Once upon a time, there was an industry that frequently brought sadness and tears to its investors. When prices were high and times were good, the multitude of metals and mining companies would fight to be first with the next tranche of new production. Fiercest in the melee were the single-commodity companies, who could perceive no other outlet for their strong cash flows in those good times, than to produce even more of what was raking in the cash. Soon the aggregate of committed expansions would exceed any reasonable level of real new demand. Prices and revenues would then start to fall, cash starvation and capital write-offs would inevitably follow. Worse still for shareholders were large acquisitions and investments, typically made at market peaks, which stood on such poor technical and economic foundations that they collapsed in upon themselves, even without the market having to exert its ultimate discipline.

Sadly BHP, one of the world's great resource companies, fell prey to this folly in the mid-to-late nineties. The names Magma, Beenup, Hartley Platinum even today bring palpitations to the hearts of the BHP investors of old. This series of poorly planned and poorly executed investments led to huge capital write-offs : nearly US$5.5 billion over a 6 year period [1995 - 2000], more than 20% of the company's average asset value over that period. Yet such was the quality of BHP's core assets that it could shrug off write-downs of even that magnitude. And for BHP the fairy tale has a happy ending, for a knight in shining armour upon a white charger rode into the tale --------- no I'd better make that a new CEO in the person of Paul Anderson. Paul and his colleagues - hard-nosed business executives, driven to achieve shareholder value - planned and executed a corporate restructuring of massive proportions, so to restore BHP to health and vitality. Then, as climax to their handiwork, they oversaw last year's merger with Billiton. So far this new company has been warmly welcomed by the market.

Now the Billiton story too has its elements of a fairy tale, with Prince Charming's kiss awakening the Sleeping Beauty. The company's roots stretch back nearly 150 years into Indonesia and South Africa. By the early Nineties, the mould from which the modern Billiton was cast was locked behind an "iron curtain" of South Africa exchange controls. The major assets were declining deep-level gold mines, and ! - these were buried within an unwieldy, unfocussed, industrial conglomerate. At this point, upon his white charger, in rode Prince Charming ---------- no, I'd better make that a new CEO, in the person of Derek Keys. Via his kiss - 2 or 3 key decisions - Derek triggered one of the more remarkable transformations in the industry's history. It led ultimately, via a series of well judged investments and acquisitions, to a robust, entrepreneurial London-based company, holding some of the world's finest metals and mining assets. Here too, the climax was last year's merger with BHP.

That merger was, in many ways, the culmination of a process of consolidation in the metals and mining industry that had been underway for a decade. Some of the major deals are shown along the top of this slide. The extent of that consolidation has been remarkable. In 1990, the top 5 metals and mining companies accounted for less than 25% of the total equity value of the US$150 billion metals and mining industry. The then-largest company, BHP, had a market capitalisation of around US$9 billion. Today, the top 5 companies account for almost 50% of the resource equity value of $US250 billion, effectively a doubling for the top 5 over the decade. BHP Billiton is still the largest company, 4 times bigger than BHP in 1990, and as large as the top five aggregated in that earlier year. This slide illustrates well the emergence of the current market leaders, and the large gap that is forming between them and the rest.

In the oil and gas sector - which is very important to BHP Billiton's present, and to its future - a similar consolidation process has been underway. The bottom half of this slide shows the main events that have led to the emergence of 5 "super-majors". They have a combined market capitalisation of around US$900 billion, in a sector, excluding the national oil companies, that is valued at US$1400 billion. This slide shows the dominance of OPEC in the industry structure; here the top 6 (OPEC and the 5 supermajors) also account for approximately 50% of the industry production, a percentage similar to that of metals and mining.

The first important message that I would like to leave with you this afternoon is that the resource industry, and the metals and mining sector in particular, is today, thanks to that consolidation, a much more robust industry than it was 10 years ago. The 4 industry leaders, all US$20 billion plus companies, own the best assets - real physical assets that generate real cash flows. They are committed to delivering shareholder value. As this slide suggests, the consolidation has already brought better share returns for the top four, certainly over the past three years. Therefore, when you are seeking investment opportunities, do not overlook this industry.

I do of course have a second message this afternoon, and that is that BHP Billiton stands at the evolutionary pinnacle of that consolidation process. The merger created not only the industry leader, but one unlike any other that our industry has seen. It has the potential, almost uniquely, to aspire to stable cash flows and to strong growth. If we can continue to deliver those twin goals, a material re-rating of the shares must follow. Pause with me a moment as I explain.

This slide shows the total shareholder returns for BHP Billiton, for its traditional peer group, and for various industrial indexes, since Billiton listed in London in 1997. The heavy red line shows BHP Billiton strongly outperforming - and in particular, outperforming the indexes. Now, with superior returns, I for one would have expected a superior rating. But no !, this has not been the case. This graph shows how BHP Billiton has bumped along, as has its traditional peer group, at PE's of 15x, while the FTSE PE has soared 50% higher, and the US Industrials higher still.

This anomaly will correct itself, with great benefit to shareholders, as BHP Billiton delivers stability and growth. Our ability to deliver those two elements rests on 6 VALUE DRIVERS, 6 key features which distinguish us from our competitors. I shall spend the rest of my allotted time on these.

VALUE DRIVER I - STABILITY FROM OUTSTANDING ASSETS

The assets that comprise the BHP Billiton collection are, individually, amongst the finest in the industry. Approximately three quarters of our asset base produces in the lower half of the cost-curve. About half produces in the bottom quartile. Included amongst our operations are Escondida, the great copper mine in Chile; the Worsley alumina refinery in Western Australia; the Hillside and Mozal aluminium smelter's in Southern Africa; the Pilbara iron ore mines; the BMA metallurgical coal mines; and the thermal coal mines of Ingwe in South Africa. These are all real assets with real cash flows (!) that set standards of quality, low-cost, and long life for their respective commodity industries. Even some of our higher-cost operations have remarkably attractive characteristics : For example, although the Ekati diamond mine's geographic location (only 200km south of the Arctic circle) makes it a costly operation, the excellent quality of its diamonds produces one of that industry's highest profit margins. Our Petroleum assets are similarly blessed, with great assets (eg the Bass Strait and the North West Shelf) providing us with one of the industry's highest levels of profit per barrel, and highest returns on capital. This means that, even at the level of the individual assets, we have substantial protection from the worst ravages of cyclical downturns.

But the value and potential of even such fine assets can be realised only if they are well operated. Excellence at the asset level is thus <u>the foundation</u> of our business, and if we fail to achieve this, then everything else that I say today will be undermined. A key element in achieving Excellence is control of costs.

Both BHP and Billiton had good records of cost control, frequently reporting reductions of between 1% and 2% in a year. One of our most promising initiatives to continue that track record is a process that we have named *The BHP Billiton Way*. This seeks to identify "best practice", either within the Group or without, and then to implement and standardise such best practice throughout all of our operations globally. It is a process that relies substantially on intra-Group networks. Early initiatives in areas such as maintenance and procurement have yielded good results. Based on our past cost-control experience, and on our judgements about *The BHP Billiton Way*, we have recently committed publicly to cost reductions at a rate <u>averaging</u> 2% pa for the next 3 years. (The word <u>averaging</u> is important, for economies are frequently achieved through step changes in production practice, rather than through continuous small improvements.) Given the size of our cost base, this commitment will entail cutting our aggregated costs over the 3 financial years

2003 to 2005, by US$500 million. I make the point that this US$500 million of savings will be in addition to the US$270 million of “synergies” that we estimated at the time of the merger.

There are a variety of other very important measures that we use to encourage excellence. Time does not permit me to deal with these this afternoon : Suffice it to say that our internal forecasts show these measures raising our Group return-on-capital to above 15% by FY2006.

It is perhaps worth spending a minute on our BUSINESS MODEL as it relates to the physical assets. Essentially we have collected the individual assets into Customer Sector Groups (“CSG’s”), based on natural customer-orientated groupings. (Thus the Carbon Steel CSG is responsible for our iron ore, metallurgical coal and manganese assets, all commodities needed by carbon steel manufacturers.) The President of a CSG - a very important person indeed ! - is given responsibility and held accountable for delivery of results to the EBIT level (our so-called “EBIT”-model). Cash flows generated by the CSG's “belong to” the Centre, and the CSG’s must compete for capital to fund their projects. Subject only to compliance with Group norms and standards, and with strict capital disciplines, the CSG President has much autonomy in delivering his contracted EBIT results. Since each of the CSG's is a substantial business in its own right, often a leader in its industry, we have been able to attract gifted and experienced individuals into the President positions.

VALUE DRIVER II - STABILITY FROM THE PORTFOLIO EFFECT

Our individual assets contribute the cash, but it is the portfolio effect that provides stability. This expert audience will not need me to recount how diversification helps to reduce the risk of a portfolio. But I record that one of the principal merits that Paul Anderson and I saw in the BHP Billiton merger was the relatively small degree of overlap in our assets. In consequence, BHP Billiton has outstanding diversification - by geography, by commodity, by market, and even by shareholder base.

The risk reduction inherent in this diversification was recognised almost immediately after the merger announcement, with Standard & Poor's rating BHP Billiton's credit at A (with positive watch), up from the BHP stand-alone rating of A minus, Billiton itself having been unrated.

Our risk mitigation can of course be quantified statistically. The Cash Flow @ Risk ("CF@R") Model developed by my colleagues for this purpose is, I believe, easily the most advanced available anywhere, and it has revolutionised the way in which investors are able to make judgments about resource companies. Applying that model pre-merger, the ratio of CF@R to Cash Flow was 25% for BHP, 26% for Billiton. Post merger, the ratio for the BHP Billiton Group dropped to 19%, thanks to the co-variances between the various elements that contribute to Group cash flows. The significance of this for shareholders is illustrated in this slide. It shows that the Group (as currently constituted) is most likely to generate cash flows around a mean EBITDA of <u>US$5 billion each year</u>. In "bad" years, thanks to the Group's diversification, EBITDA is unlikely to fall by more than US$1 billion (at the 95% confidence level, ie. in only 1 year out of 20). Such is our confidence in our portfolio model that we have told our board that the CF@R to Cash Flow ratio will not exceed 25%.

This stability of cash flow generation is a major Group strength, enabling us to consistently meet dividend expectations, and to fund our growth initiatives on the basis of merit, without concerns about short-term cash flow disruptions that might inhibit more risky firms. Stability also provides balance sheet strength, enabling the Group to target a good credit rating, to optimise its gearing ratio and debt maturity profile, and so to minimise its cost of debt.

It follows from this that the supervision of the Group portfolio is one of our core tasks. Our decisions to sell down our interest in the Columbus stainless steel plant, to exit the Arutmin coal deposit, and to exit Ok Tedi, were driven by the desire to improve the portfolio, to reduce its volatility, to stabilise its cash flows, and to eliminate problem areas. Even the spin out of our high-quality BHP Steel business (on schedule for 1 July 2002) will leave a portfolio better matched to our desired structure. Similar computations and judgements will be made each time a major investment, acquisition, or divestment is evaluated.

These various diversification insights lead us to the following targets :

- A credit rating of "A" or better;
- Positive cash flow before dividends and funding in every year; and
- An average EBITDA to interest cover ratio greater than 8 times over the economic cycle, which in turn implies a gearing ratio (net debt to total assets) in the 35% to 40% range.

Of course, where investment opportunities for value creation do not exist, and balance sheet targets have been achieved, excess funds will be returned to shareholders.

VALUE DRIVER III - STABILITY AND GROWTH FROM CUSTOMER-CENTRIC MARKETING

Even great assets in a great portfolio have value only if they meet customers needs. In the resource industry, marketing has traditionally been done on a fragmented basis, often using intermediaries in the marketing chain. To set us apart from this traditional practice, and from our peers, we have implemented a customer-centric marketing approach.

This approach starts with the grouping of commodity businesses into CSG's, which I have already discussed. The next feature is coordinated marketing, based around twin "hubs" in The Hague and in Singapore. These hubs seek to professionalise and extend the services and products that we have traditionally offered our customers, to lower the costs of delivering those products and services (eg by aggregating shipping volumes across CSG's to achieve bulk discounts), and to meet customers' total needs, inter alia by making integrated product offerings, sourced from own and third party production. Ideally, we will combine with our traditional physical product handling ability, the flexibility and trading skills of a merchant, and the risk management judgments of a financial institution. Among the consequences of this approach have been the standardisation of marketing systems (common SAP-based execution and risk management systems), independent audit review and control regimes, and the recruitment of skilled and experienced professional staff (for example to man our shipping desk). Thus we will better serve the needs of our customers, while developing a better understanding of market conditions, to the overall benefit of our commercial decisions.

A good and early illustration of this approach is to be found in the Marra Mamba iron ore supply agreement that we signed two weeks ago with POSCO, one of the world's most important steelmakers. Under this agreement, POSCO will purchase a minimum of 3 Mtpa of this ore for 15 years and will maintain a long-term strategic alliance with BHP Billiton for the supply of other iron ore products. Also, very importantly, the substantial technical expertise of POSCO will be a key element in realising the full value of the Mining Area C resource. So here we have a transaction where we win, the customer wins, and our competitors - present and potential - have a tougher road ahead. All in all, a triple win for our marketing strategy !

VALUE DRIVER IV - GROWTH FROM DEEP INVENTORY OF PROJECTS

One of the birthrights of BHP Billiton was a remarkable "pipeline" of growth projects, potentially involving capital expenditures of some US$10 billion over a 5 year period. Many of these are "brownfields" expansions, which usually show robust project economics. An updated version of the "balloon diagram" prepared at the time of the merger is shown in this chart.

About US$2 billion of the US$10 billion has been approved since the merger, on projects such as Mozal II in Mozambique, Mount Arthur North in the Hunter Valley, Mining Area C in Western Australia, and the Mad Dog development in the Gulf of Mexico. A breakdown of the project pipeline by CSG shows a good balance between the CSG's. Thus, for example, potential capital expenditures on Petroleum projects, at 35% - 40% of the total "pipeline", is similar to its current contribution to BHP Billiton's earnings.

If projects are to add rather than destroy value, they must be implemented professionally - preferably ahead of schedule and under budget ! - and of course, the original capital decision must be soundly based.

Our recent project experience has been sound, with large successful mega-projects like Mozal in Mozambique, Typhoon in the Gulf of Mexico and Antamina in Peru providing much confidence regarding project implementation.

Regarding the investment decision - the starting point of success - we have institutionalised rigorous capital approval processes. In essence, each investment decision involving more than $US100 million requires an Independent Peer Review (independent of the project promoters); it requires sign off by an Investment Review Committee; and it uses a price forecast which is centrally- (not promoter-) determined. Ultimately such projects require the formal approval by both the Executive Committee and the Board. I might add for your interest that internal reviews in recent months have caused us to walk away from at least 2 projects previously judged promising, well before they had completed our full evaluation process.

VALUE DRIVER V - GROWTH FROM PETROLEUM

I come now to Petroleum. This is the VALUE DRIVER which provides the “break-out” from the peer-group into which we have traditionally been cast. This is what makes us unique, and what should keep us unique, for any competitor would be hard pressed to replicate the quality of our Petroleum business. Through sound judgment and good fortune, the Group has assembled outstanding oil and gas assets, a portfolio which any of the supermajors would be pleased to count amongst their own. These range from mature, cash generating operations in the Bass Strait and the North West Shelf, through to the major new investment opportunities in the deep waters of the Gulf of Mexico position - and - thanks to recent discoveries - in shallow waters off the coast of Trinidad. We think also that we have particular advantages over the supermajors in developing niche opportunities in countries such as Algeria and Pakistan. Reflecting our quality, the PFC (The Petroleum Finance Company) survey has ranked BHP Billiton's profit per barrel in the top three in the industry for the last three years.

Our oil and gas assets provide an important element of diversification in the overall Group portfolio : They also offer growth opportunities which might more easily be achieved and sustained than in the Minerals CSG's. Our traditional competitors, already large in particular commodity areas (as indeed are some of our own CSG's) will increasingly find M&A growth hindered by Competition legislation. Although our CSG's can still grow today through acquisition, competition issues must ultimately impose a "limits-to-growth" ceiling. But for us, Petroleum removes that ceiling for, as this chart shows, BHP Billiton is still a small fish in the Petroleum ocean.

VALUE DRIVER VI - GROWTH THROUGH INNOVATION

Most of what I have said so far has to do with the skilful management of our existing assets and opportunities base. But in a competitive market place, long-term success requires more. If we are to outperform our rivals, if the children of this audience, and their children, are to be enthusiastic investors in BHP Billiton, then management should today be seeking value "outside the box", by identifying and exploiting opportunities outside of the existing asset base. Indeed, the merger that created BHP Billiton arose from exactly such lateral thinking, delivering a transaction which redefined the metals and mining industry as it then existed. The skills that led to the merger remain well-established within BHP Billiton, and now that the integration process has been completed, can again be encouraged ! This is an area where competitive pressures abound, so perhaps I should signal only one potential opportunity : This is ENERGY, possibly the largest and fastest growing market in today's energy-hungry world.

BHP Billiton is in a unique position to contemplate at least a limited entry into this market, which, if successful, might ultimately see Energy join Minerals and Petroleum as a major future business arena. In its traditional Minerals business, BHP Billiton is energy short, needing power to run its smelters, furnaces, trains and draglines. The Group is for example the largest consumer of electricity on the African continent. But at the same time, the Petroleum arm of BHP Billiton - and indeed the Corporation overall - is energy long, thanks to our oil and gas assets, and to our production of energy coal. We are thus positioned as both buyers and sellers. Effective exploitation of the space in between should, we think, enable us to develop value-adding opportunities, leveraging our strong physical liquidity so as to offer more comprehensive product packages to existing and to new customers.

Our ideas here are still in embryo stage, but we have dedicated a small team of our "best and brightest", within a cross-CSG structure, to develop these further. The team is linked closely to our customer-centric marketing hubs, giving us the opportunity to innovatively combine own products (from various sectors), energy (own and third party), products and services from third parties (for example logistics) and our own skills (risk management and other) into total solutions for our customers. I think this will prove a space worth watching.

I should probably go no further than this as my rivals may be listening attentively. Suffice it to record my belief, my experience, that entrepreneurial people, encouraged to shed the blinkers of the everyday, are likely to generate an opportunity stream in which the future industry leaders would be wise to trawl.

THE VISION STATEMENT REVISITED

We have come to the end of my presentation. The fairy tale has a happy ending. BHP Billiton is a company with strong, stable cash flows, and excellent growth opportunities. My colleagues and I are deeply committed to the challenge of turning a very good organisation into a truly excellent one – to realise our ambition of becoming one of the world's premier companies. We believe there is much potential for a re-rating of our stock. Today, we are still grouped with the cyclicals, which have PE's of perhaps 15. But we have already broken away decisively from that cyclicals-grouping. As our stability is recognised and our growth feeds through, we should trade at the PE's of the major industrial companies. With that re-rating, we shall be well on our way to achieving our vision of being ONE OF THE WORLD'S PREMIER COMPANIES --- and then we shall all live happily ever after.