Introduction.

Good Morning, I appreciate the opportunity to speak at this year's CRU World Copper Conference. The title of my paper today is "Profiting from Consolidation in the Copper Industry" – I will take this opportunity to expand on some of the issues I raised in a recent paper I delivered in Florence. The key focus of the presentation is to consider some aspects of the industry's financial performance in an attempt to highlight areas where we, as an industry, can improve our record. Where possible, we have drawn from 3rd party analysis to ensure objectivity. The point is not to dwell on the past, rather to understand it, in an attempt to make sure it is not repeated in the future.

[Slide showing Co Structure and Strategy Statement]

Firstly, it is my pleasure to introduce BHP Billiton Base Metals. Following the merger of BHP and Billiton in July of 2001, the group restructured its businesses along customer lines. The business units are called CSG's or Customer Sector Groups. In addition to Base Metals, that encompasses Cu, Ag, Pb, Zn (and hypothetically Tin), there are 5 other CSG's: 1. Aluminium, 2. Carbon Steel Materials (which includes Iron Ore, Metallurgical Coal and Manganese), 3. Energy Coal, 4. Stainless Steel Materials and 5. Petroleum. We have located Base Metals' Head Office in Houston, Texas, which allows us to utilize the economies associated with the Shared Business Services that support BHP Billiton Petroleum's major presence in that city. It is also on the same time zone as the majority of our operations and provides easy access to our major customers in the Northern Hemisphere.

Although BHP Billiton Base Metals is the name of the new CSG, it doesn't truly reflect the corporate history that has come together to produce the CSG Group we have today. To do that, the name would need to be BHP-Billiton- Rio Algom-Magma - Utah International. You will agree, I'm sure, this is an impressive corporate pedigree. One that we believe provides us the foundation to deliver on our stated Strategic Aim that is to ***"Maximise the Long Term Value Creation for BHP Billiton through exposure to the Base Metals Value Chain"***

[Slides showing Sites with production data]

As a group we operate the Escondida, Tintaya and Cerro Colorado copper mines and the Cannington, Selbae and Pering polymetallic mines. We also have Joint Venture interests in the Antamina, Highland Valley Copper and Alumbrera operations. BHPB's share of production for calendar 2001 is shown.

The existing infrastructure is being complemented at Escondida with the Phase 4 Expansion that will see production capacity increase to over 1 MTPA when it is commissioned in Sept this year. At Tintaya the oxide project, which is forecast to produce 34,000 tpa, will be commissioned in April of this year. Both of these projects have cash costs of less than 40c/lb.

Today, BHP Billiton Base Metals is one of the world's leading base metals producers. A top 5 producer of copper and silver, with operating assets on four continents and with the economic benefits of being part of the largest mining company in the world.

We are also a long-term investor in Chile. Esondida alone represents an investment of over US$4 Billion. In addition, we have invested more than $600M in the Cerro Colorado mine and have pla ns to invest more than US$2 Billion bringing the Escondida Norte, Escondida Sulphide Leach and Spence projects into production when there is sufficient market demand. I will return to the latter point, –WHEN THERE IS MARKET DEMAND - later in this presentation.

It is often forgotten that the benefits to the community and country continue through the life of the operation – well after the construction crews have moved on. In the 11 years since the start of commercial production, Escondida has paid more than US$1.6 billion in taxes and each year it buys approximately US$400m of goods and services in the local area. In Chile, BHPB employs 3000 people directly and a further 2500 are permanent contractors. In addition to this, some 8000 contractors are working on the Phase 4 construction. All these people in turn pay their income taxes and buy their goods and services in Chile.

I will discuss BHPB's rationale for its recent production cuts shortly, but it is important to note that the Chilean and Peruvian economies benefit in the long term from a healthy copper industry. Chile produced approximately 4.7 million tonnes of copper in 2001. A 10c per pound rise in price increases the Chilean industry's revenues by US$1 billion. Not only does this benefit the country through increased foreign exchange earnings, taxes on private companies and profits from the state owned Codelco, it importantly makes further investment in mining more attractive.

Our non-financial contribution to Chile is equally important. Our HSEC record is first class. Escondida is one of the first fully ISO 14001-certified mining operations in the world and it is an industry leader in terms of safety. The Escondida Foundation provides strong support for sustainable programs in health, education, indigenous peoples and youth development.

At Cerro Colorado we recently received national recognition from the Chilean Ministry of Labor and Social Planning for our worker-training program – "For improving the quality of life of its workers and for contributing to the competitiveness of our country through work training."

We are proud of our record, but more importantly, we are excited about the future. We believe that BHPB's investment in Chile will help contribute to this country maintaining its leading position as a copper producer as well as improving the standard of living for all Chileans.

Turning to Recent Events.

From July of 2001 we were fully preoccupied with our own post-merger integration against a background of falling demand and increasing stocks. As we all know the world changed following the tragic events of September 11. No one however could accurately predict the implications of those events. Forecasts ranged from a rapid recovery due to a patriotic surge of buying on Wall Street, to a depression greater than that of the 1930's. From our vantage point today, there are weak signals that the leading indicators of Industrial Production (IP) are turning and that the world economy has survived yet another external shock.

Just as the black mood that permeated the industry in October through November last year turned out to be overdone, we need to be careful that we don't assume we have returned to a 1990's scenario of 3% growth in copper consumption. The demand picture is still too opaque to call. Some of the pick up in IP in the US appears to be consumption brought forward by very low financing charges. Record auto sales do not represent some stepwise change in per capita automobile usage in the US. Instead, it reflects purchasing decisions brought forward by 0% financing offered by the carmakers.

Unfortunately it appears that the record number of car sales in the last quarter, will result in a drop in sales over this year. The recent US$5B extraordinary loss at Ford and the announcement of 35,000 lay-offs is a demonstration that all is not well in that industry. Similarly the surge in new housing is interest rate related rather than a structural shift in the housing market in the US.

From the industry's perspective, the last 6 months has brought at least one positive change; a much-needed focus on demand, supply, and the role of metal stocks. At BHP Billiton Base Metals we spent a lot of time re-evaluating our understanding of our markets, our own business model and the industry performance in general. I would like to make a special mention of the excellent work done by the various commodity analysts and consultancy groups during this period. Not only are they independent commentators on the industry, and thus easier for CEO's to listen to than lectures from competitors such as myself, but more importantly they add depth and clarity to our understanding of the demand side of the equation.

Our decision to cut production at Tintaya and Escondida was not due to some altruistic support for the industry. It was definitely based on the creation of shareholder value. When we announced the cuts on November 9, 2001, we were challenged that the cuts were illogical, our sites were still cash positive and that we should let other producers go under and then reap the rewards.

[Slide showing prices and stocks from 1980 to 2000]

From our perspective, this simplistic view fails to take into account the complexities of the markets in which we operate. Our major focus was on stock levels rather than the absolute prices. We used two simple, but key, representations of the market mechanics in our own decision-making processes. The relationship between prices and stocks - and thus real customer demand - was the key.

Our view was that our shareholders, would see a destruction of their wealth if metal stocks rose to the relative levels of the early 1980's. Those of us in the industry at that time remember that, although demand exceeded supply from 1983 onwards, prices did not respond for 2 years. Demand was met from a sell down from stockpiles.

If we did not act, the danger of repeating this scenario was real. The difficult question is "*Why not wait for high cost producers to close?*" There are 2 answers to that question. The first is that we didn't have time. High cost producers are often unable to close production as closure costs exceed the drain on cash and debt reserves. The matter is further exacerbated by human nature that begs to hold out for the price recovery that we know has to come.

We do see some companies that have a mix of low and high cost production subsidizing and continuing to maintain and even invest in uneconomic high cost production. Whatever their reasons for doing this, the damage they do economically to their own low cost base production is significant. Even the threat of insolvency doesn't have the necessary impact. We have seen in the zinc industry that Pasminco's production has been maintained while the company is under administration.

The second reason is the impact on our own operations of a flattening of the cost curve. It is simple economic theory that, over time, prices in a commodity industry will oscillate around that of the highest cost marginal production. If all demand were capable of being met (and exceeded) by 40c cash cost producers, the price would be 40c. Neither Shareholders nor copper producing Nation States are winners from this outcome.

We also started questioning the absolute cost of allowing the financial markets to fund the industry's working capital through the LME/COMEX system when there are no real customers. We found the simple analysis published by Bloomsbury Economics useful in focusing our thinking. Although based on a limited number of data points, the table shows how price is dependent not only on the anticipated change in demand (IP), but also on the stock levels at that time. Each project - whether it be a green field project like Spence, an acquisition such as Disputada or an existing mine expansion such as that at Chuquicamata - has a lower NPV, and thus lower value to owners, under a regime of growing stockpiles.

It is against this background that BHP Billiton unilaterally decided to reduce our copper production. At Tintaya, which is our highest cash cost operation, we closed the sulphide operation. The decision on how and when production is restarted will likely be made mid-year. Understanding the role the mine plays in the local area, and the impact closure has on our workforce, we have attempted to mitigate the human effects of the closure by keeping our workforce employed on a reduced salary during the shutdown period.

At Escondida, the ore body allows us significantly more flexibility. We have reduced production through lowering the cutoff grade. Rather than "high-grading" which is the usual response to a price downturn, we have done the opposite. In this way we are able to reduce copper production when prices are low and reschedule it to periods of higher demand. Because we have not changed the bulk material flow, bottlenecks in the process remain unchanged and our cost structure does not deteriorate. This is an NPV positive strategy that benefits shareholders. (Interestingly this is exactly the operating strategy that Ken Lane proposes in his landmark work "The Economic Definition of Ore")

[Slide showing stocks and prices Oct to present]

The graph shows prices and stocks over the last 5 months. It is worth considering the different responses to the various production cut announcements. Note that the response to the Phelps Dodge announcement on October 23 was minor in both amplitude and time. There are a number of reasons for this. Most importantly, the Phelps Dodge cuts were anticipated by the market and already priced in by the time the announcement was made.

Also, this was simply history repeating itself – stocks building while the high cost producers held on to the last – a sign that it would take a long time to reverse the market imbalance.

The prices responded quickly after the BHP Billiton announcement and gathered momentum as more producers independently followed suit. In addition to surprising the market, the cuts introduced a new paradigm where low cost producers were acting with a more strategic intent and in a way that showed a greater focus on value, rather than absolute production. Some even suggested (God forbid) that the industry was acting rationally.

More pleasingly, prices have more or less held their levels despite the continued increase in stocks from December through to today. The latter, one assumes, is the lag effect as production cuts flow through the value chain as well as the de-stocking associated with the Enron collapse. One hopes that this price recovery reflects the market view that supply and demand are approaching balance but, again, we caution that it is in our opinion, too early to tell.

Long Term Solutions

Production cuts have played an important role in balancing supply to demand, yet they are not the long term solution in themselves. In our opinion, the industry needs to better understand the real cost of producing metal when there are no final customers. Warehouse stocks are approaching 1.2 million tonnes. It is easy to forget that these stocks have a cost. A very real cost that is ultimately borne by the industry, and thus shareholders. Assuming a copper price of $1500/t, the stocks have a value of $1.8 billion. In simple interest terms, the financing of such working capital is in the order of US$110 million pa.

However, if the absolute effects of lower prices (resulting from the overhanging stockpiles) are taken into account against the industry's total production, it is reasonable to argue that each cent of lower price due to excess inventory is a real cost to the industry.

In the period 1983-86 it is reasonable to assume that the stockpile reduced prices by 10 to 20 cents per pound on what they otherwise would have been. Thus this inflexibility in production was responsible for a reduction in industry revenues in the order of US$5 to $10 billion in the dollars of the day. Theoretically, this represents 100% per year financing costs for producers using the LME to fund working capital for product for which there are no customers. I cannot emphasize strongly enough that it is far better for the copper industry to shut in production than to produce copper for which there are no end users and subsidize this production with the financial credit provided by the LME.

I acknowledge that the swings in the volatility in Industrial Production are likely to be more rapid than the industry's ability to change metal production in the short term. Some stocks will always be needed and prices will always be volatile to some degree. We can however work to ensure much greater responsiveness to changing market conditions and make fewer irrational decisions than in the past.

[Slides showing returns to investors]

The slide show an analysis of industry returns calculated by Rothschild Australia over 1, 5 and 10 year periods. We have deleted the company names to protect the innocent (and guilty). As with any such analysis the results need to be interpreted. In this case the finish point of 2001 will always exaggerate results. It does however indicate what we all know. On average, our industry destroys shareholder wealth – it fails to cover its cost of capital. We can all gain through more rational capital allocation.

Operations Mangers, Corporate Executives and providers of debt and equity capital need to critically review their projects and ensure they cover their cost of capital. At BHPB we believe that projects that require prices in excess of 85c/lb cannot be justified in the foreseeable future and will destroy shareholder wealth if they are pursued. There is sufficient low cost capacity that can brought into production to meet even the most optimistic foreseeable demand. Beware the Merchant Banker promoting a fabulous copper project based on a $1/lb copper price.

We believe capital providers have an equal obligation in bringing common sense to the market. Bankers should insist they test companies' ability to cover financing costs at 60c copper or 35c zinc in their bankable feasibility studies. We know that those prices will occur at some time over the mine life. The Bankers to Pasminco have learnt this lesson only too well.

Another factor that owners and lenders must consider are the demand expectations of local communities and governments associated with mine developments in remote areas. A number of high profile mines are operating solely for debt service with little benefit to local communities or host government and absolutely none to shareholders.

[Slides showing Stockpile forecasts]

Looking Forward.

The slide shows the likely Comex/LME stocks based on the market balances predicted by (in alphabetical order) Bloomsbury Economics, Brook Hunt, CRU, IWCC and Macquarie Bank, assuming a starting point of a stockpile of 1.1 Mt on January 1, 2002. We have again deleted the legend to protect the innocent. There are two conclusions that can be drawn from the data. The first is that forecasting the future is an impossible and thankless task. The second is that even the more optimistic forecasts see stocks above 600,000 tonnes in 2005.

[Slides showing CRU forecasts]

As this is the CRU conference we thought it safe to highlight their forecasts and we see they are one of the more optimistic ones. We hope they are right. The slide also shows CRU's forecasts for some of BHPB's production.

As we all know CRU are very good at their job and we don't see anything in this data to change our view. It is important however to point out that we can bring more production to market should the market turn out to be stronger than predicted.

BHPB Base Metals is capable of meeting its share of this growth from low cost production as it is required. In addition to bringing Tintaya Sulphide and Escondida back to full production, Escondida Phase 4 and Tintaya Oxide will also come on stream.

To meet medium term demand, BHPB has one of the most attractive suites of new projects in the industry. Even if it were a greenfields project, Escondida Norte - with more than 600Mt at more than 1.2% Cu - would be one of the most attractive un-developed deposits in the world. The fact that it is a brown-fields expansion of Escondida makes it an extraordinarily capital efficient, low cost source of new copper. Similarly, the development of bio-heap leaching of low-grade sulphide ore at Escondida has the potential to increase low cost copper production by a further 200,000 tpa.

The Spence Project, also in Chile, can be developed at a 200,000 tpa level as either a conventional sulphide concentrate or leach project and again will have a cash cost under 40c/lb and provide returns in excess of its cost of capital at 80c copper.

In fact, today BHP Billiton has more than 1 million tonnes of potential capacity with cash costs of less than 40c per pound that cover the cost of capital less than 80c per pound that can be brought into production as required. We intend to bring this production to full capacity as soon as the market allows.

Given this picture of supply and demand, it is worth reflecting on when it might be appropriate to start considering bringing on new greenfields capacity in the copper industry. It is clear that all of the current shut in capacity is by far the most capital efficient to restart. It will take little time and limited capital to restart this capacity. Today the total industry sits on about 1 million tons of idle capacity that could be restarted within one year. Beyond this, there are brownfields expansions of about an equal amount that can be implemented within 2-3 years. Again these will be both more capital efficient and much lower cost on a C3 basis than any greenfields capacity.

It is thus impossible to see any need for any new capacity within the next three to four years. Beyond this, the need for new production will depend entirely on how world growth has evolved and whether or not producers have successfully matched supply to demand in the mean time. Today there are some 135 identified undeveloped copper deposits of some size in the world. Many of the owners of these deposits would like to develop them. We hope that they understand the lessons this industry has learned over the last twenty years and recognize that the price of copper is not independent of their actions.

It has been suggested by some that their yet to be developed deposits will contribute another 650,000 tons of metal per annum in the next 4-5 years. If there is no market for this metal, I hope they do their project economics on a long-term copper price of 70 cents/lb for that is what it will be. If you are a real copper bull it would be a far better approach today to enter the industry through the acquisition of existing capacity rather than attempting to bring on greenfields projects. Or better still; simply buy physical metal from the LME warehouses

At BHP Billiton we understand that this is a long-term game. Although the new group is less than a year old, it has evolved from companies that have been in the industry for well over 100 years. In the longer term, shareholder value creation will be delivered through successful exploration, acquisitions and industry rationalisation.

With respect to exploration, Base Metals works closely with the BHP Billiton Exploration Group to participate in the discovery of Tier 1 assets. Although early days, we are pleased with the initial drill success in the Mt Woods Joint Venture in South Australia where the operator Minotaur Resources has intersected mineralisation that includes 107m at 1.94% Cu and 0.65 g/t Au, together with Ag, Rare Earths and U. BHPB is earning a 51% position in this exciting exploration area.

In the longer term, BHP Billiton's proprietary airborne gravity gradiometer technology (otherwise known as Falcon) will, we believe, deliver our company a high share of Tier 1 deposits that will be discovered over the next 20 years.

With respect to M&A it is easy to get carried away. With the strength of our assets and corporate group, we obviously have the capacity to move freely on this front. We are however cognizant of the fact that on average, takeovers and public auctions are more beneficial to the target or selling companies' shareholders. We will continue to review opportunities but I can assure you we will only acquire projects and companies when we believe it creates value.

Conclusion

When we were planning our production cuts last year it was obviously done with the utmost secrecy. We gave the project the name Apollo. There were 2 reasons. The first, like the Apollo missions, the head office was in Houston. The second was a wishful thought that whilst the cuts were a small step for our company, they might result in a big leap for the copper industry.

[Slide – Conclusions, more stocks or rational investment and higher returns]

Early days, but maybe it is. We think we see a more common sense approach entering the decision making of the industry. We applaud the production cuts that followed our announced cuts last year. In particular those of the largest producer, Codelco. If the analysts' reports are correct, Codelco have stated they don't see a market need to restart that production this year. We concur with this view.

The recent announcement by Anglo of their decision not to pursue the Konkola Deeps Project we believe is also a sound decision that is certainly in the best interest of that company's shareholders. As I said, early days, but hopefully this is the start of an era of improved returns and value creation.

If it is not, history will repeat itself. High cost producers will hold on as long as they can before going into bankruptcy while low cost producers continue to expand production. New players, without sufficient understanding of the industry, investing in new green-field production that will fail to cover its cost of capital, will exacerbate this. Under such a scenario stocks will continue to build to the point where prices remain depressed for half a decade or more. If this boom and bust cycle continues it will eventually lead to a lack of investment that will benefit neither the producing countries like Chile nor shareholders.

[Last Slide – The End, Thank You