

BHP BILLITON INTERIM RESULTS 15 FEBRUARY 2006

Chip Goodyear, Chief Executive Officer

Ladies and gentlemen, welcome to our presentation of the BHP Billiton's results for the first half of financial year 2006. My name is Chip Goodyear, the Chief Executive Officer of BHP Billiton, and I am joining you from London today.

Joining me from Melbourne is Chris Lynch. Chris is Chief Financial Officer and was recently appointed an Executive Director of BHP Billiton and with Chris is Bob Kirkby. Bob is the Group President for Carbon Steel Materials. Chris will have some prepared comments today, and Bob and Chris will join me in answering some of your questions a little bit later.

Let us move on to the highlights. First in the area of safety, for this six month period we have seen a 1 per cent increase in what we call our total recordable injury frequency rate, and a 13 per cent increase in our classified injury frequency rate. Now obviously this is a trend in the wrong direction. There are a number of reasons for this; one of those is the increase in the number of contractors in our business as a result of our project activity and is bringing new people into the BHP Billiton system.

Secondly, the integration of WMC into the BHP Billiton Health Safety Environment and Community System is also an item that has taken an impact on the safety statistics.

Then thirdly, our exploration activities are moving into new and challenging environments as we look for significant resource accumulations in new parts of the world. In some of those parts of the world, the safety issues are not quite to the headline that we see in the areas that we are used to working in, or particularly into those indoctrinated into our system.

Well obviously an emphasis in this area, education and communication continues, and continues quite aggressively, and we look for that to continue to push us to our long-term trend line which is a decrease in these statistics.

So moving on now to the results, we had strong results for the six month period ended in December. We set a number of operational and financial records over that time. If we move to the finance side, the underlying EBITDA for the six month period was US\$8 billion, up 42 per cent on the prior period.

Underlying EBIT was up 43 per cent to US\$6.7 billion and attributable profit came in at US\$4.4 billion, up 48 per cent from the prior period. This is the fifth consecutive six month record that BHP Billiton has set.

The earnings per share were up to 72 cents, this was a 51 per cent increase. This is a greater increase in the attributable profit as a result of the share buy-back program which we completed last year. We found that the underlying margins in our business rose to 42 per cent. This is despite the cost increases that have occurred in our business, and we will talk about those cost issues in a few minutes, but we continue to see a strong benefit from the pricing environment at which we currently exist.

On the WMC side, the integration has been complete, and it was completed ahead of schedule. I am also pleased to report that the savings that we expected to get which was originally estimated at A\$120 million on an annual basis, now we estimate to be on about A\$180 million on an annual basis. Chris will talk a little bit about that.

The next area was our project activity. We continued in that area quite strongly. We approved five major projects in the last six months with a capital cost of almost US\$3 billion. In addition we approved two smaller projects. Our current pipeline now sits at 25 projects with a cost of about US\$14.4 billion, and we will go through that a little bit later.

I think quite importantly the company continues to generate strong cash, and as a result the Board has elected to adjust our dividend. Our base dividend is up 30 per cent from where it was in the interim period a year ago. We have increased that number to US17.5 cents per share. This becomes the new base from which we will continue our progressive dividend policy.

It is an illustration of what we believe is a strong outlook for the future, as well as an expectation for improving earnings in cash flow in the years ahead. As you are aware, we look at dividends not based on

how much we earned this half year, but our expectation for future cash uses and sources in the years ahead.

In addition, the Board has approved a Capital Management Program of US\$2 billion. This will begin immediately with an off-market share repurchase program in Australia targeted at about A\$1.5 billion. Again, we will talk about that in a few minutes.

This entire picture from operating to financial, to cash performance is an illustration of the execution of our strategy, and again, quite consistent with creating long term shareholder value.

With that let me turn it over to Chris who will walk through the numbers, and then I will come back after that for a few comments. Chris, over to you.

Chris Lynch, Chief Financial Officer and Executive Director

Thanks Chip, and welcome to everybody. Before I go through our financial results, I would like to highlight a couple of items. Today is the first time we report our results under International Financial Reporting Standards, IFRS. This has introduced a number of variations to our results.

Throughout the presentation, the EBIT and EBITDA numbers I will refer to are the underlying figures which exclude net finance costs and taxation for jointly controlled entities. The reconciliation to the Statutory EBIT figure is contained in our profit announcement.

As usual, all references to dollars in today's presentation will be to US dollars, and comparisons to the prior period are against the half year ended 31 December, 2004 which has been restated for IFRS. There are no Individually Significant Items, previously known as Exceptional Items in either period.

Slide number six shows our record results for the half year ended 31 December, 2005. Revenue increased by 20 per cent to US\$18.2 billion, primarily due to higher commodity prices which added US\$2.9 billion, but also due to higher volumes from new and acquired operations which were sold into the higher price environment.

EBITDA of US\$8 billion, and EBIT of US\$6.7 billion are up 42 per cent and 43 per cent respectively.

Attributable profit of US\$4.4 billion is 48 per cent higher than in the comparative period, and earnings per share of US 72 cents represents an increase of 51 per cent.

Our interim dividend declaration of US17.5 cents per share was 3 cents higher than the 2005 final dividend, and 30 per cent higher than last year's interim dividend of US13.5 cents.

Today's announced increase strongly signals our confidence in the sustainability of our strong cash generating capacity. Over the last two years our dividend has more than doubled from US8 cents to US17.5 cents per share.

Turning now to slide number seven. In today's environment where cost pressures across the industry are strong, we have once again delivered record results with significant gains in EBIT for Base Metals, Carbon Steel Materials, Petroleum, and Stainless Steel Materials. In general, the positive variances have been price and volume related, with an offset for increased costs.

In the Petroleum CSG, EBIT increased by 14 per cent to US\$1.4 billion. Prices for all petroleum products were up, and in particular, oil increased by 30 per cent and natural gas by 6 per cent.

We had a net volume increase also contributing to the result, with an offset from the divestments of our interests in the Laminaria and Corallina oil fields during the 2005 year. There was a positive variance from exchange movements also compared to the comparative period.

During the period, the hurricane related disruptions in the Gulf of Mexico had a total cost of just under US\$120 million. Our new petroleum operations are running well, and provided approximately 10 million barrels of oil equivalent during the period, with a contribution to EBIT of US\$181 million. These assets will provide the platform for our future petroleum growth.

Exploration expenditure charged to profit was US\$68 million higher than the corresponding period, with gross expenditure for the period of US\$251 million. We expect total exploration spend for the full year in

this business of around US\$450 million with the largest proportion of that spend being in the Gulf of Mexico.

In our Aluminium CSG, EBIT decreased by US\$43 million to US\$406 million. Increased prices and record production volumes of metal added US\$125 million, and the continuing capacity accrete we are seeing from our South African smelters with no material capital spend continues.

Increased costs and exchange and inflationary pressures had a negative impact. The rising cost of fuel, LME linked power, other input costs such as caustic soda and increased pot lining activity were evident during the period. Particularly so in the alumina business where the majority of our sales are contracted long term, and we do not have any real leverage of the spot price to offset the rising costs. This position is improving as we renegotiate contracts, and will improve further when the Worsley expansion commissions during the current quarter, which will improve our long alumina position.

Base Metals EBIT rose 82 per cent to US\$1.9 billion. We had record copper production during the period with the inclusion of Olympic Dam volumes, and an outstanding performance from Escondida, together with increased sales volumes across all our base metals products. This provided the opportunity to maximise our leverage to the current high price environment.

Increased price link costs and other costs, particularly TCRCs were higher than for the previous period. Operating performance continued to improve at all assets in the second half, which positions us well for the remainder of the financial year.

In carbon steel materials, a 130 per cent increase in underlying EBIT to US\$2.3 billion was driven by higher prices for iron ore, coke and coal and manganese ore, combined with increased sales volumes for iron ore.

Higher royalty costs and increased mining charges at all operations had a significant impact on the result.

Operating costs increased at WA Iron Ore and Queensland Coal, period on period, at approximately 20 per cent and 30 per cent respectively. These cost increases are largely due to the heated market exerting upward influence on input costs, and in particular, contractor margins. A higher usage of contractors for mining activities, and the impact of tie-in activities, however margins generated from this business continued to be excellent.

Diamonds and specialty products underlying EBIT decreased by US\$145 million to US\$261 million, 36 per cent less than the prior period. As we have highlighted previously, we had been mining a very high grade zone at Ekati and this is now complete. So the current period result is reflective of lower grade, and a lower net realised diamond price, combined with higher operating cost per carat. This is expected to continue for the second half of the 2006 financial year. Our previous EBIT guidance for Ekati of US\$200 million for the 2006 financial year remains intact.

The EBIT of our Energy Coal CSG decreased by 31 per cent to US\$205 million. The decrease is largely driven by lower results of Ingwe where export prices decreased over the period, and we continue to incur costs associated with our Ingwe recovery plan. Future periods will benefit from this spend with increased stability and utilisation rates.

We had improved realised prices for export coal sold from our Colombian and Australian operations, where we have a lower leverage to spot prices, as well as an improvement in domestic prices, in aggregate for the CSG this resulted in a negative price impact of US\$17 million. Increased costs for labour and fuel, higher depreciation and amortisation charges of Ingwe, and adverse inflationary and exchange impacts also contributed to the lower result.

Stainless Steel Materials EBIT of US\$374 million represented an increase of 11 per cent over the comparative period, and was largely driven by the additional volumes resulting from the acquisition of Nickel West. Nickel prices were relatively flat, and lower average prices for cobalt plus exchange movements had an adverse impact. Increased costs were a negative and in particular at Yabulu where tie-ins and a number of maintenance activities were occurring.

Group & Unallocated costs increased by US\$39 million due to increased insurance claims which are primarily offset by insurance income in CSG results. Higher employee share awards and corporate project and regulatory compliance costs, WMC integration, and transition expenditures.

Exploration and technology expenditure also increased compared to the prior period due to less sales of junior exploration equity stakes. Before I step through cost impacts in more detail, let me recap on the volumes.

The additional contribution from increased volumes from new and existing businesses amounted to US\$370 million. As always, we adopt a conservative approach of using 2004 rather than 2005 margins when we measure this volume variance, so that it is more reflective of the sustainability of the contribution, rather than the current higher price climate.

We had record production of nickel and copper with the highest ever half year production from Nickel West following our first six months of ownership. As I have already mentioned, we also had strong contribution from our new petroleum developments, and they will continue to ramp up over future periods.

This is not a six month story however, but one of sustained and continued volume increases over a much longer period of time. By nature, capacity increases from major projects are lumpy. In the four and a half years to the end of December 2005, we delivered on average volume increases of around 42 per cent across our major commodities on an annualised basis. And naturally, this is not reflected in this period's volume variance, but our results reflect this growth. We expect similar growth rates over the next five years.

Tuning now to costs. Our underlying EBIT increased by 43 per cent during the period from US\$4.7 billion to a record US\$6.7 billion. While our EBIT margin net of third party trading was 42 per cent, a 14 per cent improvement on the comparative period. This very solid result has been achieved in a period where increased costs are having an impact across all of our businesses. In total, net of the effect of price linked costs, exchange rates and inflation, costs have a net unfavourable variance on EBIT of US\$795 million compared to the December 2004 half. This represents an approximate 8.2 per cent increase on our total cost base.

Moving into the detail of this US\$795 million cost variance, on slide number ten, outlines the major areas of costs calculated on a pre-tax basis. We estimate that only around 30 per cent of these costs are structural changes. Higher costs for fuel, energy and raw materials represent the largest cost increase, but this is no surprise given the prices we are realising for these commodities ourselves on the revenue side. In fact, across the company as a whole, we have a 93 per cent long energy position.

Non cash costs largely represents depreciation and amortisation charges, which are higher due to commissioning of a number of new operations. Contractor charges have increased due to increased contractor rates and usage across our businesses. Running our operations at capacity, or near capacity levels, impacts the spend on maintenance and investment is made here to insure that we can continue at these levels. Now, Ekati diamond mine is the largest component of the mining grade variance, where lower grade-processing lower grade ore has resulted in higher unit costs per carat.

The final result after these increases is that, in what is currently a very tough cost environment, approximately 68 per cent of our increased revenue went straight to our bottom line. Our EBIT margin again improved to 42 per cent.

Now I would like to talk about our progress on the WMC acquisition. The integration of WMC has been successfully completed. The assets and functions have been fully integrated into our structures. We have now fully closed the ex-WMC corporate offices. In excess of 430 people have departed the organisation and we had record production from Nickel West and Southern Cross Fertilisers in our first six months of operation. We have exceeded our synergy target and expect this to further improve and we have done this with a lower than expected integration cost.

The acquisition was focused on the long term value to be won from the tier one ore bodies which exist at Olympic Dam and Nickel West and indications are that these ore bodies are, if anything, better than we ever expected.

Moving now to net finance costs, tax and attributable profit. Our net financing costs increased by US\$23 million to US\$215 million. This was driven by higher average debt levels following the funding of the WMC acquisition, combined with higher average interest rates. The tax charge for the year was US\$1.6 billion, excluding exchange impacts and royalty related charges this represents an underlying effective tax rate, inclusive of taxation of jointly controlled entities, of 27.8 per cent.

Continued progress in the Gulf of Mexico has again enabled us to recognise the benefit of US tax losses of US\$175 million, in line with previous guidance. We would expect this level of loss recoupment to continue for the remainder of the 2006 year. Under IFRS a number of royalty tax payments in our petroleum and diamonds businesses amounting to US\$323 million or US\$227 million net of tax, are now included in our tax expense line and are no longer reported as an operating cost.

Let me just recap. Today we have delivered our fifth consecutive half year of record results. We have achieved record production in four major and two minor commodities. We have completed the integration of the WMC assets into our business. The continuing strength of our cash flows has allowed us to again accelerate returns to shareholders. All in all, another very good half.

With that, I will hand you back to Chip.

Chip Goodyear

Great, thank you Chris. I would like to address three things in the next few minutes. First, the market outlook, and here I will talk about costs and I will talk about our project pipeline. We will then take a look at the outlook, the economic outlook, around the world as we see it. Then, finally, I will give you a brief strategy update, we have updated our strategy slightly and I thought it would be interesting to review that with you.

Moving first to the area of cost pressures. Now cost pressures are not new to you. This is something we have talked about for well over a year and it is not a great surprise. We have been through at least two and a half years now where product prices, our product prices, have risen pretty dramatically and ultimately that is going to flow through and some of the input costs that we have, as well as the competition for some of those resources that make our business work. We are seeing it in capital and operating costs, it is coming in people, it is coming in equipment and it is coming in materials.

Just to give you an example, in the area of earth moving equipment, the prior lead times were in the order of nine to 12 months. Now it is 18 months and for large trucks we have been told by one of our suppliers that unless you are already in the queue, you will not see a new truck until after August 2008.

In the area of drag lines, previous delivery times were 18 to 24 months, now they are over 30 months and I think many of you know that most significant suppliers of that kind of equipment were in bankruptcy at some point in the last five years. In the area of tyres, you have heard a lot about tyres, it has been a topic of discussion, I can at least say you heard it here first. We first saw this when we saw, when we had to order for the Ekati diamond operation, which we had to do in advance because of the ice road there. Two years to 18 months ago we saw the tyre situation coming. But what I would like to mention in tyres is not that the situation is tight. But the fact that a company like ours, because of the global extent of our business, does have very good visibility to what is going on out there, it allows us to plan. Ultimately the need for equipment, the need for people and the need for materials is really all about planning. So we can work with our suppliers to make it happen.

The other element is that if you are not in this business, the difficulty you have in entering the business is quite significant. Now last summer I heard about a company that had ordered new trucks and they were very surprised when they showed up at the mine site with no tyres. For very large trucks, only ten to 15 dot com industry a few years ago, you do not realise that. Therefore, that company had to go back to using their old, inefficient trucks. With the strong relationships we have and the knowledge we have of business, helps us manage some of the risks that are out there.

Let us take a look at what that means to our project pipeline. This is obviously the pipeline you are quite familiar with. Just to review briefly, we completed three projects in the last six months. We added seven projects to our project pipeline, five of those being what we call major projects, with a capital cost of around US\$3 billion and we added three new projects to our pipeline. Again, our pipeline covers projects in execution and feasibility only, it does not include pre-feasibility and concept stage projects.

Those three new projects that we added were the Worsley Efficiency and Growth project, was an efficiency project that Douglas-Middleburg and a new oil field on the west coast of Australia, called Pyrenees which is hundred thousand barrel a day field, which has been added to our pipeline.

As I mentioned earlier, this pipeline is 25 projects, with a total capital cost of US\$14.4 billion. Now despite the cost pressures that I mentioned, these still represent quite good value, but I would mention that we are in this business for the long term, this is a marathon for us not a sprint. We will continue to assess the desire to move projects along this pipeline based on not only market demand that is out there, but also the cost of moving these projects on.

One of the people in our project development area mentioned about three months ago, in a non-auditable fashion, that every project you approve in the Western Australia, you need to add 10 per cent to every other project you have in Western Australia. That is how tight the situation is. There is no excess capacity and in environments like that, we have to ask ourselves, when do we progress things along that pipeline? But we do that on the basis that it is a long term decision, not a short term decision about next month's production.

What are we doing about managing costs? Many of these things you would have heard before. First of all, it is around business excellence and making sure that we use our Six Sigma process to identify efficiencies all across that business. Now we have talked to you about that for quite some time and in the presentation area where you are today, you will see some of those items, a recent update.

Then the next area is strategic relationships. I think many of you are aware that we have strategic relationships with our suppliers that gives us the opportunity to plan and have preference with regard to access to equipment and access to supplies. In the third area that Chris mentioned and quite importantly, is we build, try to build, around variable cost structures. Chris mentioned that we believe those cost increases that we see, approximately 70 per cent of that is costs that we expect to be able to work out of the system if and when we see prices moderate. It won't come out immediately, but it is a way that we design our cost structures in order to be flexible for different environments in which we operate.

Now from a cost point of view, certainly there is two ways to look at it. The bad news is costs are going up. The good news is costs are going up. Now what do I mean by that? In an environment where a company like ours has significant resource and significant production currently, the fact that the supply side is being delayed is actually having an impact on price and a positive impact on price. So a company like ours with production and the ability to bring on brownfield opportunities, and to do that efficiently and be able to reach our agreement with our suppliers on our preferential basis, that gives us an opportunity to outperform.

But it also illustrates that the supply side delay will prolong the current environment that we are in. Now we mentioned this a year ago and what you have seen is essentially what we expected at that time. So again, good news and bad news come in costs. We try to manage costs in a very proactive way, but it does have an impact on the ultimate product price.

Now moving to that, the strong demand environment is obviously what is driving the product prices that we see today. The next slide illustrates a ten year demand picture for the Chinese market in the area of copper, which is up in the upper left hand side, nickel in the upper right hand side, aluminium in the lower left hand side and then iron ore in the lower right hand side. I am not going to go through each of those. I think it is pretty clear that we are not seeing a demand slow down in China in terms of commodity demand.

The only thing I would point out here is what I see as the law of large numbers. If you take a look at the aluminium business, ten years ago when production was about, demand was about two million tonnes a year, a 10 per cent increase in demand was 200,000 tonnes. If you look today with seven million tonnes of demand, it takes a much smaller growth rate to have a similar impact on overall quantities. So even if you saw a 5 per cent growth rate in aluminium demand, that is 350,000 additional annual tonnes of aluminium. It is not a prediction of growth but as that baseline increases, the amount of capacity that must be added to this marketplace is quite significant.

Now moving on to the discussion of marketplace and what we see in the global economy. China is a critical engine for global growth. GDP in China last year grew at about a 10 per cent rate. But I think many of you are aware that China revised its GDP growth rates for the last 13 years or so. That was based on a census standard took in 2004.

Now although we all knew that the number was probably somewhat lower than the actual GDP growth rate, one of the most interesting things that came from that study is the balance between industrial growth and the service economy. The change was in the service side of the economy. One of the criticisms of China growth in the last several years is that it has been balanced to the industrial side, perhaps overweighted to the industrial side. These new numbers show a much stronger balance between the industrial economy and the service economy, not unlike other North Asian economies during their periods of rapid expansion. What this indicates is more sustainability to the Chinese growth story.

Now we would expect that the commodity demand will continue to grow, we illustrated that in the prior slide. But I would also say that you are going to see the government continue to use macro policy adjustments in certain areas of the economy. We have seen that in aluminium, we have seen it in cement, we have seen it in the property market, and in steel. We would also see that there is going to be an expansion of some of those things. Our belief is we will see it expand into the area of coke, power and the copper business, particularly the copper smelter business.

Having said that, we expect GDP to grow by about 9 per cent in the upcoming year, or this year 2006. I think one very encouraging thing is despite these macro-economic adjustments the Government has made there, growth continues.

You can see on our slide, the slide there that the bar chart illustrates our sales to China, since fiscal year 2002. Fiscal year 2002, \$371 million in the last six months ended December, it reached almost US\$3 billion. Obviously a very significant growth rate.

Now the industrialisation and urbanisation story we believe in China is very much intact, and as a result, we would expect to see 8 per cent growth in China for the foreseeable future. I would caution though that there will be bumps and bruises along the way, and the critical thing for us and others in our industry is that we create cost structures, and we have the asset base that allows us to sustain through those little bumps and bruises. Obviously in a long term, very exciting environment in China.

Moving on now to the United States, the United States did see a slow down in the fourth quarter of 2005, that is a result of the energy price increases, as well as the hurricanes that took place in the Gulf of Mexico. But since that time we have seen employment growth, we have seen export growth, durable goods orders were up, consumer confidence continues to rise, capacity utilisation has increased, and overall the economic policy is quite supportive of growth. We expect the US economic growth in 2006 to be in the order of 3.25 per cent to 3.5 per cent.

Now the surprise for 2005 was Japan. Last year we told you that we expected Japan to grow in the order of about 1 per cent for the year 2005, when in fact growth turned out to be in the order of about 2.5 per cent for the year. Industrial production rose at a 5 per cent rate over that period. We continue to see employment growth and an improving investment picture in Japan, and as a result we look this year for about a 2 per cent growth in Japan. If that was the case, it would be the third consecutive year that growth in Japan has been at 2 per cent or greater. And if that occurs, it will be the first time since the early 1990s.

Moving on to Europe, we have seen a rise in confidence in Europe, both business and consumer confidence. If that is the case, and if it carries through to added employment and added growth in Europe, we would expect a reasonable year there. That is a function of the global economy and the demand in the global economy, as well as the weaker Euro which is improving the export picture for the Euro zone. Our expectation here, and consensus estimates put growth at somewhat less than 2 per cent, or just a little bit less than 2 per cent.

Having said that, the global economy is not without its risks, but overall we see a good global growth for 2006, and we see raw material demand continuing to be quite strong.

Moving to the next slide, really a synopsis of what I have said. Demand does remain strong. We have a positive outlook as we go forward. The supply side is being constrained for a variety of factors. Projects are being prioritised, they are being phased, and some projects are being delayed, and that is across the industry. I know more of those announcements were made in the last few days by others. We have seen relatively high prices, certainly in nominal terms, and having said that, cash flow in the Company remains quite strong.

As a result, the Board has chosen to take some of that extra cash flow and return it to shareholders in a couple of different ways. The next slides detail a couple of those things. Probably the most significant move is the increase in the interim dividend. That is up 3 cents from where it was at the final dividend of 2005. It is up 4 cents, or 30 per cent from where it was a year ago. It is up 120 per cent from where it was two years ago.

Now as we have said, our dividend is not based on our performance this quarter, or this half, it is based on how we expect the global outlook to be in the years ahead, and what the profitability and cash flow picture looks like for this company. I think you should look at this as a strong sign for I believe that the outlook is indeed quite good for all of those financial metrics for BHP Billiton.

It is from this level that we will continue our progressive dividend policy. Again decisions on that will be based very much on future investment opportunity as well as market conditions.

The next area is the capital return, US\$2 billion. That will take the form of share buy backs. We will begin the first phase of that immediately, with an A\$1.5 billion off-market buy back. In the limited security, we would expect the balance of the funds to be used in an on-market program, and it is most likely that will occur in the PLC security. These will be completed over 18 months, but as I mentioned, we will begin the off-market right away with the on-market to follow.

Again this does not change our priorities for cash flow. We continue to invest strongly in our business and find the optimum opportunity to reinvest in that business. We keep our capital structure in line, and we have done that over the years, and when we do have extra cash flow, we have committed as we have done in the past, to return it to shareholders.

Now before I finish I said I wanted to make a few comments about strategy. The strategy we have been working to is the one that we instituted at the time of the BHP Billiton merger, that has been about five years. At that time the strategy very much focussed on efficiency and execution of our projects, and obviously sharing knowledge across the wider expanse of the company.

Now these initiatives and priorities remain, but obviously the world has moved into certain areas and expanded quite significantly in terms of the demand side over that period of time. It is an obligation for a company like ours to make sure that our strategy is reflective of some of these changes that have taken place.

So as a result we have had a chance to adjust this strategy slightly. If I move to that slide, you will see there, up in the upper left hand corner what we call our purpose, or our core purpose. This is captured in our charter, and just to remind you of what that is, is to create long term value through the discovery, development, and conversion of natural resources, and the provision of innovative customer and market focussed solutions.

There are four critical things in this statement, again this has not changed over the last five years. It is about long term value, it is about the upstream side of the resource business. It is about innovation, and it is about the customer.

Now if I go to the pyramid, many of you have seen this before, at least in a similar form. We can be a very complicated company, but we can also be quite simple and this pyramid is meant to illustrate that. It is a way that we can communicate not only externally, but also internally how this Company expects to prosecute that core purpose.

We begin with a foundation, and that is how you should look at this. It is a foundation built on people. Many of you think about this company by its great physical assets. The Escondidas, the Bass Straits, the North West Shelf, the Iron Ore operations, et cetera. And that is true, but it takes people to find these resources, develop these resources, produce them, and ultimately deliver them to the customer. People are a critical part of any corporation, and that is very much true with BHP Billiton.

The next one is the 'Licence to Operate'. We do have an impact on the communities and the environment in which we operate, and we need to make sure that communities benefit from our presence. That is what we call our Licence to Operate. It is about safety, partnerships, win/win relationships, and that is the next critical layer of our pyramid.

World class assets. As I have said, they are fantastic assets, but we need to take care of them. They produce the cash flow that pay our employees, our suppliers, our taxes and our financial partners in this process. We need to make sure that we are being efficient in what we do here, that we benchmark and look for a continuous and progressive improvement in the way that we operate these businesses.

The 'BHP Billiton Way' is around value added processes that go across all the things that we do. This involves our customer-centric marketing, our investment approval process, our people pillar and the areas of health, safety, environment and community process.

The next one is 'Financial Strength and Discipline'. Solid, single A credit, our portfolio model; these are critical items that we build into this. In addition, how we efficiently use our cash to reinvest as well as return it to shareholders where appropriate.

The project pipeline is about the identification, prioritisation and execution of the projects which we progress and doing that on time and on budget.

In growth options it is about exploration, technology, and our global footprint to identify the next generation of investment opportunities that will continue to lead BHP Billiton to the next level of performance.

In summary, simply going over what we have said, this is the fifth consecutive six month period of record results. We have seen margins continue to expand; about 68 per cent of our price has made it to the EBIT line. The WMC integration has gone extremely well and we have identified savings that are 50 per cent higher than we expected at the time of the acquisition.

We continue to execute and invest in our project pipeline and replenish that pipeline as time has gone on. The interim dividends are up 30 per cent from where it was a year ago and is very consistent with our overall use of cash and an indication of our view of the outlook and ultimately the earnings and cash flow performance in the years ahead for this company.

In addition, a US\$2 billion capital return program in the form of a share buy back which begins right away and overall an outlook for the year ahead which continues to look positive.

With that I will open it up for questions.

Question

Just a question around your comments on new projects in WA. From what you were saying are we to take it that you are less focussed on putting new projects into the pipeline now? Does that marry in with your slight change in strategy and your bigger dividend payouts as well? Basically, is that your slight change in strategy you were talking about.

Chip Goodyear

Firstly, the slight change in strategy is really recognising the issues around our 'License to Operate' and the 'BHP Billiton Way' and then specifically identifying 'Growth Options' to expand into the area of exploration and technology. So there is not a change in any way in terms of the long term nature of the business or the prioritisation of cash flow.

It is a long term business and it is not about next year's production. We have to think about what happens in the years ahead. Ultimately price will come back into line at some point in time and will we be happy with the capital investments made in the period of a heated market.

I would not look for a major change here. Again, we have approved seven major projects (five major projects and two smaller projects), but I think we have to recognise that it is not necessary that we do them all today. We need to make sure we balance what is the marketplace for the product as well as what is the cost to bring that project on line. Now in terms of the dividend in the capital management program, that is simply a function of the cash availability in the Company and our ability to put it to work in a prudent way.

Question

You have mentioned that costs in your iron ore business were up 20 per cent and 30 per cent for coal. Can you give us some sort of idea about what we may expect in unit costs over the next couple of years given that you have quite an aggressive build up in your iron ore volume growth?

Chip Goodyear

I will have Bob answer that question, but let me just make a couple of comments. You are seeing cost pressures and I think as Chris mentioned, you are seeing those in some of the areas of contractors and some of the input costs that we have. There is no doubt that in an environment where we are today, where the margins are quite strong in the business, that when you have a high price, even if it comes at a little bit more cost (such as using a contractor more than your own workforce), it is a good investment decision. But the key is that you do not hard bake or make them structural changes.

It is always a trade-off. If costs go up, that is something we have to worry about, but this is ultimately a business about that margin, and about generating that positive margin. So again you never like to see costs go up, but when you have margins that potentially can be \$60 a tonne of coal, even if the costs were up a little bit, it sure is hard to turn that down. Again, this is assuming you can manage those costs out.

But Bob, maybe I will turn it over to you and see if you have some comments.

Bob Kirkby, Group President Carbon Steel Materials

Thanks Chip. The major increases have been in the use and the rates of contractors, in both iron ore and coal. In addition, in iron ore Henry and Walker Eltin has been taken over by Leightons. During that process we did renegotiate some of the rates, but they have been set and now we will just have the normal rise and fall that we see going forward.

The increased use of contractors is likely to continue while demand is strong and while we are ramping up. The off-set to all this of course is you do get economies of scale on some of your fixed costs and as we ramp up we would expect to see that continue. The other issue in Western Australia is that Goldsworthy is one of our higher cost operations and of course we are looking at some sort of suspension of Goldsworthy as we go through our construction program.

In Queensland, the issue is that we are using more and more truck and shovel activity to supplement our drag lines (to help us ramp up) and truck and shovel costs of course are more than the drag line activity. So it is the same sort of issues; increased use of contractors. The rates are up in Queensland. The mix of our earth moving is more expensive at the moment, and then as the volumes rise we will see more levelling off of our fixed costs.

But it boils down to what Chip said. We keep an eye on this very, very closely and while the margins can be sustained by this type of activity, we will make these decisions.

There are other cost increases of course, fuel has gone up as we know, and explosives are up in Australia. There is a very tight supply of explosives; we expect that to continue for at least 12 to 18 months when new capacity will come on and when we will see the less need to have to import explosives, which is expensive.

Question

With regard to Base Metals, which was a fantastic, very strong result, in view of Chris' comments regarding the Unallocated Group costs, there is some favourable movement there with regard to insurance. I was wondering if there were any insurance payments made into the copper division either as a result of Cerro Colorado (the delays because the earthquake impact), or possibly the civil disruption back in Tintaya, or perhaps Escondida?

And secondly, the Iron Ore group is targeting quite an aggressive fourth quarter production in light of your comments to analysts in the last six month that you are more targeting sales of around about 110 on the rate of production and sales through 06/07?

Chip Goodyear

I will get Chris Lynch to comment on whether there are any particular insurance issues in the Base Metals number and then Bob, maybe you could comment on the question about the 29 million tonne expectation, or target aspiration in the Iron Ore business in Western Australia?

Chris Lynch

The businesses have an arrangement with the Corporate Centre where we self-insure, we will have a deductible in the business and the business is on the hook for up to that amount of money. Beyond that the self-insurance kicks in and we wear that at the Centre and that is the way that would go.

So I do not see any major issue in there for insurance related matters but your point is valid with regard to Cerro Colorado and that has been running sub-optimally since the earthquake there, which compressed the leach pads.

So that underlines even further the excellent performance at Escondida because it is more than offset for that volume and the other mention of Tintaya.

So the overall volumes there were very strong, headlined by a great performance at Escondida. The short answer to your question is really nothing of any significance to come from the insurance back to base metals.

Bob Kirkby

Twenty-nine million tonnes for the fourth quarter remains at target. We have had some wet weather and of course we had two cyclones in Western Australia in this quarter, but we are getting new equipment. Our bottlenecks are well identified by the team over there and we are getting new rail equipment primarily. We have put more people in the bottleneck areas to assist us, so as far as I can see, things are on track to achieve that in the fourth quarter.

Question

In relation to the Base Metals business, just trying to get a feel for the impact of provisional pricing of the accounts for this period.

And the second question is the EBIT you have generated from your third quarter Aluminium and Energy businesses is significantly higher on similar revenue bases. Could we have an explanation for that? I am also interested in the risk profile that one takes to generate that sort of profit internally and the sustainability of those profits.

Chip Goodyear

I might just pass over to Chris Lynch for a response.

Chris Lynch

The change we made to provisional pricing was at the end of last year, where we took the basis of valuing open positions at the lower of the forward curve or the current spot. And that has continued. That is our policy and that has continued as the basis of that valuation.

Elsewhere the prices for the other base metals commodities have all been quite strong. I think generally across the patch, the lesser commodities, other than copper, have all been pretty robust.

Question

Firstly, if I could direct a question regarding Goldsworthy. A suspension in the operation has been mentioned and I was wondering if you could explain that further. Secondly on iron ore, regarding the operating rate in the fourth quarter; what does that mean for the operating rate for 2007 fiscal year for BHP Billiton?

Also, Chris Lynch talked about the structural cost issue and it is fascinating because nobody's really into that much detail, so thank you.

You estimated about 30 per cent of costs are structural, but I am sure that is a fairly generic number. What does that mean, and have you plugged that into your long term equations for prices? If there is that

structural move in the curve, is that reason to assume that curves across all of your commodities are moving up because of that? Your long term prices, I should say.

Chip Goodyear

I will answer your question about what does that mean for long term prices. And then Bob, perhaps you can answer Peter's two questions on iron ore.

In terms of our expectation for future prices, we have not made any adjustment to copper, alumina, nickel; basically we have kept the trade commodities at a similar level. Copper is undergoing a pretty significant study at the moment, to see what all that means. We are obviously seeing some pretty strong demand.

I had a visit with some of our customers in China last week and I was commenting on the copper price and how we are seeing activity by hedge funds and other financial players that seem to be driving that price to a significant level. I expected the individual I was talking with to say 'yes, we are seeing a copper price that seems to be above a long term sustainable level'. But he did not say that; he said 'yes, but the demand is there', which I thought was a very interesting comment. But again, that is coming from someone who uses copper.

So we are looking very closely at copper. In general, we have not made adjustments to the traded commodities. We have made some adjustments to iron ore and coke and coal prices. And we have adjusted petroleum somewhat. But none of that comes close to the spot market kind of prices that you see now.

We have essentially maintained our long term real decline at some level. But there is no doubt there is cost pressure in the business and it is, at some point, going to flow through in terms of overall pricing.

Question

Is it your sense as the CEO of the largest company in the world in mining that the pressures you are facing are similar to those being faced across the board? Given your Six Sigma programs and others, are you doing better than the rest so should we expect the structural component is actually higher elsewhere?

Chip Goodyear

I would say that we do focus on that a great deal. I think one of the things that you will see, particularly as Bob has described in his business, we have used contractors. This does give us flexibility around that. But I also think you have to look regionally.

Australia is probably the hottest market, Latin America less so. I would say Africa, at this point, is probably less so also. So it is not equal across the world, and I am not sure it is equal by company. I would also say that I think there is a size issue. For companies like ours, and we are not the only one obviously, that have been in business for a long time, that can give people an identifiable career that will last essentially their entire working life. We can do that.

We are able to attract solid people who value that. Entrepreneurs who are out for the next buck are going to go to smaller companies that need to pay premium price, because there is not that stability. I think that those people are going to have higher costs. And I think you have seen some of that in the announcements that have come out recently in the industry, by people trying to start up new operations.

Okay Bob, the question on Goldsworthy and what the suspension means, and then an estimate or thoughts around 2007.

Bob Kirkby

With the guidance we have given, we expect output through the system in 2007 of about 107 million, 108 million tonnes; and we advised that some time ago. That has not changed.

That is down from the rate of course in the fourth quarter of this year and it is down because of tie-in activity and the suspension of Goldsworthy, for which the final date is still to be sorted out but it will be in the second half of this calendar year. That is also to allow more efficient tie-in activity.

Goldsworthy is 40 years old. The costs of production are high there. We have been exploring there for a long period of time. We are suspending operations while we go through the construction activity. But we are continuing to look for additional resources in the Goldsworthy area.

Question

You commented that Olympic Dam integration is going pretty well. Can you update us on the expansion study that is underway and any further progress in relation to timing, capital cost estimates, etcetera. Also, on the fertiliser business, do you have any additional comments on the future of that business or a possible exit?

Chip Goodyear

With regard to Olympic Dam, it is premature to make any additional comment on the expansion activity, other than to say there is a great deal of effort going into that. Drilling continues. I think we have got 17 or 18 rigs working there and are continuing to get very good results from that. I probably cannot give you any exact details, but we continue to be able to move in a variety of directions with regard to that ore body.

But there is going to be significant costs to this study; we are seeing those costs come through. As we mentioned earlier, the pre-feasibility study is probably going to take a couple of years. Then we will go into a feasibility study, which is going to be a year or two. So at this point, it is a little bit early to talk about that, but we are seeing activity physically, and you will see activity financially in the results for the copper business.

In relation to the fertiliser business, we have received indications of interest. It is a good business and it works well for certain players in that business, but it is not a business or an asset that is consistent with BHP Billiton's overall skill set; certainly in terms of the size and scale of that business in a global context.

So as a result, we would look for opportunities if we can find fair value with regard to exiting that business. Having said that, we have had record production there so we are certainly able to run that business. It will just simply be a question of whether we can identify value added opportunities to move that business along.

Question

The Chinese government tabled its latest five year plan late last year and it has substantial changes in direction in terms of going to more a higher value-added manufacturing base, and a more services component.

Given your focus on China, what will that mean for the business?

Also, what are the key risk factors in your business that you see in this current environment?

Chip Goodyear

With regard to the Chinese government program and the next five year plan I think you could almost look at that as our next 40 year plan.

The Chinese Academy of Sciences had a report recently in which they talked about China in 2050 and it is very consistent with that. They see an information-based economy. They obviously see themselves in a very strong leadership position in the global economy. This five year plan is reflective of moving in that direction. It is also one that is not just around information and so on.

The key driver is 10-15 million people a year moving to an urban economy. When that happens you obviously have all the infrastructure necessary to support that which involves steel, copper, aluminium and energy.

We see that as a strong driver and moving to an economy where people have a higher standard of living. Improving GDP consumes a large amount of raw materials, particularly in the stage of growth China is in. Up to about US\$8-10,000 real GDP per capita and they are about \$1,500.

So I see that as a very positive sign for the fundamental drivers to our business. What can be the things that side-track or that throw this off? I think that there are a number of things that can always throw us off. It is going to be things like bird flu. Bird flu could have a significant impact in Asia and it will probably have a significant impact around the world. If you step into some other issues, the global geopolitical

picture is an uncertain place. We read about Iran every day, we read about the Middle East, there is no shortage of issues that can come up for the global geopolitical system. I would say in our business the issues are going to be around the ability to continue to manage the costs, or the availability of people, the availability of supplies to make our business work. I would also say that it is going to be around the ability to continue to work at 100 per cent or 110 per cent of capacity.

We are essentially flat out in everything we do – I am trying to think if there is any business that we are not, I cannot think of one. There may be an asset somewhere but I sure cannot think of it and I do not think any of our competitors are either, and when that happens there is no ability to make up for a shortfall. I know you have read about the ship loaders at Hay Point, there is no ability to make up for that. We moved capacity, we were able to do some of that but when you have something happen there is no ability to manage that so that is the risk in our business and people have been working pretty hard and fast at this stuff for some time now. So that is where I really see the risk in our business but listen there is a lot of things that could have an impact. The key for us is obviously a large, low cost, long reserve life asset base that can survive through the inevitable tough times that come along so we can be there for the good times, which as we said we are quite excited about.

Question

Chip I just wanted to understand a little bit of the company's view. Firstly just looking at commodities and obviously we have heard about costs, we have heard about supply issues, could you just sort of run through how the company sees the commodity cycle? Twelve months ago you said copper could be back in balance and I realise last year a lot of supply issues probably delayed that. Could you sort of run through your views on the commodities – how that may play out? Which ones may be more at risk of coming back to balance sooner? Secondly I would assume some of your peers – and we saw Rio a couple of weeks ago announce a joint venture with Norilsk. Just wondering what BHP's view is on looking into these more riskier areas? Did you talk to Norilsk and I understand after having sold Tethyan Copper that you have actually gone back into the Congo now. So just wanting to understand the risks you are prepared to take – and I understand that is probably necessary given all the easy deposits are found in the developed world. And a third question, a sensitive one and if you can not answer it I understand – just on the Cole inquiry if you have got any comments for us thanks?

Chip Goodyear

Let us see you have covered a lot there and let us see we only have 15 minutes so I am going to make it relatively brief. On the commodities themselves, if I hit it quickly alumina continues to be in tight supply, aluminium I think it is quite interesting to see what is happening in China. I mentioned that they have restricted some of their capacity there. Power prices are rising all over the world and that is having impact there. I think aluminium looks like a reasonable future – I am thinking here in your 12-month period, I think that is what you are asking about. Base metals – you are right I mean copper we thought a year ago would come into balance, we obviously missed that. Supply-side delay has certainly been there. At this point in time again in my little comment about my story, my visit last week, I do think there are financial players that are pushing that price above what a fundamental price will be.

Having said that, there is good demand out there so stay tuned on that one. Just going through the products I think iron ore again, we continue to see a very strong demand for iron ore. Spot prices come back a little bit in China but it is still significantly above our contract price so again time will tell there but demand continues to look quite good. Coking coal is probably a little bit softer. Hard coking coal continues to be in very good demand. The weaker coals are going to be under more pressure but overall I think the hard coking coals you have seen some comments I think about where the relative position of those products are but there is a little bit of pressure there. Manganese ore, manganese alloy – that has come off from where it was certainly a year ago and certainly probably six months ago. So I am not sure we are going to see a lot of change there. I think things will probably stabilise in that business. Diamonds always looks good, titanium is looking okay in fact that is looking pretty good overall.

Energy Coal, stock prices have come up recently and no doubt the energy complex continues to be upside pressure as a result of high petroleum prices, high natural gas prices so I think there is at least some stability happening in the energy coal business and again price has come up. Nickel I think again stainless steel demand you have seen prices are starting to rise in the stainless product. I think that

provides an underpin for nickel, you have seen that come up recently. You have also seen that the substitution that is going on in nickel I think we feel is pretty much over. There is a quality issue when you start using manganese and I think customers started to realise there is an impact of doing that and oil, listen oil is going to be what it is. OPEC sets that price at least indirectly and there is no doubt that energy demand around the world is strong so I think again US\$60 is probably a price that is on the high side. But at the same time global shock can happen at any moment and that can push the prices into some higher levels. So I hit that pretty quickly.

I think you had a couple more things there but you asked about the Cole inquiry in the Royal Commission. Listen we have said what we can say about that. A company like ours – any company, any individual never likes to see stories like that about your organisation but having said that I think we have approached this in a way very consistent with our charter which is about openness and transparency, respect and so on. We are talking about something that began four CEOs ago at this company and there are many things I am sure that as we investigate and ultimately assess and report, that I am sure you will find interesting when we are in a position to be able to do that. But where you ought to be judging us and where we expect to be judged is how this management team and this board reacts to this situation and I think what we have said is we will investigate it, we will study that and assess the situation and we will report in an open and honest way. And my communication back from those that I have talked to – customers, others in the industry, government people has been exactly right and that is 'You guys are doing exactly what you should do here. Nobody likes this situation but you have handled it in an open and honest way, very consistent with your charter and that is what we expect from an organisation with the size, scale, reputation and impact of BHP Billiton.'

So again cannot provide more but when we can I can assure you it will be a very transparent review of the entire situation.

Bob Kirkby

It is Bob here Chip – there was also about our attitude to moving into riskier areas.

Chip Goodyear

Oh yeah sorry about that. Listen I would say that this company has been more open to moving into riskier areas than many of our competitors and where we can say that 85 to 90 per cent of our EBIT comes from strong Single A countries or better. We still operate in Colombia, Pakistan, Algeria and Mozambique and have some spectacular operations there. So we have a great what I call anchor to windward where we have strong cash flow but we know how to operate in challenging environments and we have done so in a very successful way so that is going to be the future of the resource area. We have a demonstrated track record in doing that so I can expect that we will continue to identify and move into areas. I think that is the way of the world and we will certainly be there. Having said that, given the lead time for projects and giving all the things that have to be managed there, you are not going to see a significant shift in I would say the source of EBIT, the absolute source of EBIT in the next several years. But we certainly recognise and have the skill to make investments work in what many consider to be challenging environments.

Question

Chip, a couple of questions just firstly with Ingwe. Just wondering what is your expectation in terms of how long it is going to take to turnaround the operations there? Are we looking at a year, two years some sort of timeframe like that? Second question in terms of some of the smaller assets there has been some press around Tintaya just wondering if you can comment on that whether it is up for sale and when that might be completed? And then finally on your capex scheduling – do you see any projects within the portfolio of growth there that have potential to slip significantly given your comments earlier?

Chip Goodyear

Bob, I might get you to just comment on Ingwe, I will talk about Tintaya and I will talk about capex so let me do those first and then we will move onto Bob on Ingwe. On Tintaya it has been reported that we have received some indications of interest here. Tintaya we think is a good asset. It has expansion opportunities which we have been assessing but in the BHP Billiton family it is competing pretty strongly with some very interesting projects around the world. Obviously Escondida and its continued growth and

expansion, the Olympic Dam situation you are quite well aware of and then Resolution another quite impressive project that we continue to look at.

So as a result for us to be able to be the ideal owners of Tintaya, I think is in question within our portfolio and they are as a result – the indications of interest we have entertained discussions with those parties and we will see how that comes out. If we can find a valuer, a creative opportunity fine, if we cannot we are happy to continue to work on that asset. There is not a timetable on this thing so we will see how that develops over time.

On the capex side I would say there is nothing in particular that I would say, that is, we would move out or that we are planning to move out or whatever. I think it is just meant to illustrate that we are not afraid of doing that if indeed that is the right decision to do. We have the capital, there is no doubt we can execute the projects. We just have to and we obviously have plenty of capacity at this point and those projects are available, it is just simply to say we need to make sure we look at that. When you are in a hot market the fever to continue to invest is there but again we are in the business for a long term and many of those projects we do have flexibility on execution and therefore ultimate economic outcome is not only the price to product, it is the cost of the investment. And so I think it simply should be interpreted as a prudent assessment of a long term investment opportunity within the company. So there is nothing in particular, it is just something that I think you as investors ought to look at and say 'That makes a lot of sense'. Obviously I think that. Next Ingwe – Ingwe has been a challenge. It is a project, it is an asset that is requiring substantial effort to move into a new production scheme, a new environment. Bob has recently taken over the oversight of Energy Coal and has recently visited Ingwe so I will ask Bob to make a few comments. I think at this time it is important to note that it is relatively new in Bob's portfolio so Bob if you have a few comments there, I am sure Craig would be interested.

Bob Kirkby

Yes Chip. Craig I have just become involved in this as Chip said and I liken it to a bit like a mid-life crisis what is going on over there. The Douglas Mine is 50 years old, the Optimum Mine is nearly 40 years old, the Middleburg Mine is younger than that but it is quite aged as well. And these assets have been run well for a long period of time and they have established a certain culture and a certain way of doing things and they have certain facilities that have been set up in the past. What we are about is trying to set them up and the team over there about set them up for the future. There are some things which we can do quickly and we do have an efficiency drive right on at the moment and many of those short term activities are due for completion at the end of this financial year and from what I can see the bulk of those will be in place. They are changes to practices, they are changes to the organisational structure, there is quite a reduction in people, there is closure of some of the processing plants and so on. But this is not going to be the end of it.

For instance we have just talked about bringing this Douglas-Middleburg optimisation project in defeasibility studies. That is a continuing look at the rationalisation of the physical assets and then underlying that the organisation and cost structure so I expect this to be a lumpy journey. We will have some quick wins, stabilise the situation at the end of this year but there are further things to be done and that is going to be ongoing over the next couple of years.

Question

Chip, following on Tintaya, where does Cerro Colorado and Antamina fit? And secondly a question on Russia, where are you placed in regards to Russia?

Chip Goodyear: Yes, Antamina is a great asset. We continue to see good opportunity in Antamina and we would expect to keep that in our family and our portfolio for foreseeable future, no change there. With regard to Cerro Colorado, it is a smaller asset but there is some technology opportunities that we have that may make that significantly more valuable and as a result it is not an appropriate time to move forward on Cerro. And then with regard to Russia we have been doing business in Russia for some time, we move product into Russia, we also source product from Russia for some of our customers around the world. We have been looking at a variety of opportunities there. It is a lot of real estate as you know but it is a place that you need to learn your way into Russia. I would expect that we will have the opportunity to do in some point in the next I would say foreseeable future. But at the same time we will – when I say learn our way in, getting what I would say is a bite size opportunity to invest there. And to be more than

just a supplier or a customer there, be actually someone who can put some investment there but again I would expect that to occur on a modest basis as we move forward.

But it is a big piece of real estate and in a world where demand is growing significantly you at least have to have your nose in that situation. Okay, well thank you very much for your time, we appreciate it. It has been a very solid, very successful half year for BHP Billiton. Record results financially, we have seen very good progress in our project pipeline, we have seen good progress for WMC. We continue to see the majority of price fall to the bottom line and I think most importantly we have not only executed all those operating elements of our strategy well in the financial elements of our strategy well, but continued on as we have in the past to make sure when we do have excess cash flow we are returning that to our investors. I think if you look at the dividend that is the major part of that. That is an ongoing commitment that goes essentially in perpetuity and continues from this point with our progressive policy and then we supplement that as we have in the past with the share repurchase program both off market and in this case our on market programs. So again thanks for your time.

- ends -

UK and SA Question and Answers

Question

Just a quick question on your project pipeline. I think Mike has probably previously indicated that for every bubble on your chart, there are probably two more bubbles that are in early stage or pre-feasibility. Is that still the case? Just thinking about exploration, are you changing how you do your exploration and where you do your exploration to make sure that this pipeline of projects stays full?

Chip Goodyear

First of all, in terms of what is behind us, what is in the pre-feasibility and what is in the concept stage, I think Mike's comments are entirely appropriate. Not a big surprise: you should always have lots of ideas, and some of them make it to this pipeline and some of them obviously do not, so I would say that if you look behind us, you would probably find at least two times the number of projects there. But, as we always have said, this is about long-term shareholder return; it is not about a race to see who can get to the finish line first.

In terms of what we are doing in exploration, the focus continues to be one that we have had for some time. Through cycles you do see a change. When there is no capital in the industry to fund juniors, we can provide a role in that and support juniors. When the juniors are fully cashed up, they can actually support some of the things that we do. We try to create a relative balance and stability in our spending in exploration because it is a long-term proposition. It is not about, even if you found something today, a new thing today, it is probably eight to ten years before you see that in production.

We are going to new parts of the world. We are ending up in places that perhaps are more challenging than others in the past: those would be sub-Saharan Africa, parts of Latin America, certainly we look at various opportunities in Russia, but that is the nature of the business. You are not going to find large, low-cost, long reserve life assets in the United States and in Western Europe; you simply have to go there. The company's track record there is outstanding.

We have 85-90 per cent of our cash flow coming from single-A-rated countries or better, yet we have some outstanding operations in Colombia, Pakistan, Algeria and Mozambique, and the company has the capability on the ground to execute projects. We have the capability to understand country risk on a specific basis, but we have the financial capability to absorb that risk on an overall basis. So, I think you will expect to see us continue to do that and find opportunities where they exist, and the company has the capacity to do so.

Question

You mentioned earlier that 30 per cent of your costs, or operating cost increases, are now structural. I'm just wondering whether you have done a similar analysis on capital costs and whether you are seeing a structural increase there. Is that affecting your capital allocation process and, in particular, is that driving up your long-term price assumptions? Secondly, on a couple of operational questions, you have talked historically about a surcharge for alumina to pass through the high caustic side of prices. Is that still something you are looking to pursue? Also, can you update us where Atlantis is currently sitting and the progress.

Chip Goodyear

I could pass the structural question to just about anybody, but let me try to do that. Then I will ask Mike and Marius to answer your question about caustic and so on, and then we will move to Phil to talk about Atlantis.

In terms of structural cost increases on capital projects, there are certain things that are non-structural – in other words, contractor costs, some of the input costs around steel, and so on. Although we probably have not looked at it in quite the same detail, there is quite a bit of that that we consider to be non-structural, but, once you build it, you own it. In other words, you then have to depreciate that cost base. So, when I say we have to look at what is the right time to execute something, we have to think about the fact that we will live with that cost structure – that capital cost structure – essentially for the life of that project. But, if we did see prices come down, we would expect the cost to implement that to fall.

Mike and Marius, I will let you all answer the question about surcharges in aluminium, and so on, and alumina.

Marius Kloppers, Group President, Non-Ferrous Materials

I will answer the question about alumina. We have agitated for a long time that the pricing paradigm for alumina has got to change, so that is a message that we have been carrying consistently for the last five years. The increase in capital cost and operating cost has really made that even more rational at the moment. We are glad to see that the major player in the market has actually reported that it started seeing the long-term prices for alumina shift. The shifts that we see in longer-term contracts are approximately of the same order of magnitude, but we believe that alumina, if you look at the forward curve, is very, very steeply backward-dated, and we still believe that the forward alumina is mis-priced from where it actually should be priced, so we look forward to continuing to stand on the same soapbox we have stood on.

Phil Aiken, Group President, Energy

Very quickly, as you are aware, Atlantis has been delayed because of the hurricanes in the Gulf of Mexico, and there is a particular very important bit of kit called the Balder, which is a heavy-lift vessel, which is currently working on Thunder Horse, and when it completes on Thunder Horse, it will go over and work on Atlantis. We are keeping an eye on the schedule. At the moment, BP, the operator, has come out and said they expect it to be in the fourth quarter of 2006; that really depends on when the Balder is released, and it also depends on the normal hurricane season. So, we are a little bit conservative at this stage and saying that we would like to continue to watch it, but certainly at this point in time, the operator is aiming at the fourth quarter of 2006.

Question

There has been quite a lot of comments from steel producers in the Asian region claiming that there is a glut of steel, a surplus production, coming from China. I noticed that BlueScope Steel, when they announced their second profit warning in the last three or four months, said that Chinese surplus production, and I am quoting, 'was placing unwarranted demand pressure on raw materials'. Would you care to comment on that?

Chip Goodyear

In terms of what we see in China, there is inefficient capacity in the steel business – we certainly recognise that – and we do support the government's policy, which was announced in the middle of last year, to essentially support large companies, move them in regions where they do have access to sea-borne material. We think that ultimately makes sense. Now, ultimately the demand in China is going to be set by the demand for steel in China, and, if that is there, there will be the opportunity to do that. It is a dynamic place, but it is one that you will continue to see those supply/demand pressures not only set price, but set the demand for the raw material. Maybe Bob, who looks after the Carbon Steel Materials area, he might have a few comments.

Bob Kirkby

I think we believe in the long term China will make enough steel for itself. It will not set out as a policy objective to become a major exporter. That does not mean from time to time there will not be some exports coming out of the country. It looks as though in January that was the case; it was not a major volume of steel coming out of the country, and they still import high-quality steel, say from Japan and Korea.

The comment about unwarranted pressure on raw materials, I mean, they need the raw materials; we are all trying to build them; they are trying to grow very rapidly; and there is pressure on raw materials. We just talked

about that. I would not say it is unwarranted; they have got their own objectives and we are trying to establish a supply to them. They are not apparently setting out to be a major exporter of steel.

Chip Goodyear

I think Bob's point is a very good one, that given the scarce raw material – iron ore, efficient iron ore – and power, turning those things into an export product does not make a lot of sense, and I think that is ultimately going to be a driver to the government's policy.

Question

I have got two questions. The first one is on the diamond projection at EKATI. You talked about \$200 million for this year unchanged guidance. Does that include or exclude the taxation or the royalties that are now going into the tax charge? Secondly, just in terms of costs, you mentioned that your costs over the period were up – and that is total costs – by about 8.2 per cent, I think. Can you give some indication in terms of the carry-over into the next period? Is this sort of continuing, or are you seeing a slowing down, in fact, on the cost increases?

Chip Goodyear

Chris, I will ask you to just comment on the guidance we have given in the Diamonds area, given that it sounds like it is a financial question. What I might do is just comment on the costs.

There have been some increases in contractor utilisation and contractor rates that have shown up in this quarter, or this half year. There will continue to be some pressure on those things, but I think you have seen some step changes. One of our important contractors in Australia was Henry Walker, who went through an insolvency process and was acquired by Leighton. As a result, there was an adjustment to some of the rates that they paid, which has come through. So, you are going to still see pressure – I do not want to give the impression that costs are not going to continue to be under pressure – but there are certain areas where we should see things that happened in this half-year, perhaps in terms of rate of change, level out to some basis. Having said that, again, cost pressures are there and we are starting to see those show up in other parts of the world: Latin America and Africa.

Chris, comments on the estimate on Diamonds?

Chris Lynch

Chip, the number is relatively insignificant in that regard, but I expect it to come out at about \$225 million to \$200 million after the tax charge, so the guidance can be taken to include the tax charge.

Question

Chip, BHP Billiton has been consistent in its long-term view that China in particular and India secondly will be driving good demand for commodities. Given that, do you think that the industry's supply-side long-term price assumptions are realistic? Could you comment on whether you have changed any of your long-term price assumptions, particularly given the structural increases in costs?

Chip Goodyear

That is a great question. It is interesting to see whether or not you are going to need to see a structural change in price to deal with this demand. What we have done is we have not made any changes as of yet to copper, aluminium, nickel – essentially the exchange-traded commodities – but we look at this once a year about this time, and we have not made any changes in that area. We are looking at copper quite heavily, just to try to understand what is happening there.

I will give you a little story. Last week, I had a chance to talk to one of our customers in China, and I made the comment that there is certainly significant fund activity in the copper business, the copper market, which has pushed that price above the \$2 level, and obviously saying that was something that was more driven by a financial situation rather than true supply and demand. The response back from our customer in China was, yes, but the fundamental demand is there, and I think that is an interesting side because they very much look at this as something they expect to continue, also. So, we will have to see what happens there. We have adjusted our carbon steel-making materials somewhat, and we have adjusted oil somewhat to reflect the fact that costs and the underlying supply/demand situation is what it is. But, we do go back to our long-term real decline after several years. Whether that should change or not, we will have to see. Ultimately, technology does win, but you can get

several-decade periods where demand outstrips supply, and we will see what happens. Unfortunately, I do not have a crystal ball on that, but there is no doubt costs have increased.

Question

First of all, the message that you are sending out with your dividend, you have raised your progressive dividend and you have highlighted again that you have got a progressive dividend policy. Was that ever under dispute? Is the message that you are sending out by raising your dividend a relatively – I mean, \$2 billion is not a huge share buyback programme. The message you are sending out that this is a long-term sustainable cash flow that you expect coming into the organisation rather than just receiving bursts of cash that you have to give back at certain periods of time?

Chip Goodyear

First of all, was the progressive dividend policy ever in question? No, it was not. Certainly the Board and myself very much believe this is a long-term business and it is silly to say, 'How much did I earn this month', and let me pay it out – or pay out half of it, or pay out a hundred. Who cares. It is long term, and that is the way we need to think about it. But, in terms of how we think about the dividend relative to the buyback and the valuation of that, really an excellent question. There are the signalling issues, our confidence levels of what we see ahead. Very important things.

But, how do you value a 30 per cent increase in dividend? Let's take the 3 cents that we saw final to interim. Now, that is obviously twice – in other words, you pay it twice a year – so a 6 cent increase on six billion shares, \$360 million a year. How do you value that? Well, do you use the 10-year Treasury? Probably not. 4.5 per cent – that is probably a little bit low; we are not quite a risk-free security. But, if you did, it is about \$8 billion back to shareholders. If you take 100 basis points over the 10 years, 5.5 per cent; that is about \$6.5 billion back to shareholders. If you look at this thing, the real impact is that sustainable and consistent dividend. The company has never cut its dividend – never – and if you go to the website, it is paid something like 370 dividends. I'm not sure how they do that – the company has been around 120 years, so they obviously paid it out more than twice a year – but the company has never cut its dividend. I think that is a very strong indication of what the belief is, and if we value it that way, the buyback: great. Again, we will continue to do those from time to time, but the real value, the lions' share of the value, comes in the term of that dividend, and I think that is how you ought to think about it. Lots of signalling, but, also, it is a value number.

Question

The freight rates have dropped materially over the last year. How has that changed? There has also been bottlenecks in the system that have been cleared out. How has that changed, how you have done your business?

Chip Goodyear

Freight rates. I will tell you – Marius, maybe you and Mike might take the freight rate situation and how it is impacted, and then based on that answer we will see if maybe Bob has any addition to that, but we will start with Marius.

Marius Kloppers

Let me give it a try, and I think Mike might add. On the exchange-traded products, we typically sell them on a delivered or in-country basis, so we are optimising in effect not the freight rate, but the premium level in the countries that we sell in, and so we are always moving material in and out of various jurisdictions as those premium levels get driven up and down, which is not a function of freight rates only.

On the bulk materials, we have seen the ability to move Indonesian coal into Europe; and while we do not produce directly, we do have some agency product that we have moved into Europe from Indonesia because that has been enabled by the lower freight rates. Then we have also done a little bit of iron ore business in the European region, which again probably would not have been possible at the higher freight rates. So there have been sort of minor movements in product distribution, but nothing really to alter the fundamental fact that the fundamental areas of growth are in North Asia and with an up-and-coming sort of consumption pattern in South Asia.

Mike Salamon, Executive President

Just a few other comments. Ships and infrastructure are actually quite different things. The market can respond quite quickly to building ships, whereas infrastructure by its nature tends to be a very substantial slug of capital, often has multiple owners, sometimes including governments, and consequently is much slower to respond. From the bulks' point of view, clearly the infrastructure bottlenecks are very real things, and they do represent part of the challenge on the supply side. The ships, on the other hand, the point has been made that they have come, freight rates are down, and that is no longer a bottleneck.

Chip Goodyear

Bob, anything to add to that?

Bob Kirkby

No, I think Marius made the points I was going to make.

Question

I thought it is been very interesting comments about how long it takes to get trucks, and the delays, and the cost overruns to bring on new projects. Also I thought it was interesting your thoughts about long-term assumptions. Are we going to get to a stage where companies are now, when divisional heads come with an idea of a new project and with all those issues of cost overruns in the back of your mind, and many other executives' minds, is there a point where it is just easier to buy capacity than to build it? Do you think the equity market's appreciating the value of the in-ground production that producers like yourselves have?

Chip Goodyear

Well, I guess thanks for those comments about the costs and the way we have talked about those. I think you asked two questions in the last part; in other words, buy capacity versus build it. There is no doubt, and I think WMC was a good example: who would have thought that we would be sitting here with \$2-plus copper and \$6-plus nickel. It certainly was not in our numbers. That has been a benefit, there is no doubt, to the overall performance of that acquisition. Really our still strategic driver was large, low-cost, long reserve life, expandable assets, and that is what drives this company. It is not, 'Gee, I hope prices stay up for the next nine months to make it work'. That may work for some people, but that is not what we do. There will be companies that use relatively high cash flow at this time to perhaps buy other resources or do some things, but I think from our point of view we will still be driven by the strategic fit with the company. In today's market, it is tough to find some of those things, and it is tough to make them work from an economic point of view, but I would not be surprised to continue to see consolidation and acquisition activities out there.

The question you asked is: is the market appropriately valuing companies with production in the ground? Every time I comment on that, I usually get some negative comment back that says, 'You run the business and stop talking about how you are valued', but we are trading at – I'm going to use you guys' numbers – 12 times earnings, 11 times earnings, and so on, in a 4.5 per cent interest rate environment. So, we can only run the business, and we can only explain what we do, and we can only execute those things. Ultimately the market sets the price. But, if you take a look at that valuation, you are clearly pricing it on the basis that things fall off the cliff at some point in time. Now, you may be right, but you may not be. I think I will probably leave it there before I start having to do your business and getting in deep trouble.

Question

Just actually a couple... First, we saw an announcement from another London-listed company yesterday afternoon that it was launching a full takeover offer for Tethyan, which has the Reko Diq project in Pakistan. I'm intrigued by this in terms of your thoughts and strategy, given that you had a claw-back right to get back into the project. You talked earlier about the fact that you were comfortable operating in different parts of the world, and, indeed, in the gas business already operate in Pakistan. From what it sounds like, the 2.4 billion tonnes of 0.54 per cent copper sounds like it could be quite a big project. What was it that made you decide to sell out of that project?

A second question that I've got is really relating to the coal market and the metallurgical coal market, I suppose, in particular, where we have seen a small reduction in terms of the contract pricing for hard metallurgical coals. Just wondering if you can give us any sorts of indications what semi-soft coals might do.

Chip Goodyear

What I will do is, going backwards, I will get Bob to comment on the met coal market and Marius, I will get Marius and Mike to come in on the Tethyan situation, but let me just say something on the Tethyan first, or really talk about where copper fits within the BHP Billiton family.

It is a pretty hard ask for many projects to cross the hurdle here at BHP Billiton in the base metals business. As you are aware, Escondida is a fantastic project and continues to find opportunities to grow and expand. We obviously have Olympic Dam, which is a tremendous resource – we are still trying to define what that is – and there are various other opportunities, including the Resolution opportunity in the United States. To look at our portfolio of copper, it is quite rich, and it is trying to find the right place to put capital within that business. Having given that overall perspective, let me turn it to Marius first, and then we will go to Bob for your question.

Marius Kloppers

Chip, I really cannot add much to the answer that you have given. I mean, we have spoken about the fact often that we have got, for every project that we have got in feasibility or execution, we have got a number in proof of concept, pre-feasibility, and so on. What is less visible is that we continuously prioritise those, and that we evaluate them in terms of our cash deployment and hurdle rates and so on. I guess we studied this one hard, and it was de-prioritised. So, that is about all I can add.

Bob Kirkby

The met coal market, Chip, it has been publicised that we have settled in Japan, and the benchmark numbers there have been mentioned and published in the Tex report. We have not completed our negotiations around the world, and we will not be making any comment on our final settlement until we get the majority of that business done. But, there is an expectation that there is going to be an increasing differentiation for lower-quality coals; that is in the press quite a lot, and we are certainly saying that the final numbers we will put out at the appropriate time.

Chip Goodyear

Let me just say on the Pakistan question: we continue to have great performance in the business in Pakistan. We just completed Zamzama 2, which was the expansion in the gas business there, and, again, we find it not only a good place to work, but obviously one that is quite successful for the company. This is very much, as Marius and I said, about the prioritisation of opportunities within that copper portfolio.

Question

I had a quick question referring to some of your previous comments. You said that in certain areas of the business you are actually getting a lower return on your incremental capital invested in the business in Western Australia, and that that can lead to declining returns on existing capital invested in the business. So, essentially, I guess the implication is that you can almost make more and keep returns higher by doing less in terms of volume. I was wanting to ask how you think about the trade-off between returns on capital against your volume growth and maintaining market share?

Chip Goodyear

Let me – I think you have actually gone a little bit farther than some of the things I was saying, but I think you have got an interesting point, which is worth commenting on. When you look at our infrastructure in Western Australia, and let's take the iron ore business, much of that was put in place a long time ago and is fully depreciated. I do not know exactly what our return on capital in Western Australia is in the iron ore business, but today it may be 50 or 60 per cent. If you simply ran your business and said, 'Listen, on a book basis we are going to make sure it never falls below 60 per cent', you'd never put another dollar in it, and that'd be a silly thing to do. The right thing is: do we believe we can make a good investment on the incremental money put into it, and obviously we think that is the case. So, you may see that the return on capital employed decreases from 60 to some other number to reflect new money going in, but that is still a very good business decision. So, we have to be careful that we do not let the book number get in the way of the economic decision, and we do not let that happen.

The same thing can be said of margins and operating costs. Coking coal: if our average costs for coking coal is \$45 a tonne – I'm just pulling a number out of the air – and coking coal is selling at \$120, you have an incremental

opportunity to supply product, but it might cost you \$60. Well, what do you do? Do you say, 'Gee, that is higher than my average cost, therefore I'm not going to do it and turn down a \$60 margin', or do you go after the \$60 margin. Our answer would be: probably go after the \$60 margin, making sure you do not hard-bake those unit cost increases into your cost structure. We have to look – this business is ultimately about creating value, which comes through that margin delta, and the cost is both capital cost and operating cost. But, that is how we think about it, not simply in a static book accounting purpose – book accounting way.

Question

Given where commodity prices are at the moment, do you have any concerns about the potential for substitution and thrifting of any of the commodities you produce, and could that have any longer-term implications in terms of the sort of demand growth profile that you may be factoring in?

Chip Goodyear

Let me try to answer that one. Is there a risk of substitution? Absolutely there is a risk of substitution. Now, let's take copper. You do not need copper pipes in your house; you can put plastic pipes in your house – they are cheaper, but, by the way, how do you make plastic? Petroleum. What is happened to the petroleum price? It is going up. And, the performance of that is quite different than the performance of copper. So, to take another example: stainless steel. You did see substitution of manganese for nickel in stainless steel, and while that has occurred, the customers – we believe that is just about run its course – in fact, it may be coming back the other way because there is a performance difference in the product. So, you will get some substitution. Energy. When petrol costs \$3 a gallon in the US, somebody may actually, believe it or not, walk to the market rather than drive – hard to believe, but they might do it. So, there is substitution, but I think you are going to see that the alternative products have costs to them, too, both in terms of dollars and performance. So, it is something we watch – we have to be careful about that stuff – but the market will set the price for all of our products. We do not actually set the price for any of them. So, that is what will determine what happens, but it is something we do have to watch after.

Listen: thank you very much. It has been a very successful six months, which follows on the back of a very successful three, four and five years for BHP Billiton. It is an exciting environment in which we participate. The company: record operating results in a number of areas, certainly a strong performance over time. Financial performance: the fifth consecutive six-month record in a row. We continue to reinvest in what we know and understand, we continue to find ways to not only put money to work in those projects, replenish that project pipeline, but, when appropriate, return money to shareholders to keep the intensity and the cash allocation within the business to quite strict levels. Again, thank you very much. If there are other questions, obviously Mark and his team can help you. In the United States, Tracey Whitehead can do that, and certainly anybody from Australia can talk to Jane and the team down there. Thanks for your time, and see you in six months.

[END OF TRANSCRIPT]