

Are good assets enough?

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Response to Global Energy Coal Industry change?

- Market evolution
- Energy convergence
- Global supply – side changes
- Most profound change in seaborne trade
 - but also in major domestic markets

..... is a world-class asset portfolio sufficient for success?

Energy coal has a future

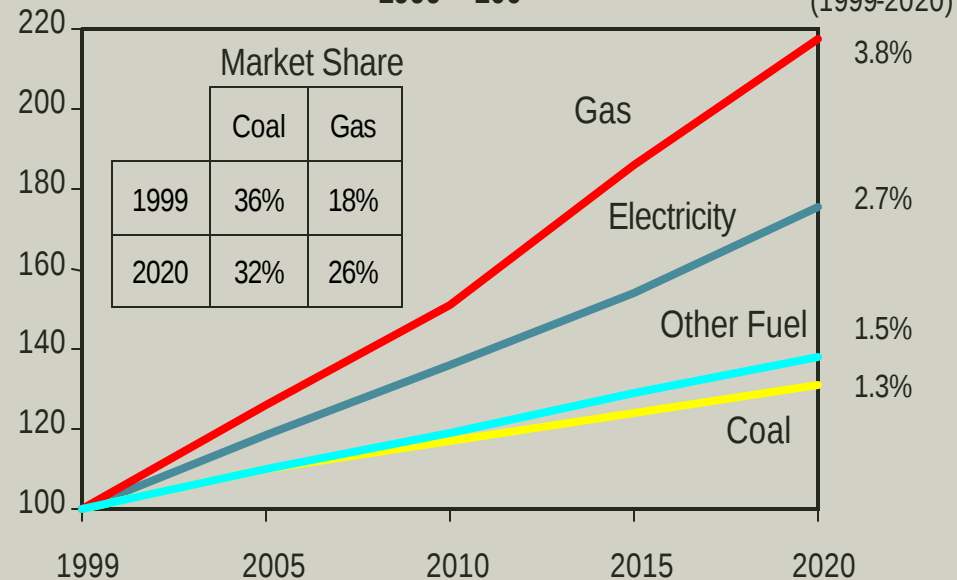
Cons

- Climate change issues
- Gas perceived as being a 'clean' fuel

Pros

- Competitive
- Low price volatility
- Abundant
- Easy to store and transport
- Largest share of global generation

Electricity and generation fuel demand
1999 = 100

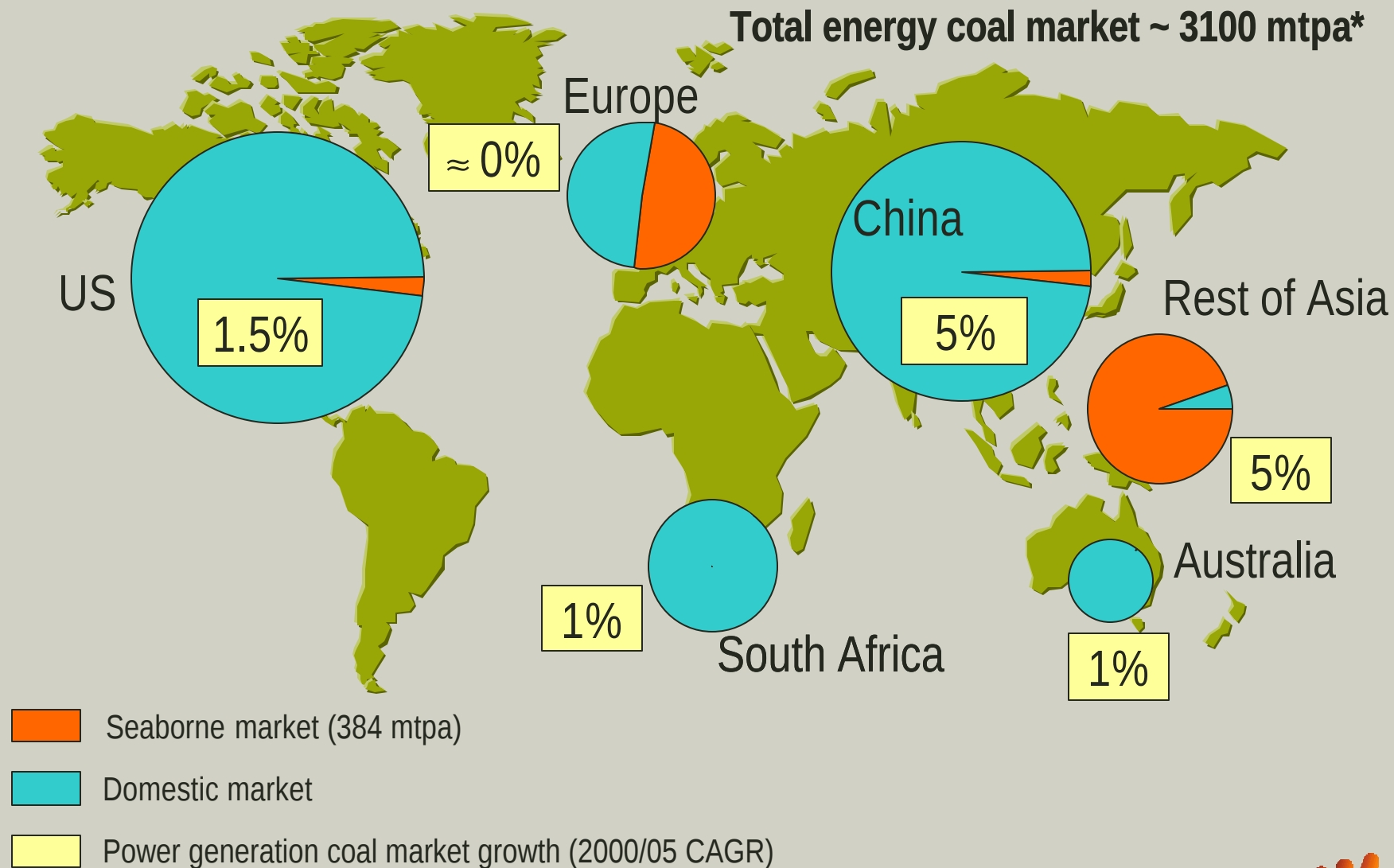


Source: EIA – International Energy Outlook 2002

Conclusion

- Coal is relevant
- Substitution is not the answer
- Clean coal solutions being developed

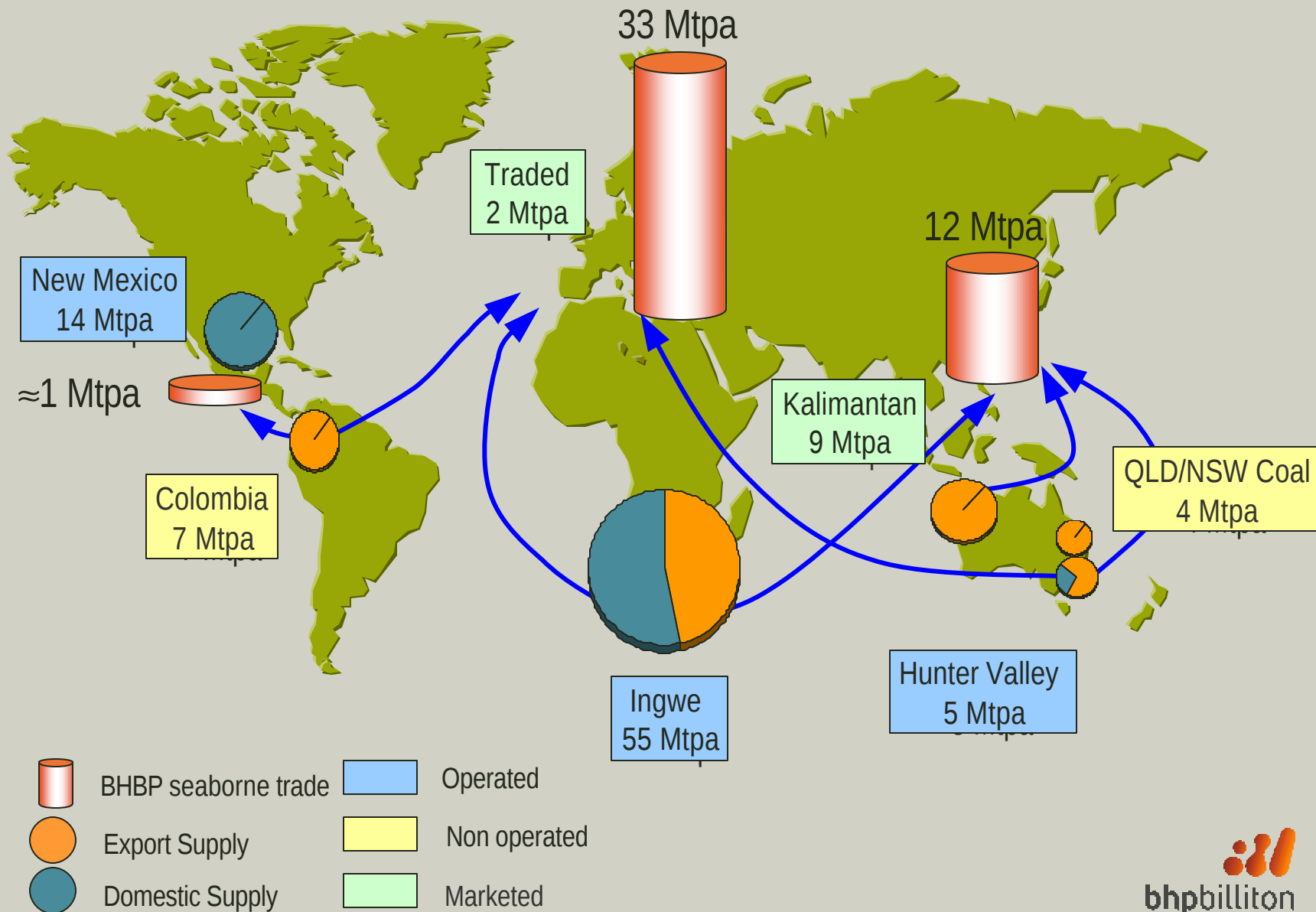
Energy coal market growth to continue



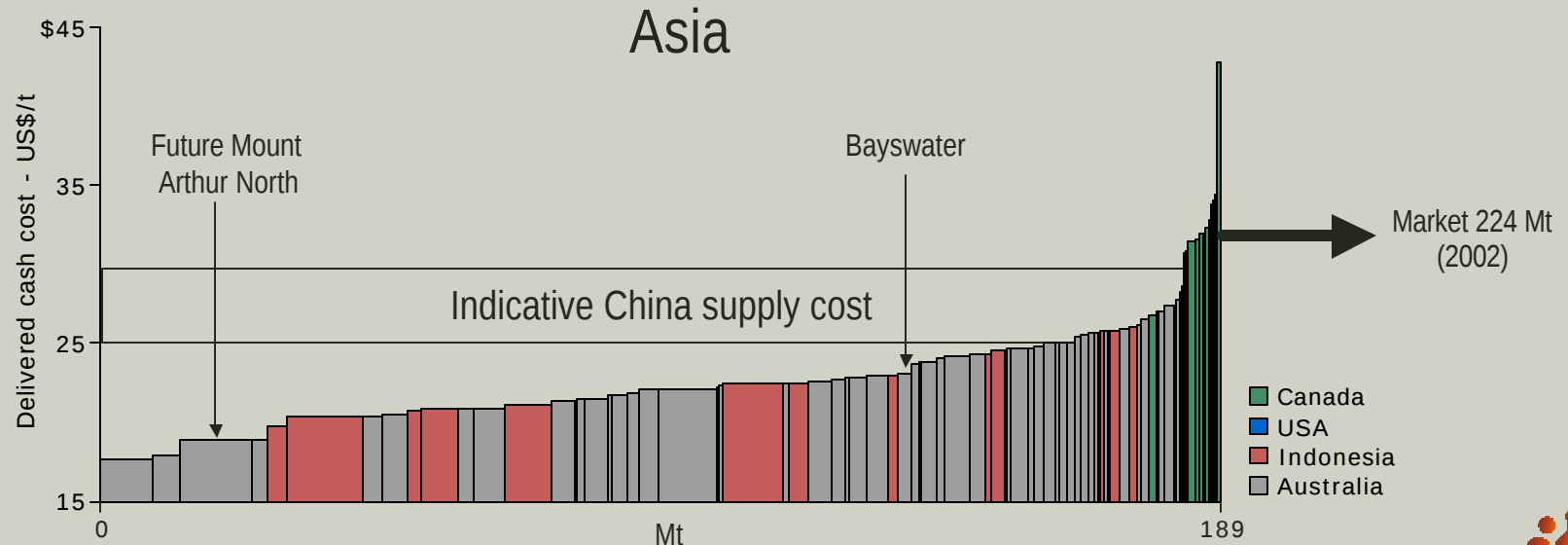
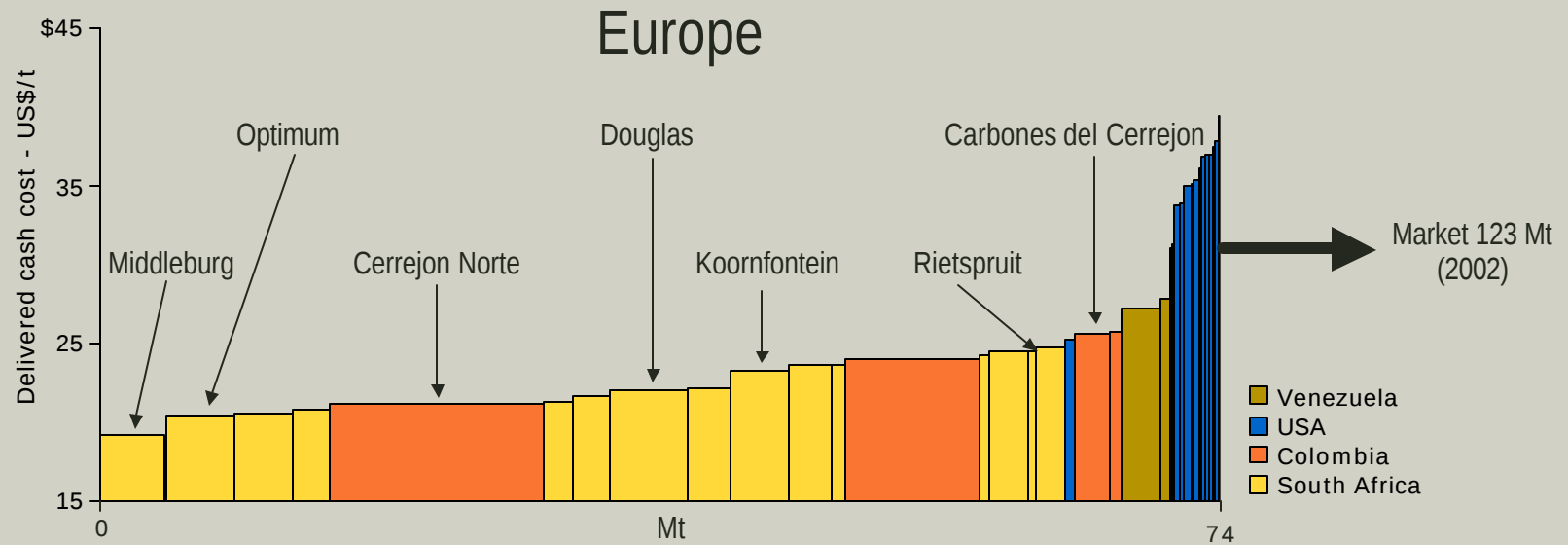
Source: McCloskey's Steam Coal Forecaster, IEA ; * Excludes Lignite

BHP Billiton Energy Coal portfolio

Provides multi-source supply to key markets



Tier one supply positions



Source: AME 2002 FOB cash costs plus freight (excludes China, Russia and Poland)
China cost band – BHP Billiton estimate

Major focus on enhancing competitive position

HSEC

- 10 point safety plan
- Community relations integral to business success

Operating Excellence

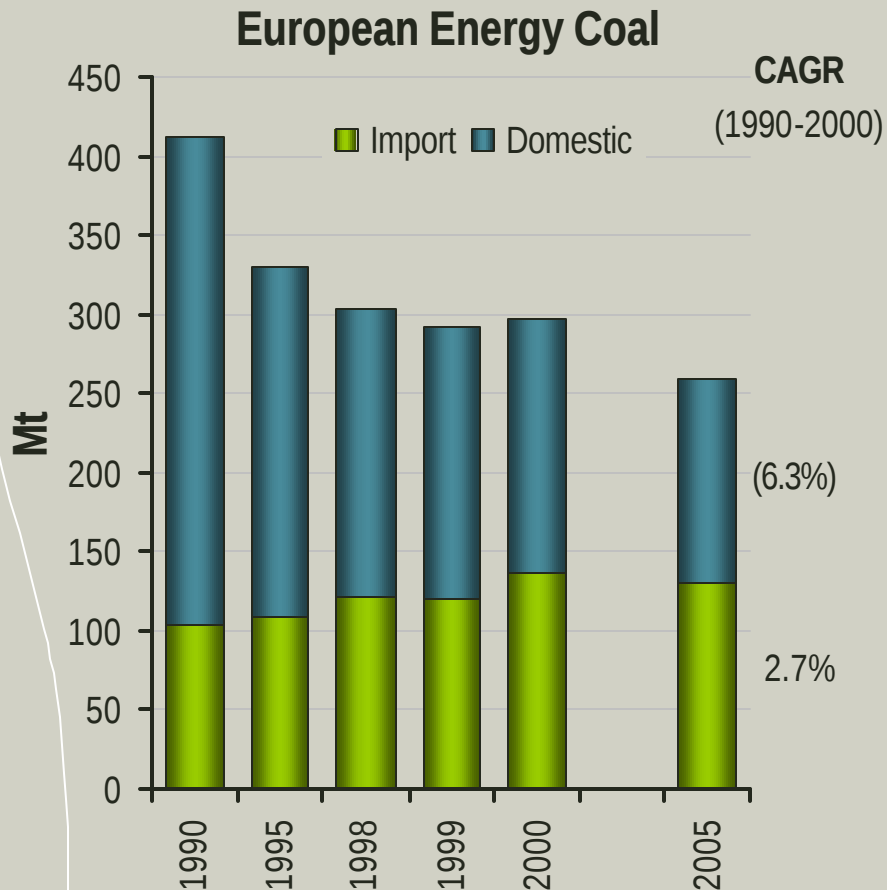
- Actively identifying and improving global business processes
- Six Sigma Plus improvement methodology
- Knowledge transfer across BHPB coal assets
- Knowledge networks and benchmarking across CSGs

Leverage Infrastructure & Logistics

- Rail, storage, barging & shipping

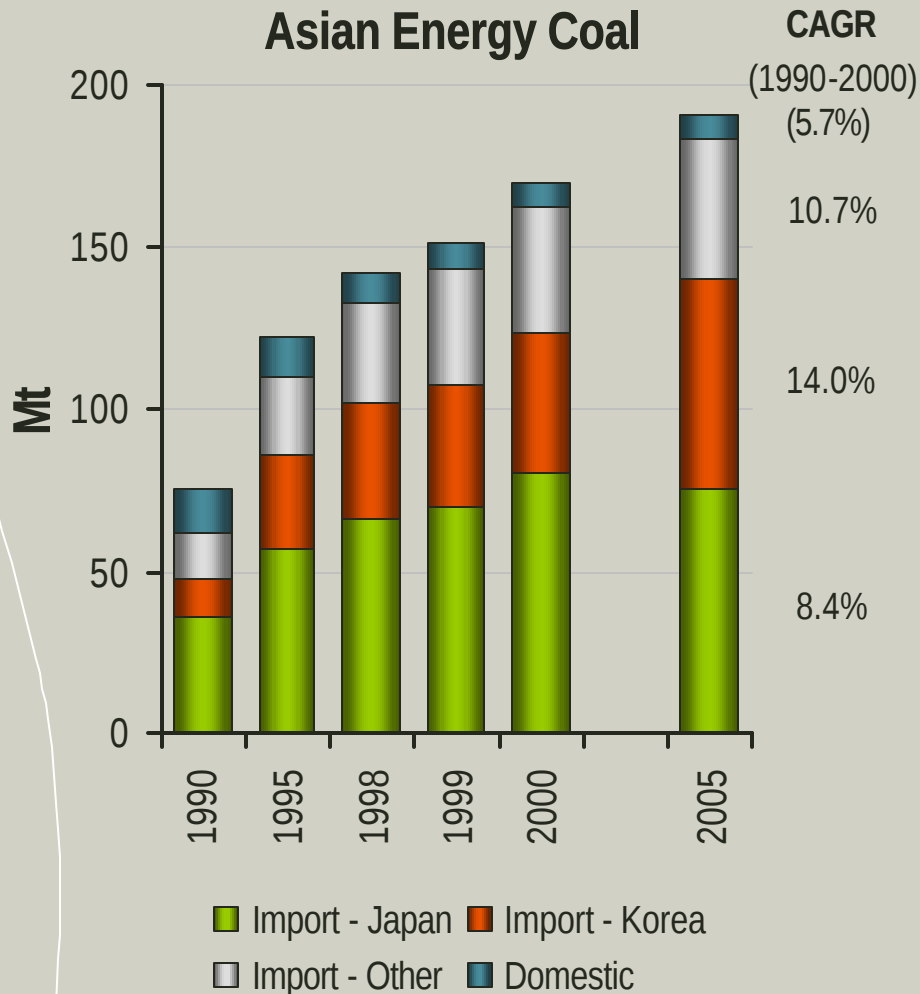
Influencing non-operated assets

Europe – A market undergoing considerable change



- Demand declining – imports growing slowly
- Kyoto already influencing market
- EU subsidy reduction program
- Energy market convergence
 - Power generation growth from gas
 - Strong coal/gas competition
- Deregulation and liberalisation
- Emergence of spot and derivative markets
- Changing customer buying patterns

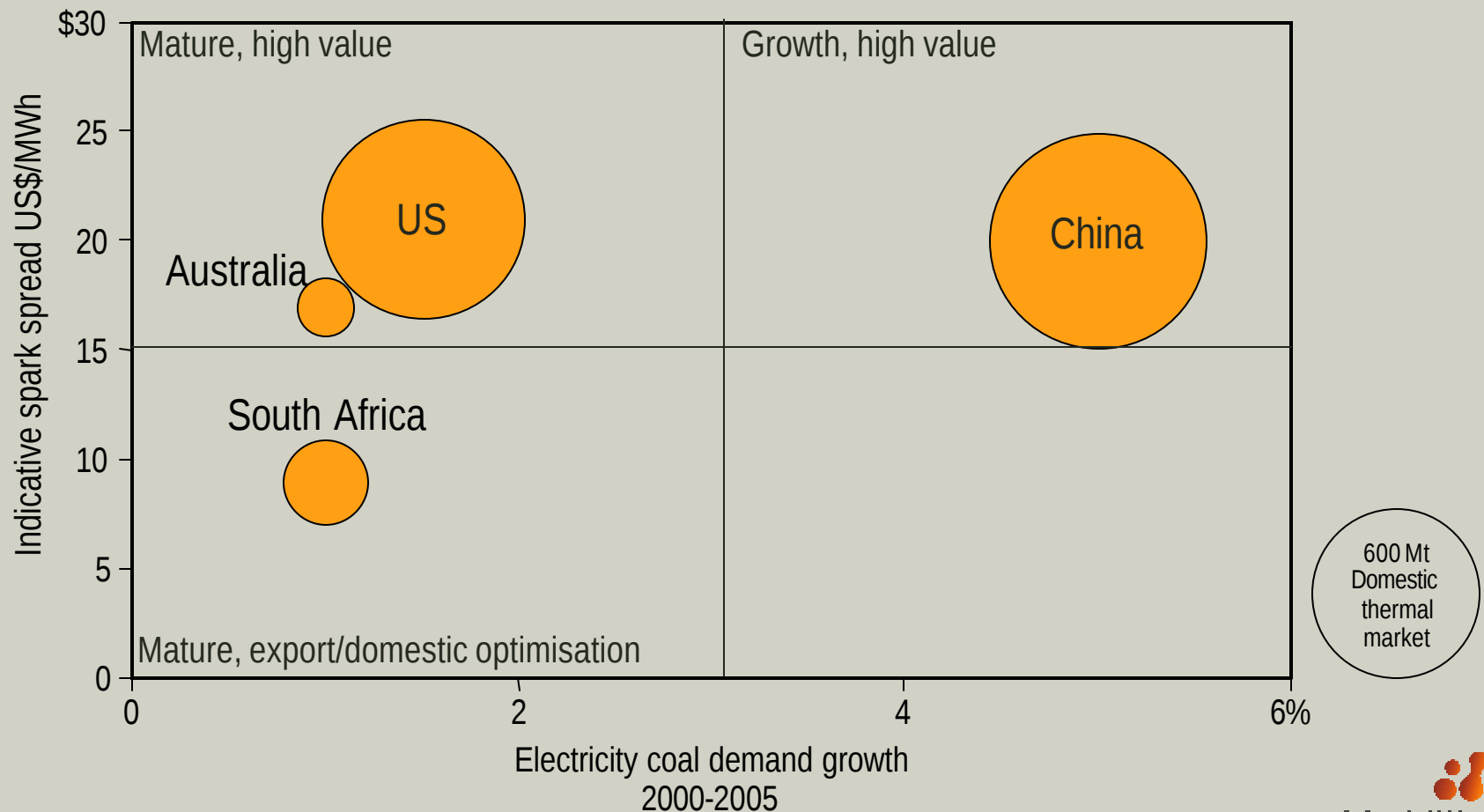
Asia - Strong demand growth



- Increasing flexibility in coal purchasing
 - China penetration
 - spot purchases
- Lack of pipeline gas alternatives
- LNG competitiveness
- Nuclear concerns
- Slowly embracing deregulation
- Asian market model emerging
- Environmental consideration on the rise
- Japan only Kyoto Annex B country

Domestic markets complement export positions

- Participation in high value and/or growth markets
- Optimisation of export/domestic product mix



Market evolution



Global supply changing

- Consolidation in Australian, South African and Colombian supply
- Contraction of European domestic industry
- China – The new swing producer?
 - *Exports grew rapidly in the last two years (export prices > domestic prices)*
 - *Current year volumes down (export prices < domestic prices)*
- Russian supply into Europe and Asia is growing
- Poland continues to export into Europe
- Limits to continued Indonesian export growth
- New supply constrained at LT trend pricing

Are good assets enough?

“Market led”
approach required

=

World class
asset portfolio
+
“Market driven”
mindset

“Market driven” mindset

Production driven



Market driven

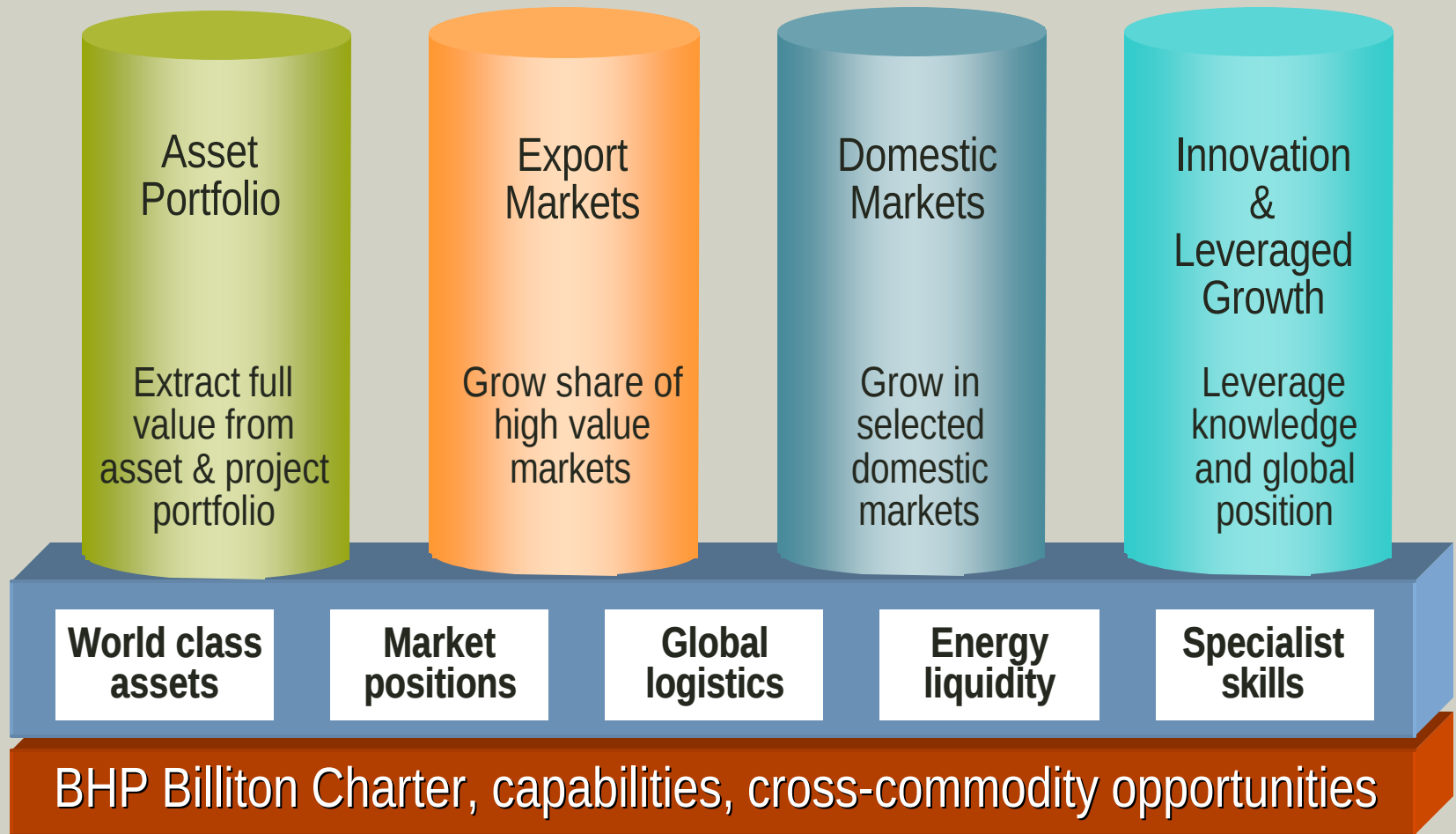
- “Dig and Deliver”
- Volume at gate
- Sweat the assets
- Sell what you produce
- Volume based pricing
- Compete with producers



- “Match supply to meet demand”
- Volume, location and timing to meet customer needs
- Value is created throughout the whole value chain
- Produce what you can sell
- Value based pricing
- Compete with producers, traders, and alternative fuels
- Match customers risk profile
- Customer solutions

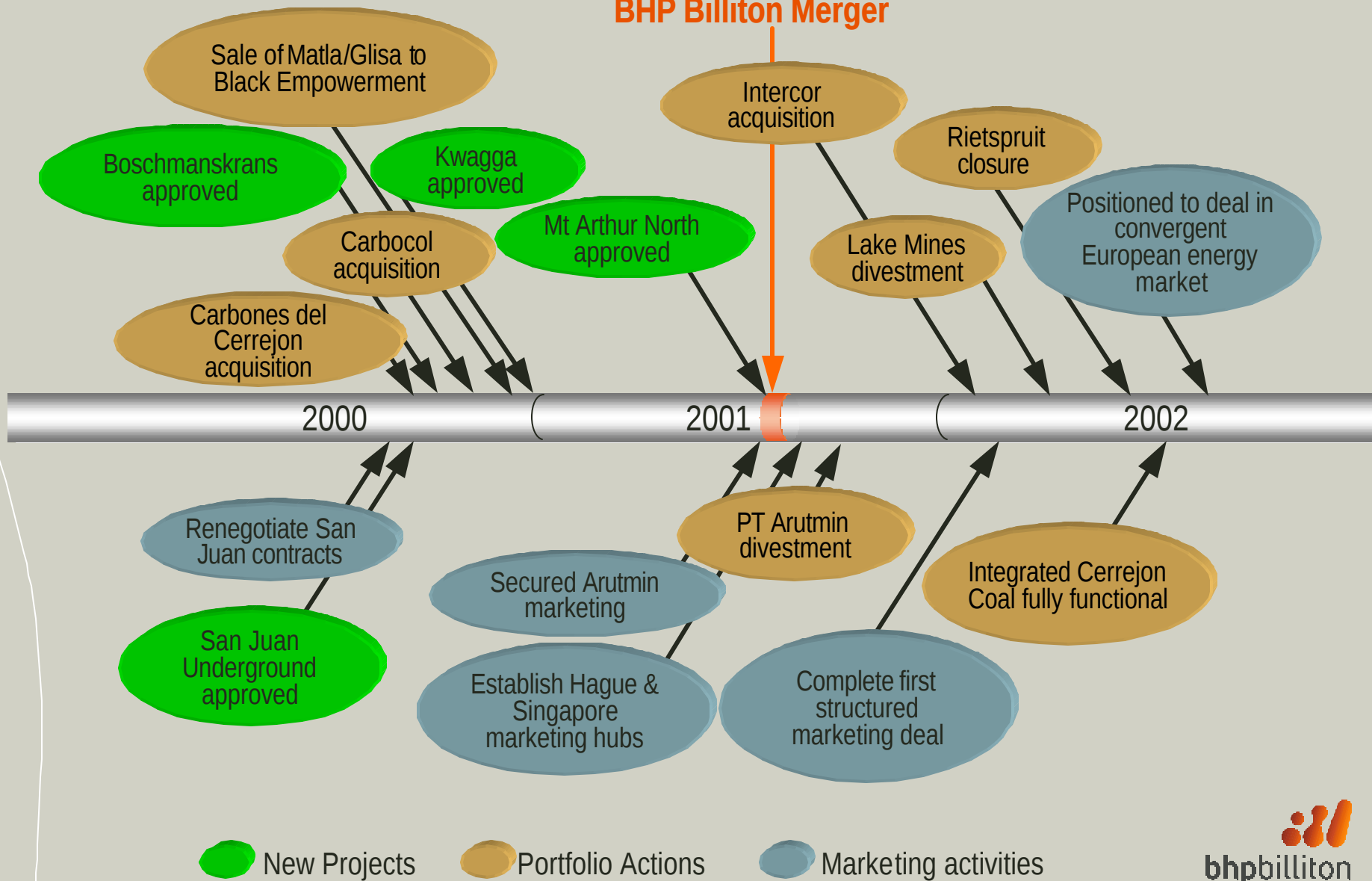
BHP Billiton Energy Coal

A strategy to succeed in the changing market



Strategic delivery to date

BHP Billiton Merger



We can leverage market & customer experience

New Mexico

Synergistic relationship
(mine mouth generation)

Asia

Relationship marketing

Europe

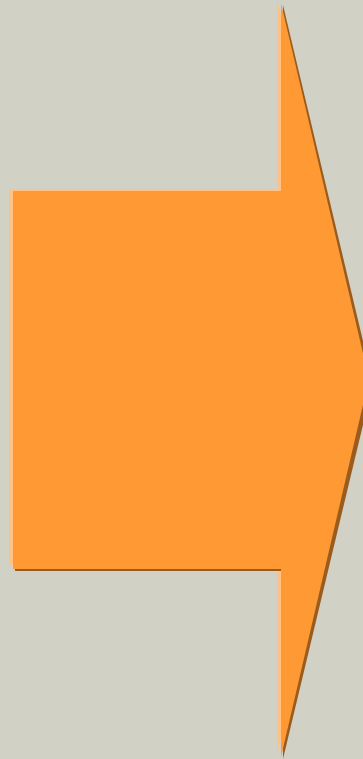
Liberalised
Convergent energy

Australia

Quasi-regulated

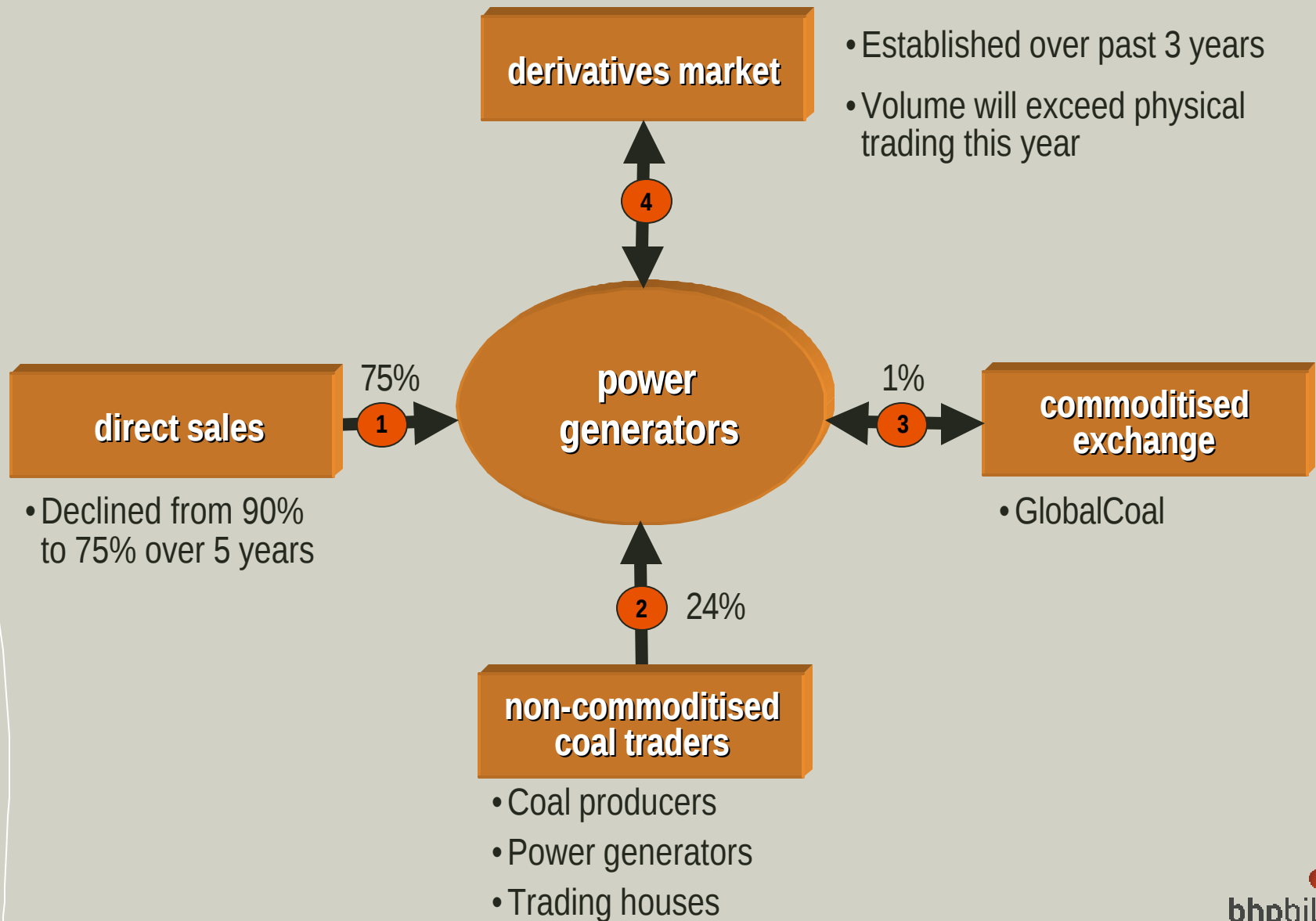
South Africa

Regulated



Experience and
capabilities for all
stages of market
evolution

BHPB participates in all areas of an evolving market



Example - Customer centric marketing

The deal

'Just in time' coal service

Customer value

Close purchasing dept
Risk free sourcing
Reduced inventory costs

BHPB value

$\left(\begin{array}{c} \text{commodity \$} \\ + \\ \text{service \$} \end{array} \right)$

Supply partnership
Multisource optionality
Freight arbitrage
Benefits transferable
Participation in customer expansion

Wrap up

- Coal has a future
- Global supply and demand are evolving
- World class assets fundamental
 - but not sufficient for long term success
- Mind-set change needed
 - strategies, market positions and capabilities