



A NEW DAY BEGINS

BHP BILLITON PLC
ANNUAL REPORT 2001



STRENGTH FLEXIBILITY GROWTH RESPONSIBILITY

FINANCIAL HIGHLIGHTS – BHP BILLITON GROUP

US\$ million	2001	2000	change
Turnover	19 079	18 402	4%
EBIT excluding exceptional items	3 627	3 027	20%
Attributable profit excluding exceptional items	2 189	1 743	26%
Attributable profit including exceptional items	1 529	1 506	2%
Operating cash flow and dividends from joint ventures	4 959	4 571	8%
Capital & investment expenditure	5 764	1 773	225%
Net operating assets (at 30 June)	21 712	20 275	7%
Attributable net assets (at 30 June)	11 340	11 036	3%
EBITDA interest coverage excluding exceptional items (times)	11.1	9.1	22%
Gearing (at 30 June)	38.4%	34.2%	12%
	2001	2000	change
Basic earnings per ordinary share excluding exceptional items (US cents)	36.8	30.4	21%
Basic earnings per ordinary share including exceptional items (US cents)	25.7	26.3	-2%
BHP Billiton Plc dividends per ordinary share (US cents)	12.00	11.25	7%
BHP Billiton Limited dividends per ordinary share (AUD cents)			
– excluding bonus issue	51.0	51.0	–
– including bonus issue	24.7	24.7	–



STRENGTH FLEXIBILITY GROWTH RESPONSIBILITY



Paul Anderson, CEO and Managing Director (right), with Brian Gilbertson, Deputy CEO.

The merger of Billiton Plc and BHP Limited is the crowning achievement of the past year, and a significant event in the global resources industry.

BHP Billiton has outstanding credentials. As we said at the time of the Dual Listed Companies (DLC) merger, the new structure created "a formidable enterprise of global scale and diversity, with the capacity and flexibility to pursue international growth opportunities, and with outstanding access to major capital markets." This Report illustrates the strength, flexibility and growth we highlighted then, as well as the responsibility we believe will be essential to being a leading company in the future.

The law in the United Kingdom and in Australia requires us to adopt a different approach to reporting results for the year. In the United Kingdom, we are required to report as though the companies had been merged for the whole year, while in Australia the report is required to be prepared on a stand-alone basis. For this reason we have prepared two Annual Reports – one for BHP Billiton Plc and another for BHP Billiton Limited.

The inside front cover contains details about how you can obtain a copy of the Report for BHP Billiton Limited.

BHP Billiton has an exceptional collection of low cost, long life resource assets complemented by a management team determined to operate those assets in a highly efficient manner, consistent with our Charter and health, safety, environment and community policies. We have financial strength through both our cash flow and our balance sheet, a diversity of products, markets and geographic risks, management depth and an enviable growth platform.

To lead the resources industry, however, requires harnessing the knowledge our people have of markets and customers, of risk and opportunities. It will require intelligent people with the right values and attitudes to transform knowledge into outcomes that create real and sustainable value. Our future success will be determined as much by how we do things as by what we do.

As our business continues to evolve, we hope you will keep in touch with these changes through our web site www.bhpbilliton.com.



One illustration of the strength of BHP Billiton is the quality of our world-class assets. Two of those assets are shown on this page.

Our Pilbara mines (above) in the north-west of Western Australia represent one of the world's largest iron ore operations, enabling us to offer customers a range of iron ore types and qualities to meet a variety of requirements. We are working closely with steel-making customers to develop raw material solutions that optimise individual blast furnace performance. Recent initiatives have continued to improve operating efficiency.

We have five mining operations in the Pilbara, the largest of which are Yandi and Mt Whaleback (one of the biggest single pit iron ore mines in the world). Around 700 kilometres of rail lines service the mines, with trains up to three kilometres long hauling product to the Port Hedland processing and shipping facility about 400 kilometres away.

In terms of production, Escondida (below) is the world's largest copper mine, supplying more than nine per cent of the world copper market. The mine is located 160 kilometres south-east of the northern Chilean city of Antofagasta. A low-cost producer, Escondida is an unequalled

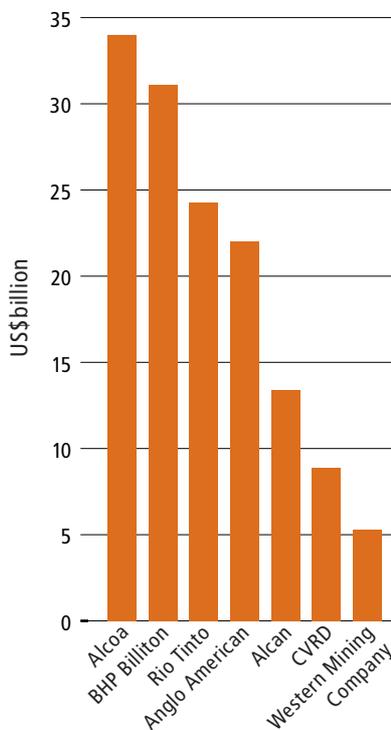
resource, with high-quality products (copper in concentrate and cathode), strong cash flows, robust credit classification and a diversified sales base.

In November 2000, with our joint venture partners, we committed to the Escondida Phase IV development, which will increase processing capacity by 85 per cent, and increase BHP Billiton's net copper production by 230 000 tonnes per annum on average over the first five years of full production. Further expansion is possible at Escondida Norte, a significant high-grade resource five kilometres north of the existing pit, adding greater strength to this world-class asset.



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Market Capitalisation
as at 30 June 2001



Source: Datastream

A premier diversified global resources group

Market capitalisation of US\$31 billion as at 30 June 2001 and turnover of US\$19 billion for 2001, makes the BHP Billiton Group one of the world's largest diversified resources groups.

An industry leader

We hold industry leader or near-leader positions in a range of products, being the:

- world's largest exporter of energy (thermal) coal
- world's largest exporter of metallurgical coal for the steel industry
- world's third-largest producer of iron ore
- world's third-largest producer of copper
- western world's third-largest producer of aluminium
- world's largest producer of manganese, chrome and ferroalloys.

We also have substantial interests in oil, gas, liquified natural gas (LNG), nickel, diamonds and silver.

World-class assets

A major strength is our quality portfolio of long-life, low-cost assets in diverse geographic locations.

Strong management team

The DLC merger has deepened and strengthened our management team.

Our team has:

- a shared vision with a clearly articulated set of values and proven track record of delivering results and increasing shareholder value
- a demonstrated ability to improve operating results while reducing leverage
- extensive experience managing projects in diverse political, geographic and geological environments
- demonstrated ability to improve operating efficiencies and to acquire and integrate assets.



The flexibility to respond effectively to the needs of our customers and markets is a key outcome of BHP Billiton's new business model. As a first step, Customer Sector Groups have been established, and a new marketing organisation formed with twin hubs in Singapore and The Hague in the Netherlands.

The Singapore team's emphasis will be on the Asian energy market (built around energy coal, oil and gas) and carbon steel-making raw material. Pictured above are Yoshiaki Kusuhara, Manager, General Administration Division, Nippon Steel Kimitsu Works, with Yoshio Kotani and Victor Petersen, BHP Billiton Marketing.

The focus of The Hague team will be on aluminium, base metals and the European energy coal market, as well as freight and logistics.

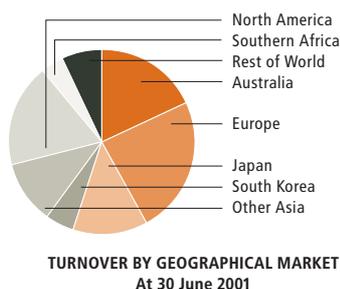
Our position in coal is another illustration of the flexibility of our group, allowing us to facilitate logistical arbitrage, substitute product from across different geographical regions, and trade in third-party products. We have played a leading role in changing the way coal is traded, through the establishment, with other leading members of the world coal industry, of Global Coal, an Internet-based marketplace where participants can trade electronically in coal products and related instruments.

One of the first projects to be approved by BHP Billiton was the Mount Arthur North (MAN) open-cut energy coal mine (below), at an estimated capital cost of US\$411 million. Adjacent to the Bayswater Colliery in the Hunter Valley, NSW, Australia, this high-value 'brownfield' expansion will produce up to 15 million tonnes per annum of raw coal. Full capacity production is expected by 2006.

MAN and Bayswater will be mined as one large operation, providing benefits from synergies in management, mining plants, infrastructure and equipment, and marketing – further illustrating our resource flexibility.



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Flexibility to pursue new opportunities because of our:

- access to international capital markets as a member of the Financial Times Stock Exchange (FTSE) 100 Index in London and our position as one of the largest companies in the Australian Stock Exchange (ASX) All Ordinaries Index
- financial strength resulting from substantial annual cash-generating capability and a robust balance sheet
- knowledge of markets, countries, risks and products.

Flexibility to manage risk because our:

- geographic, product and market diversity reduces exposure to industry cycles and regional economic sensitivities
- highly competitive operating cost structure provides downside protection
- the mix of minerals and petroleum assets provides diversification
- DLC merger has improved our risk profile.

Flexibility to provide customer and market solutions because our:

- diversity of products allows us to look at bundling customer solutions
- Customer Sector Group structure focuses the organisation on customers rather than assets
- global marketing team structure allows better servicing of customer requirements, enabling us to source product from different geographical regions and, potentially, third parties
- product marketers co-located in Singapore and The Hague can share knowledge of customer requirements.



Workers from the Mozal aluminium smelter (above), near Maputo in Mozambique. This is a significant 'brownfield' growth project for BHP Billiton. Announced in June 2001, the US\$860 million expansion will add 253 000 tonnes per annum to the existing 250 000 tonnes per annum capacity of the smelter, with first ingots expected in late 2003.

Mozal was officially opened in September 2000. Construction was completed in a record 25 months, some six months ahead of schedule, and at a total cost of US\$1.2 billion, some US\$100 million under budget.

The success of the project is underpinned by the support of the Government of Mozambique and the excellent relationships developed at local, regional and national levels.

In pursuit of 'greenfield' opportunities, BHP Billiton is a leading competitor in the deep and ultra deepwater of the Gulf of Mexico (USA) – one of the most exciting hydrocarbon exploration opportunities in the world today.

Since 1994, BHP Billiton has acquired a significant lease position in the area. BHP Billiton's acquisition cost for the nearly 220 Gulf of Mexico leases it holds today is

considerably lower than the industry average. Senior Geophysicist Alan Anderson is pictured with Gulf of Mexico exploration images in Houston (below).

Exploration efforts are focused on the highly prospective Central Gulf region, where the company is targeting a number of large prospects. The Typhoon discovery was brought into production during 2001, and progress continues on the Mad Dog and Atlantis finds – among the largest fields yet discovered in the region – to bring them closer to sanction in the year ahead.



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The DLC merger of Billiton Plc and BHP Limited has opened the door to a new phase of growth for both companies, combining diversity of opportunities and expertise with the financial strength of the new Group.

An outstanding portfolio of growth projects:

- Our well-balanced portfolio provides the Group with a selection of opportunities for investment and expansion over the next decade.
- US\$6 billion was committed in financial year 2001 to future growth projects, including the Phase II expansion of the Mozal aluminium smelter in Mozambique and the Mount Arthur North coal project in Australia.
- 'Brownfield' projects are additions to existing projects, whereas 'greenfield' projects are new additions to the portfolio.
- Flexibility offered by a range of growth projects allows the Group to respond to changing market conditions in various geographic and product areas.

Our financial strength:

- is reflected by our strong financial position, cash generating capability and access to international capital markets
- enhances our ability to undertake both brownfield and greenfield projects
- is underpinned by a conservative approach to portfolio management, with a commitment to return capital to shareholders if value-adding opportunities are not found.



Last year was one of the most important for the Cerro Matoso nickel operation in Colombia, with doubling of the capacity of the ferronickel plant. A key to the success of the project was BHP Billiton's commitment to building relationships through its Health, Safety, Environment and Community (HSEC) programs, with a view to promoting the region's sustainable development.

Cerro Matoso supports a wide range of environmental and community initiatives, including programs to create and strengthen small and medium size enterprises, municipal health programs, training in local crafts, teacher training programs, essential civic and educational infrastructure projects, cultural programs for young people, and agricultural development programs.

A key agricultural initiative is a wide-ranging program of workshops (as pictured above in Montelibano) to educate and support local farmers in the use of a newly developed bio-fertiliser that can cut farming costs while increasing yields of crops.

In Australia, BHP Billiton has focused on establishing sustainable partnership programs that foster community engagement and volunteerism. A major program with Conservation Volunteers Australia (CVA), Australia's largest conservation organisation, was launched in March 2001.

Titled 'Revive our Wetlands', the program aims to protect and revitalise 100 of Australia's most important wetlands by building the skills and knowledge of local communities. Wetlands are important life

support systems and are vital for ecological sustainability.

Over the three-year program, thousands of volunteers will be involved in local wetlands conservation activities such as planting native grass species, removing weeds and building walking tracks.

A pilot program was undertaken in Queensland at the Townsville Town Common, a world-renowned conservation park and habitat for thousands of migratory birds (pictured below). Through inappropriate land use and exotic weed invasion, the area had become severely degraded. The results of the pilot were very encouraging, with extensive involvement by the community.



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Health, Safety, Environment and Community (HSEC)

As a global group, we acknowledge our role in wider society through a commitment to sustainable development. The BHP Billiton Charter reflects this value to guide us in our day-to-day operations. Our Charter also recognises that we must ensure the communities in which we operate value our citizenship.

Underpinning the Charter is our Policy, *Working Responsibly at BHP Billiton*, which in turn is supported by detailed HSEC Management Standards.

As a reflection of our commitment to apply the principles of the Policy and Management Standards, Health, Safety and Environment governance resides at the highest level – the Health, Safety and Environment Committee, which is a sub-committee of the Board. The Committee is chaired by a Non-Executive Director and members include independent experts.

HSEC functional management is coordinated and monitored through the HSEC Forum, chaired by the Vice President Health, Safety and Environment. The

Forum steers the activities of our HSEC professionals located within each Customer Sector Group – a collaborative approach focusing on continual performance improvement.

Through the DLC merger integration process, HSEC Policy development revealed shared philosophies and commitments, all of which have been retained or strengthened. Of particular note are the following areas:

- **Zero harm to people and the environment – our ultimate goal**

It is encouraging that during the integration process, our combined safety performance has generally improved. We also have in place a unified approach to reducing the environmental impacts of our activities.

- **Consistent HSEC management systems**

Recognising that we are a global group comprising localised operations, our Policy prescribes consistent HSEC management systems wherever we operate, while enabling each site to effectively respond to local issues.

- **Human rights**

We are committed to supporting the fundamental human rights of people with whom we work, consistent with the United Nations Universal Declaration on Human Rights.

- **Community programs**

We will continue to seek opportunities to share the success of our operations with the communities in which we work. Our overall target is to contribute one per cent of our pre-tax profit to sustainable community development programs.

In addition to these new elements, the Policy reinforces our approach to risk management, regular reviews, assessments and reporting.

Going forward, we will set five-year HSE targets to keep our focus firmly centred on improved performance, and to allow others to monitor our progress and determine our advance towards sustainable development.

CHAIRMAN'S REPORT



"THE DLC MERGER OF BILLITON AND BHP HAS CREATED A COMPANY OF UNRIVALLED STRENGTH IN TERMS OF THE DIVERSITY OF ITS BUSINESS MIX, BREADTH OF CUSTOMER RELATIONSHIPS AND ASSET QUALITY. BHP BILLITON STANDS ON THE THRESHOLD OF AN IMPORTANT STAGE OF ITS OWN EVOLUTION, AND ALSO THAT OF THE RESOURCES SECTOR."

DON ARGUS, CHAIRMAN

The Dual Listed Companies (DLC) merger of Billiton Plc and BHP Limited has created a Group of unrivalled strength in terms of the diversity of its business mix, breadth of customer relationships and asset quality. BHP Billiton stands on the threshold of an important stage of its own evolution, and also that of the resources sector.

By putting together the complementary, high-quality assets of each group, along with the very best of our skills and people, we have created a resources group that is exceptionally well-placed to deliver substantial benefits to all stakeholders – shareholders, employees, customers and suppliers, joint venture partners, and communities.

The rationale for the DLC merger was compelling. The resources sector is rapidly globalising and consolidating. Global fund managers want highly liquid, industry-leading investment choices.

The Billiton Plc and BHP Limited Boards recognised that the DLC merger of the two companies presented a unique opportunity to be a major contributor in the efficient consolidation of the resources sector. It would also create a new industry leader and in doing so meet the requirements of each set of shareholders to enable the companies to make the transition to the next stage of growth.

The BHP Billiton DLC merger may, in many respects, be a defining transaction for the resources sector. Fundamentally, for both sets of Directors, the imperative was the same – to create a new entity that will

deliver outstanding shareholder value in a way that demonstrates the best standards of environmental, social and safety management. Shareholders of both Companies have recognised the strategic imperative of this DLC merger, but rightly demand that significant value accretion must follow. In this regard, they apply the same criteria the Directors have in supporting this transaction.

Benefits to shareholders of BHP Billiton

BHP Billiton has an industry-leading position in major commodity businesses, including aluminium, iron ore, copper, energy coal and metallurgical coal. We have global scale in our asset base, markets and customers. An impressive portfolio of development opportunities gives us a growth platform second to none. This platform has many 'brownfield' opportunities – expansion of existing projects. These are inherently less risky than 'greenfield' projects or acquisitions. We have the cash flow generation, strong balance sheet and enhanced access to capital markets through the DLC structure to fund appropriate growth.

We have a substantial presence in the three key resource regions of the world – Australia, Latin America and Africa.

An important feature of the new Group is its overall risk profile. In essence, the Group provides shareholders with a better spread of risks and an improved ability to manage those risks.

The diversification of both commodity and country exposures further enhances our risk profile. With assets and markets spread around the globe, our exposure to any one customer group, or industry, or cycle of an individual commodity is reduced. Risk management within both groups had evolved substantially

management practice, which can be applied throughout the BHP Billiton Group. We continue to link executive remuneration with the interests of shareholders. Board approval of key financial and performance hurdles ensures that executives' benefits are linked to shareholder objectives.

down. Copper prices are at their lowest in several years. Stainless steel raw materials have been affected by the downturn in stainless steel consumption and the resulting smelting cutbacks undertaken by producers to mitigate stock build-up. Power-related disruptions to aluminium supply from the Pacific North West USA, and

WE HAVE THE CASH FLOW GENERATION, STRONG BALANCE SHEET AND ENHANCED ACCESS TO CAPITAL MARKETS TO FUND APPROPRIATE GROWTH

prior to the DLC merger. Billiton Plc brings valuable on-ground experience and success in managing risks in challenging environments, such as Africa. BHP Limited brings strong capital management, country risk management and project evaluation and execution disciplines.

Much of the world's natural resource potential lies in less-developed regions, where assessing and managing risks is critical to achieving superior and sustainable returns. BHP Billiton brings considerable expertise and experience to this task.

A further benefit of the DLC merger is the outstanding management capability in the Group. We have people with deep management experience in marketing and operations across a range of businesses, in systems capabilities such as global procurement and e-commerce, in capital management and in trading capabilities. There is also impressive expertise in areas such as environmental and community

Paul Anderson and Brian Gilbertson are highly skilled and visionary people. They have proven track records in delivering shareholder value and bring a shared philosophical commitment to the way shareholder value will be created in BHP Billiton. I have been impressed by the manner in which they brought the DLC merger to fruition, and I am pleased at the progress made in integrating the two organisations. They lead the formidable team of professionals we have throughout the BHP Billiton Group.

Business outlook

The slow-down in the global economy has intensified in the last six months, reducing industrial production and, consequently, commodity demand across the OECD. Notwithstanding generally low consumer inventory levels, the prices of a number of traded metals have fallen sharply.

Base metals, stainless steel materials and alumina have borne the brunt of the slow-

elsewhere, while offsetting particularly the weakening consumption in North America, have in turn reduced demand for alumina, with a resultant fall in the spot price.

Fortunately, a number of our important businesses have so far been sheltered from the global slow-down. Oil prices have remained in the range of US\$26 to US\$27 per barrel as OPEC has adjusted supply to meet demand. The underlying demand for seaborne energy coal also remains firm, especially in the US market, though prices have levelled out after the strong rise during the first half of 2001. Metallurgical coal prices have also been sustained by a tight supply situation and strong demand. Iron ore prices are approaching cyclical highs, reflecting robust growth in seaborne iron ore trade for imports to China and elsewhere in Asia.

A world-wide recovery is unlikely until the economy in the US begins to improve, the European market reverses its recent slow-

down and there is a resolution of the persistent recessionary environment in Japan. While a global slow-down will impact our financial results, our robust low-cost operations and the diversified nature of our businesses will buffer changes in individual products and markets, and provide resilience to our earnings and cash flows.

Dividends

Under the DLC structure, the Board will determine dividends in the usual way. There are now two sets of shareholders, and the level of the dividend will be the same for both. BHP Billiton Limited shareholders will have their shares franked according to the capacity of the business to do this.

The Board

The businesses of BHP Billiton Plc and BHP Billiton Limited will, under the terms of the DLC merger, be operated as though they were a single unified entity. Directors, of which there are initially 17, will have regard to the interests of shareholders of BHP Billiton Plc and shareholders of BHP Billiton Limited as though they were shareholders of one company.

With 17 directors, the initial size of the Board is undoubtedly larger than is ideal. As directors leave the Board it is unlikely that they will be replaced unless the Board considers there is a gap in the skills represented and identifies an exceptional candidate to meet that gap. Regular reviews of Board performance will assist in determining the effectiveness of the Board as a whole and in identifying any perceived skills gaps.

BHP Billiton Plc and BHP Billiton Limited each has comprehensive governance policies and practices that were designed to meet not only best practice but also the

regulatory environment in which they have each operated. Details of these practices and policies have been regularly reported.

One of the immediate tasks for the new Board was to oversee the development of a single governance regime that would reflect world's best practice as well as satisfy the regulatory environment in the myriad of jurisdictions in which BHP Billiton will now operate. As we go to print I am able to report that this process is well advanced.

The Directors are committed to ensuring that BHP Billiton meets the highest standards in the governance of all of its affairs and will regularly report on its governance regime. In the meantime, the affairs of both companies continue to be operated according to the governance principles already in place. Where any discrepancy is found to exist between the practices of the companies, the Board is applying the practice of meeting the better of the prevailing standards.

Within the agreed governance framework, the success of any organisation is to a large measure dependent on the working relationship between Board and management. The quality of that relationship is evident, even at this early stage of the DLC merger. I am confident that the combined Boards and the combined management teams will work effectively, based on our aligned interests, depth of industry knowledge and experience, and our shared commitment to deliver on the expectations of all shareholders.

A review of the year past would not be complete without a specific acknowledgment of the contribution made by all employees. In addition to managing their day-to-day responsibilities, it gives my Board colleagues and I considerable

Dual Listed Companies Structure

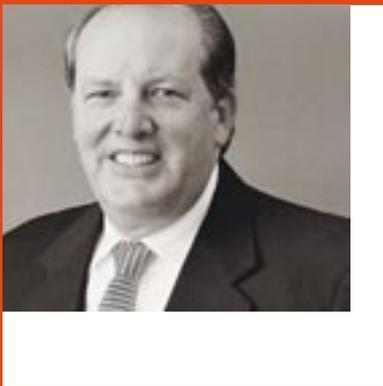
The Dual Listed Companies (DLC) structure means that the pre-existing primary listings on the Australian and London Stock Exchanges are maintained, along with the secondary listing on the Johannesburg Stock Exchange (and an American Depositary Receipts listing on the New York Stock Exchange). The companies are now known as BHP Billiton Plc and BHP Billiton Limited. The economic and voting interest of each BHP Billiton Plc share and each BHP Billiton Limited share is equal. Under the DLC structure, shareholders will receive equalised dividends from their holding of either BHP Billiton Plc or BHP Billiton Limited shares as was the case formerly.

encouragement to also see the manner in which employees have embraced the DLC merger with BHP. Many have experienced considerable change in their roles. Some have left the Company as our needs have changed. To all employees, and particularly to those affected by the merger, I convey my thanks and the thanks of the Board.



Don Argus
Chairman

CEO'S REPORT



"THE DLC MERGER OF BILLITON AND BHP CREATES A LEADING COMPANY IN THE RESOURCES SECTOR. THE NEW ORGANISATION NOW OPERATES AS A TRUE GLOBAL GROUP, WITH LISTINGS ON MULTIPLE EXCHANGES, A DIVERSIFIED INTERNATIONAL SHAREHOLDER BASE, INVOLVEMENT IN MANY DIFFERENT COMMUNITIES, AND SERVING CUSTOMERS ALL AROUND THE WORLD."

PAUL ANDERSON, CEO AND MANAGING DIRECTOR

The DLC merger of Billiton Plc and BHP Limited creates a leading company in the resources sector.

The new organisation now operates as a true global Group, with listings on multiple exchanges, a diversified international shareholder base, involvement in many different communities, and serving customers all around the world.

Size and scale provide BHP Billiton with many opportunities to deliver high-value growth. However, the investment appeal should not be confined to our efficiency and strength as a player in the resources sector. Our goal is to have BHP Billiton judged by its performance on key measures such as return on shareholders' equity and total shareholder return and by the ability to grow the Group's cash flow from its underlying assets. In this way, BHP Billiton will be more than a resources company tied to market views of economic cycles; it should become a credible, longer-term core investment in a universe of world-class companies.

The DLC merger has brought together a unique portfolio of assets. BHP Billiton's position in iron ore, energy coal, metallurgical coal, aluminium and copper places the Group in the top tier of industry leaders. Likewise, the Group has strong positions in oil and gas, in industrial minerals, nickel and ferro alloys and diamonds. In 2001, BHP Billiton generated a return on total capital employed of 13 per cent, excluding exceptional items, and net operating cash flows of US\$5.0 billion. Irrespective of the industry, this underlying asset quality and strength of cash flow is a major differentiating factor for BHP Billiton.

The combination of the two companies has also broadened the geographical spread of the assets and diversified the customer base. Both are important for risk management, by enhancing the stability of earnings and giving us new growth-in-value opportunities. As an illustration, in financial year 2001, 37 per cent of BHP turnover and 17 per cent of Billiton turnover was generated from Asia; on a combined basis, that particular market will represent about 29 per cent of revenues, enabling a better balance across Asia, Australia, Europe and the United States.

The enhanced scale, diversification and strength of BHP Billiton is in itself impressive. However, the real challenge is to optimise the value of this portfolio. How can we build on our global market presence, on our strong position in energy, on our broad suite of high-quality inputs to global steel-makers and other customer groups? Our ability to act creatively in these areas, while efficiently managing our assets and growth, can create major benefits for shareholders and other stakeholders.

We are currently developing the strategic framework of the Group. While it is too early to give precise details, the guiding principles are clear. We are committed to creating shareholder value, and metrics to measure our progress against that goal will be publicly available. Consistent governance standards of the highest level will apply across all our activities. We will manage the portfolio to maximise value, with stringent capital allocation.

Above all, our greatest asset is the knowledge held by our people. We are creating an environment where people know clearly what is expected, are

rewarded for results and are held accountable. It will be an open, results-oriented unbureaucratic organisation.

Underpinning everything is our commitment to the BHP Billiton Charter, which articulates our values and defines success as satisfying all our stakeholders. The Charter has a specific, over-riding commitment to safety, environmental responsibility and sustainable

an enormous knowledge base built from our large suite of commodities, our diverse spread of customers and geographic regions, our deep knowledge of countries and risk.

How do we use that knowledge? We think of customers first, and work back to the assets; we have redirected our thinking that way. A critical part of our success as a new Group will be how we deliver goods and services to our markets. The organisation

level will be supported by two marketing hubs, based in The Hague and Singapore.

A key feature of the customer approach will be to bring together marketing across Customer Sector Groups where this makes sense. For example, BHP Billiton has a major position in the energy sector, with energy coal, oil and gas production sourced from three geographical bases. Assembling offers of complete energy

WE THINK OF CUSTOMERS FIRST AND WORK BACK TO THE ASSETS, WE HAVE RE-DIRECTED OUR THINKING.

development. This is the foundation stone of the entire operation.

I am really excited by how well the organisation has come together. We hit the ground running on 29 June when the formal DLC merger occurred and quickly put in place the processes to make sure we did not make mistakes and that business continued effectively from day one. We have put together the best from both organisations, and are now going about the business of making this Group as great as we know it can be. The new team works well together and the asset base is awesome. Once we sort through what we have and learn how to get the most value out of the assets, we will be hard to catch.

We will be doing business in a different way, by re-defining our space from the dirt in the ground to the end user. Today we have the scope and the scale to generate

is designed around our Customer Sector Groups (CSGs) – a shift away from the former emphasis on products and production. Putting it simply, it will be more about focusing on the needs of our customers rather than just what we have to sell.

Seven Customer Sector Groups have been formed, and these are detailed on the pages following my report. All key appointments have been made. The Presidents of the Customer Sector Groups and their teams have full accountability for performance at the Earnings Before Interest and Tax (EBIT) level and for capital efficiency as measured by Shareholder Value Added (SVA). They will be responsible for developing new ways of accessing existing markets and creating customer solutions to expand or strengthen our customer base. Marketing resources at the Customer Sector Group

packages to customers will be one of the functions of the Singapore marketing hub.

Other integration activities have gone well. It was important to us that we made sure the governance arrangements in areas such as capital management, risk assessment and health, safety and environment were in place early.

Corporate governance arrangements have been established. BHP Billiton's capital management process will be controlled by an Investment Review Committee, chaired by the Chief Financial Officer. This committee will oversee the approvals and review processes for all capital expenditures greater than US\$100 million.

A Risk Assessment and Assurance Group has also been established, independent of line management and reporting directly to the Risk Management and Audit Committee of the Board, to ensure compliance with all

regulatory requirements and to identify and assess risk exposures within the group.

Health, Safety, Environment and Community (HSEC) governance will be managed by a professional group of employees at both the Corporate Centre and Customer Sector Group level. Oversight of the Group's Health, Safety and Environment practices and performance will be provided by an HSE Committee, which is a committee of the Board. This committee will play a key role in ensuring that BHP Billiton is a global leader in Health, Safety and Environment practices.

In a merger of this size, the relative importance of assets within the total portfolio changes. We, therefore, undertook a detailed review of all assets in the portfolio. Common criteria were used to enable assets to be ranked according to relative importance.

The growth projects in the portfolio have also been reviewed. Once the strategic framework is finalised, forthcoming growth projects will be outlined. We have a unique opportunity to effectively sequence our commitment to new growth projects, particularly in similar commodity groups. Since the DLC merger, two high-value growth projects, the Mozal aluminium smelter expansion in Mozambique and the Mount Arthur North open cut energy coal mine in Australia, have already been approved. First oil from the Typhoon field in the Gulf of Mexico commenced in July 2001. A number of other high-value growth projects are in final stages of evaluation before Board consideration.

While I am confident that we have a tremendous range of growth opportunities, financial disciplines will remain paramount.

We know that shareholders want to see enhanced earnings and high returning projects and investment opportunities delivered.

We will continue to assess merger and acquisition opportunities. The strong cash flow and balance sheet of the Group, coupled with two main acquisition currencies through the dual listed companies structure, means BHP Billiton is extremely well placed to look at worthwhile acquisitions and mergers. The Corporate Finance area of the company is responsible for merger and acquisition activity. It has been strengthened by bringing together the best from Billiton Plc and BHP Limited and is already evaluating potential acquisition opportunities.

On a more personal level, I have been impressed with the process of merging two world-class management teams. There is a real sense of enthusiasm at bringing together people with different cultures, experiences and skills. The new group is drawing from the respective strengths of both former companies. Billiton brought deep country risk management and operational experience, as well as an entrepreneurial culture and many growth opportunities. BHP brought strong balance sheet management disciplines, an unremitting focus on shareholder value, and capital disciplines.

I am confident that the best attributes of both are being captured to create a different company that can thrive in any environment.

An important part of the integration process will be a 360-degree review of all senior managers early next calendar year, not to assess what they have done, but to

assess how they have done it and how they have encapsulated the values of the new Group. If there are any rough edges, it will be my job to smooth away the impediments to success.

While the integration of two companies the size and diversity of Billiton Plc and BHP Limited cannot be completed within a space of 12 months, I am confident that the progress to date has been at or above the expectations of the Board and I am confident that the major priorities have been identified, and are being adequately resourced. Much remains to be done. Brian Gilbertson and I work well together. We share a commitment to capturing the immense opportunities we have to fashion a premier global Group.

I look forward to keeping you fully informed of our progress.



Paul M Anderson
CEO and Managing Director