kilometres of railway linking our mine and port operations, including a rail fleet of 56 locomotives and 2537 ore carriages;
- Port and processing facilities at Nelson Point and Finucane Island, which are linked by an under-harbour tunnel and conveyer; and
- The Boodarie Iron hot briquetted iron plant, which is also located at Hedland.

- **Customer base**

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

1. Japan – 42%
2. China - 23%
3. South Korea – 15%
4. Australia – 10% (including Newman Fines sales to Boodarie™ Iron).
5. Taiwan - 7%
6. Europe - 3%

- **Strong fundamental business**

The success of BHP Billiton Iron Ore over the last 35 years has been built upon the high quality of our mineral assets as feedstock for iron and steelmaking furnaces across the globe. In general, our products fit within three niches.

First, Mt Newman ores are our high hematite, high Fe, low LOI (Loss on Ignition) ores and are mined from our Brockman deposits. The chemical, granulating and sintering properties of Mt Newman High Grade Fines means that it is increasingly popular with inland Chinese customers.

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

Despite more than 34 years of sustained production growth, we still have about 1.4 billion tonnes of low phosphorous Brockman resources available, mainly in the Newman area, and approximately 1.5 billion tonnes of high phosphorous Brockman ore in our resource base, sufficient to support many more years of increased production.

Yandi has found itself a niche as a high Value-In-Use (VIU), low alumina product, in particular for coastal mills. After leading the market development for low alumina pisolite ore, demand for our Yandi Fines product remains strong. The main market for this product is high-technology coastal mills, particularly in Japan, Korea, Taiwan and Australia. Our Yandi Fines have been complemented by the introduction of Yandi Lump. This fills a niche for low cost, low alumina ore for high-technology customers not pushing the limits on blast furnace productivity. Most Yandi Lump is sold to Japan.

MACTM ore, the product from our Area C mine, is one of the new generation Marra Mamba products which is aimed at satisfying the increasing demand for high value-in-use, low gangue ores. The high VIU ores like Yandi and MACTM have desirable chemistry but require optimised sintering practices to ensure high productivity in customer steel plants.

BHP Billiton's Newcastle Technology Centre (NTC) is a world leader in fundamental sintering research and development and this capability has underpinned our technical marketing efforts in gaining customer acceptance of our new ore products - in particular optimising sintering practices for high value-in-use ores. The experienced ironmakers in our technical marketing team work closely with our customers to apply this knowledge to their individual

sintering requirements, ensuring that demand for MACTM ore will continue to grow strongly.

- **Business Performance**

Our Iron Ore business performance continues to improve in rapid fashion.

In CY2000, we shipped 67 million tonnes. By the end of CY2004, our capacity will stand at 110 million tonnes per annum. That represents a 64% increase since the turn of the century and a virtual doubling of our capacity since 1996, just eight years ago.

As can be expected in the current climate, performance in the current financial year has been the best on record, with shipments of 44 Mwt of iron ore in the first half of the YEJ2004. Our first half production for YEJ 2004 was 45Mwt – which is 6.6 Mwt (17%) greater than for the same period in YEJ2003.

Our Boodarie Iron plant in Port Hedland produced 1.03 million tonnes of briquettes in the first half of YEJ 2003, which was 280,000 tonnes (37%) greater than the first half of YEJ 2003. The plant is currently running at around 85% capacity.

INDUSTRY DYNAMICS

We are currently experiencing a new world situation where global steel demand and production has reached levels not believed possible just 2 years ago.

The world demand for steel has seen last year the first annualised production rate of 1 billion tonnes. This year is expected to see these trends continue.

China has been the key driver for this change with steel consumption doubling in less than 5 years. This has had a corresponding flow through effect on the global seaborne iron ore market leading to the tight market we find ourselves in today. China has replaced Japan as the largest iron ore importer in the past year.

Demand for iron ore from China has risen by over 100% from 70Mt in 2000 to 148Mt in 2003.

This dramatic increase has occurred when other importing regions of the world, Europe and Japan, are experiencing little growth compared to China. The importance of China in the global industry cannot be under estimated. It has changed the perception of the industry. It has heralded very strong growth that, to an extent, caught us and others off guard. It has caused the unprecedented boom in capital investment and construction seen here in Australia and Brazil. And it will lead to the very rapid introduction of new ore types.

Where will this all end? While it is very difficult to predict the future, it is likely that the new world may see significant changes to the ‘traditional’ more gradual expansion approaches used in the past. Although high freight rates are a more recent phenomenon, they are also impacting the dynamics of the industry and changing relativities between supply sources. Securing and security of supply is now a critical issue. Going forward, increased emphasis is likely to be on new methods of determining ‘value’. Higher flexibility in utilisation of a wider range of different ore types means that the relativities between iron ores that we see today are possibly no longer valid. High demand for steel, and hence iron ore, will see our customers adopting a more rapid ramp up for new ore types based on solid technical understanding and technical market support. With this high level of demand growth and competition for sources of supply the global demand and supply balance of iron ore will be the dominant variable in setting the global price.

Under the current environment of strong Chinese demand, all participants, suppliers and customers need to be prepared to live with a more rapidly changing outlook. In a world of stronger steel demand and projected strong growth, with associated higher iron ore demand, BHP Billiton is aggressively pursuing measures to enable us to rise to and meet these challenges. We are looking at ways to increase production from existing mines, changing ore

grades to release additional volume, new and expanded capacity, new products such as MACTM, new and revised contract structures and creative customer alliances.

In a rapidly changing environment we believe we must be prepared to match that pace of change.

MEETING THE CHALLENGES

The market conditions that I have just described put significant pressure on our business to grow in such a manner that we maintain our overall share. Our approach is focussed in three key areas:

1. Sustaining a strong underlying business that continually strives to deliver operating improvements and efficiencies;
2. Developing our product mix to meet the market needs and providing benchmark technical support to assist in optimising the use of those products; and
3. Capacity expansion projects that allow us to manage changes in demand – we have a reputation for delivering incremental growth over a long period of time as the market has demanded and our expansion projects are designed with future growth in mind.

1. Sustaining the business

Iron Ore is a business we understand and we do well. Although most of the discussion these days focuses on the expansionary activity that is essential if we are to remain among the global leaders, most of our efforts are targeted at ensuring that we derive the greatest value out of the operational components of the business. In other words, we must sustain the strong, fundamental, underlying iron ore business that delivers all the benefits to our shareholders, our employees, the communities in which we operate and the broader community as well.

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

Western Australian iron ore producers are recognised as being among the most efficient producers in the world. Our record in this area hinges on a continual pursuit of innovation, efficiency improvement and cost reduction. While our expansion activities provide a great opportunity to deliver new efficiencies, and I will discuss these later, there are a number of actions we have taken to improve the efficiency of the underlying business.

As a business, BHP Billiton has embraced the Operating Excellence, or OE, framework in delivering more efficient and cost effective ways to operate. In our Western Australian Iron Ore business, we are a leader in OE. We currently

employ 23 business improvement coaches, one of the highest number of any BHP Billiton asset.

Our business improvement initiatives continue to deliver significant financial benefits, and I would like to touch on a few projects to support this.

- **Dual stacking Yandi fines**

Early last year, we commenced a project that has led us to increase the number of stockpiles of Yandi Fines that are built at the Port at any one time, thereby allowing us to dump two rakes simultaneously.

This simultaneous dumping has reduced the average time that ore-rakes are held at the Port by more than 1 hour each, which equates to a 20% overall time saving, and has also reduced the number of backlogs. Due to the success of this project, we have extended the dual stacking principle to other products.

- **Haul Truck project**

A project to maximise the loads on our haul trucks showed that, on average, the trucks were being underloaded by about 7% due to inaccurate weighing equipment. Having now addressed this problem, the trucks are now carrying 7.4% more ore on average in each load.

In YEJ03, 32 OE projects were completed and delivered significant financial benefits. In the first half of YEJ04, 23 OE projects have been completed with a further 33 in progress.

- **Safety**

As you are aware, we have made a great commitment to the goal of BHP Billiton becoming not just the most efficient and profitable iron ore producer in the Pilbara, but also the safest. In the current environment of rapid business growth, managing this change represents our greatest occupational health and safety challenge.

Our safety record has shown significant improvement over the past decade, due to our concerted safety initiatives across the organisation. This is noteworthy when viewed in the context of our accelerated expansion projects.

Our Lost Time Injury Frequency Rate has improved significantly over recent years, and currently stands at one (1) lost time injury per million man hours. This compares very well in the iron ore industry and the mining industry in general, which has an average of about seven (7).

The safety performance of our mine sites has been recognised, having come second overall at the two most recent national Minex safety awards.

I mentioned before that our operating excellence program is delivering productivity improvements across the business. It is also being utilised to improve performance more generally, and the safety area has benefited from using this approach to better control exposure to occupational health and safety hazards such as welding fumes, dust and chemicals.

- **Sustainable Development**

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

On the environmental front, we developed eco-efficient management plans for each of our operations while maintaining a standard of excellence across our expansion projects and our ISO 14001 accreditation.

As part of our community relations program, we undertook an independent reputation benchmark survey to better understand community perceptions and expectations in a systematic, measurable and repeatable way. This has influenced the strategic priorities of our community program across the business. As part of our community relations program, we committed around

A\$3.5 million in cash, in-kind and personnel contributions to our local communities, especially in the Pilbara.

We also continued to contribute significantly to the broader Australian and Western Australian community through payment of over \$300 million in taxes, charges, rates and royalty contributions. This represents one-quarter of all our operating expenses.

2. DEVELOPING OUR PRODUCT MIX AND BENCHMARK TECHNICAL SUPPORT

- **Product Development**

Last year I spoke about our new MACTM ore. Since start-up in October 2003, we have already shipped 1.5Mwt of MACTM in commercial shipments in addition to approximately 1.0Mt of bulk sample shipments. This added low gangue, high value in use, lump and fines Marra Mamba products to our existing suite of hematite and pisolite products.

We continue to study how to best develop our very large and varied resource base to meet the emerging needs of customers. We are concerned not only about total capacity to meet market demand, but also about the type of ores our customers are seeking. Development of the Pilbara started with the higher Fe hematite ores, but technology development has allowed customers increasingly

to unlock the value in the higher LOI pisolite and now Marra Mamba ores. Our world leading research team at the BHP Billiton Newcastle Technology Centre, or NTC, continues to be at the forefront of that technology development.

- **Benchmark Technical Support**

Our NTC team contributed new understanding of the fundamental properties and sintering performance of Yandi Fines, which supported its sustained strong sales growth over the last decade. The “Yandi Sintering Handbook” based on that work was the first practical guide to sintering a new ore type produced by any iron ore supplier.

The effort at NTC is now focussed on the properties and behaviour of MACTM Lump and Fines in our customers’ blast furnaces and sinter plants. Already there has been a major breakthrough in understanding of the behaviour of Marra Mamba fines in sintering. NTC were the first in the world to measure the resistance to air flow in the sinter flame front, the critical high pressure drop zone which has the biggest effect on sinter productivity. They were able to show that MACTM Fines had no impact on flame front resistance, but that control of sintering control parameters is the key to optimising the process.

Our NTC team works closely with our technical marketing team of experienced sinter and ironmakers to provide technical support to customers, allowing our new products to be used effectively in customers' blends.

3. Expansion Projects

There is no question that our ability to remain one of the market leaders in this industry is dependent upon our ability to deliver incremental, capital efficient capacity expansion as the market demands. Our record in this area is very strong.

Since we commenced operations as Mount Newman Mining Company almost 40 years ago, we have committed billions of dollars to expansionary projects, which have occurred on an almost continual basis over this period. These expansion programs have always been designed to ensure we can provide the ore our customers require.

We are always moving forward. It is just the pace at which we move forward depends on the market conditions and outlook.

- **Asset Development Projects**

I would like to recap on the recently completed \$1 billion asset development program that has increased our capacity by around 25% over 3 years to a total of 100Mtpa by the end of this financial year. This program is another example of

our consistent record of expanding the products and infrastructure of our business in a low-cost and flexible manner to meet our customers' demands.

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

The Area C project included a 39 kilometre spur line that linked to our Yandi mine and our main heavy haul railway between Newman and Port Hedland.

Our Products and Capacity Expansion project was focussed around our port and processing facilities and included:

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

For BHP Billiton Iron Ore, the Area C and PACE developments represented new levels of project management for a number of reasons:

- Each project was delivered ahead of time and under budget;

- Area C was founded upon a joint venture with Korean steel maker POSCO, which provides a long-term strategic alliance or supply of iron ore products.
- To validate customer confidence in the new MAC™ product, we sent about 1 million tonnes of ore for trials by overseas customers – very large in bulk sample terms.
- About 5.5% of the more than 1100 strong construction workforce across both projects was indigenous.
- The level of “local content”, or contracts let to Western Australian firms, was 85% overall – meaning that A\$850 million of the \$1 billion total cost stayed in Western Australian hands.
- Local employment “shopfronts” in Neman and Port Hedland were established to help local residents access jobs and contracts on the projects.
- A\$60 million was committed to dust management initiatives to address a key community concern in Port Hedland.

I will now show you a video of the completed projects that was produced for the opening of our PACE project exactly one week ago.

- **Expansion – where to from here?**

I think you can get a sense from that video the scale of works required to increase our capacity in the current climate. But now they are complete, we have focussed attention again on the future.

Just two weeks ago, we announced the A\$145 million Rapid Growth Project, which will add another 10Mtpa to our capacity, mainly by expanding Area C's capacity to 23Mtpa, increasing the rates of Nelson Point Stackers and Reclaimers, modifying Car Dumper 1 to provide additional throughput to the 'Western Stockyard' and extending railway sidings near Port Hedland. This project will take our total capacity to 110Mtpa by the end of 2004.

And last week in Perth, our Chief Executive Officer, Chip Goodyear, announced that approval had been given to undertake a full feasibility study to take our capacity to beyond 145Mtpa, which is vitally important to our ability to maintain market share in the longer term.

Over the next year we will look at the best development path for all mining, railing and shipping tonnages to reach this level of capacity.

It is anticipated this new growth target will comprise 60Mtpa from our Newman JV mines, 40Mtpa from Area C and 45Mtpa from Yandi.

We will also conduct a feasibility study to determine the extent of remaining resource at our Goldsworthy joint venture operations with a view to continuing production beyond the initial resource life expectancy of 2006.

As you can see from the PACE and Area C projects, growth opportunities are intimately tied to planning challenges which focus not just on the output and efficiency of our operations, but also on complying with growing community expectations and toughening environmental standards, particularly in relation to noise, dust and water usage.

The need to address social issues, such as ongoing employment and local business opportunities - including indigenous employment – are inextricably linked to the success of future growth.

In line with our Health, Safety, Environment and Community policy, we have taken the initiative to conduct a Social Impact Assessment as part of the feasibility study into these future growth options.

Over the next six months, we will be working with our local communities to look at potential impacts of growth and to examine the effectiveness of existing community consultation methods.

The associated community consultation program will give communities at Port Hedland and Newman the opportunity of being involved in the social impact assessment, with the aim of achieving optimal social and economic outcomes.

CONCLUSION

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

The recent period of growth in the global demand for iron ore has been extraordinary. During the last 40 years, BHP Billiton Iron Ore has established a proven track record of bringing on incremental production increases to meet our customers' demands. In this ongoing growth phase, we can commit to continuing this tradition.

And as always, we will provide benchmark technical support to assist in optimising the use of our products.

That is our record. That is our commitment.

Thank you.