Securities Institute Luncheon Presentation
BHP Billiton Strategic Framework Announcement
Question and Answer Session

Mike Shephard: We have an abundance of questions, as you might have guessed, so if we don't get to yours please understand that it was just impossible. We have probably approaching 80 or so questions. Also forgive me if I have trouble reading the handwriting and stumble over some of the questions but I am sure Paul and Brian will be able to guess what the question is, even if I don't get it right.

Question. As 55 per cent of your net operating assets are in South Africa, 35 per cent, and South America, 20 per cent (not the most politically or economically stable countries) how secure do you regard future earnings from these assets?

Brian Gilbertson: Well, I guess there are one or two points to make about that. The first is that the South African assets are simply outstanding assets. The coal production comes out at a cost which is unmatched by anyone anywhere in the industry. Their record of implementing projects has been simply outstanding. The big smelters have come in ahead of schedule, under budget. They set new records compared to smelters anywhere in the world. But I don't think that is the issue. The answer really has to be looked at in the context of the diversity of this corporation, of the diversification that takes place through our asset portfolio.

Really if you want to be in the metals and mining industry as our minerals arm is, you have to be in the three key geological areas of Australia, Africa, and South America. This is where the important ore bodies are and so this is where you have to operate. There is a long history of operating in Australia on the part of BHP. There is a long history of operating in Africa on the part of Billiton. To illustrate the strength of the merger - I mean, BHP had a bad experience in Africa. Their investment in Zimbabwe was not successful; Billiton's was. If we had not done the merger there was a risk, I think, that BHP might have thought very long and very hard before considering investing in South Africa, but because we now have a group which has the skills to operate there, I think we can look at that kind of investment in a much more rational and balanced way than would be possible on the basis of a bad experience.

Then I just want to also make the point about Latin America where - I mean, Chip Goodyear, who is the one who came up with these phrases of one trick ponies and so on, he has introduced another concept into our organisation, that is the concept of the footprint. We have a huge footprint globally, particularly in these three geographic areas. For example, in Latin America we operate in more countries and in more commodities than anyone else in our industry, and I think we actually produce - I had better check this - I think we produce more money from our industry than anyone else does in Latin America.

So on the basis of the footprint being there, we are well placed to identify opportunities when they come, we are well placed to evaluate them when we have to make judgments about them. So I think the question of looking at a particular geographic area has to be seen in the context of the overall group portfolio which I spent so much time talking about earlier.

Having said that, I think there are some areas that I think we would be nervous about going into, and these are areas where it is unsafe to send your geologist in. If he runs the risk of being shot or walking on a land mine, that is not a good place to be. So you basically need an environment in which your people will be safe. Secondly, it has to be an environment where you have some confidence that the legal process will be dispassionate towards you as an investor in the country, that you will not be at a disadvantaged compared to a local citizen and, of course, there are countries where you would not have that.

Finally, though I think I should have perhaps put it in between the two I have just mentioned, you have to have a security of tenure over the assets and the ore bodies that you are involving yourself in. Again, if you don't have that it is almost impossible to go into those countries. I think if you use those three criteria you will find some areas that we don't want to go into. Sorry, Paul you wanted to say something.

Paul Anderson: I just wanted to add a couple of things. One, over 90 per cent of our assets are in investment grade countries, so I think it is unfair to characterise continents or general areas and say, well, these are all unstable because 90 per cent of our assets are in investment grade countries.

The other thing is there is a huge difference between political stability and fiscal stability and environmental regulatory stability. I would say that there is probably more risk in the mining industry in the United States than almost any other country in the world right now. So you would have to look at this in the context of a number of aspects of risk.

Question. BHP Billiton recently withdrew from a zinc project in China. What drove that decision and what is the company's outlook for zinc?

Brian Gilbertson: The withdrawal from the zinc project was really based on it being a very complex commercial decision. There were very substantial environmental problems in the area. A substantial part of the ore body had in fact already been extracted by small scale miners who continued to operate with great enthusiasm in the area and who continue to dump product that they were mining into the rivers, the streams and the river in the area.

That coupled with the fact that the zinc price has for a long time been weak, and I guess also coupled with the very important influence that China has, not this particular deposit, in the market. I think on balance all things considered it was a complicated project to do. Also the capital forecast that we made internally which we judged would be needed to achieve the good environmental outcome, the efficient operation and so on, pushed to a level where the project of the economics became unattractive. So the project went through the processes and it was then rejected in that project evaluation process.

On the outlook for zinc, I guess I should pass that - the last thing I should be going on record is forecasting prices of anything. So I will skip that one.

Question. HBI. Could you define what is a "serious snag" and what the possible sensible solutions are?

Paul Anderson: A serious snag is that the plant is not running which caused us to declare a force majeure. Now the plant is not running because of some fractures that we have in the gas generating part of the plant. We don't know what caused those fractures and, you know, what the prognosis is, where do we go from here, how we would repair them, what would happen if they were repaired, the long-term reliability of the plant and the process. As Brian said, we are in the fact finding session right now. We have clearly a very high priority associated with understanding what is the implication of this and we should certainly within the next month or two reach a conclusion. We have committed to report to the marketplace on a quarterly basis where we are, so you will certainly get a full report at the end of the - it will be the end of the fourth fiscal quarter.

Question. Is it the company's intention in future to benchmark itself against companies in other sectors and, if so, are the benchmarks announced today sufficient to compete for funds in those sectors?

Brian Gilbertson: I think the answer to that is "yes". The benchmarking takes place, not only at group level as I have put up a set of parameters for this meeting to consider and to look at, but it also takes place at the CSG level where the Presidents of those CSGs would look at their performance criteria and measure them in parallel across, not only our own businesses, but across those of competitors. It will be one of the key variables that we use at the centre of the organisation to make judgments as to how the CSGs are operating.

At the overall group level, I hope you agree that that is a pretty challenging set of targets that we have put out. If we have missed any I would be grateful for feedback and we will certainly consider them the next time we review this, but I think the targets are challenging and I think they are comprehensive in a financial sense.

Question. Do you consider laterite nickel projects as a feasible means of expanding BHP Billiton's nickel portfolio?

Brian Gilbertson: I would be very nervous to knock a new process because it hasn't worked the first time around. I have in mind that many projects have taken a long time to reach their full potential. Just thinking of some in the old Billiton background, the Richards Bay minerals which I think everyone would recognise as being one of the lowest cost, the finest, and it is the industry standard, took a decade to get it to operate at peek performance.

Having said that, the pressure acid leach plants which have been built so far have clearly had very serious problems and I think there have to be questions about the materials that have been used.

I think, as many are aware, we are looking at a project which would involve the variation on this technology. All I can say to you is that we would want to be very confident that we had learnt from any mistakes that might have been made in the first generation before we committed to spending substantial sums of money on a second generation of plants. I mean, we will look at the opportunity in that light.

Question. What can be learnt from BHP's investment errors in the past?

Paul Anderson: One of the things that we have done is we have done a lot of post-mortems on some of the investment decisions that were made in the past and why they turned out to be less than successful. I would say that there are a lot of lessons, hundreds of lessons, I could probably go on for hours. They come down into two major areas, I think. One is that there was over optimistic estimation of the market acceptance and market prices. So the price curves always were headed up in the future and one of the things that Brian mentioned is that we have taken price forecast in a way from the product champion and put it in the central staff. All of our price forecast assume that long term there will be a decrease in commodity prices of 1 to 2 per cent a year. That is regardless of the commodity. We are in cycles and, for instance, copper we believe it will go up from where it is today but long term over the last 125 years we have seen decreases in commodity prices. It is unlikely that the next 125 years we will see increases. We have changed our price forecast. We have learned a lot there.

The second thing we have learned a lot about is the importance of pre-feasibility work and early planning. It is much better to invest a tremendous amount of or tremendous per cent of the total project funds into engineering and pre-planning as opposed to run down the road trying to implement too quickly and then find you have to go back and retrofit or you have the wrong process or the plant has been built in a way that we can't service the components et cetera.

I think they were the two main lessons. Again, there were hundreds of others in the post-mortems that we have done but those were the two big ones.

Question. Your CSGs are 19th century and 20th century enterprises. Any 21 century?

Brian Gilbertson: I'm not too sure what a 19th century and 20th century enterprise is and how it distinguishes itself from the 21st. I think one should just start from the recognition that the world would not operate but for the products that we produce. Look around your office when you get there later today and you will see how much copper you have sitting about. Take the back off your computer and look in there. It is a product of this century and its demand is driven largely by the demands of the current economy.

I also make the point that in the marketplace the pendulum swings. There was a time when it was thought that having capital intensive businesses that actually produce real things was not the ideal investment opportunity. That is not the case today. I mean, you can see our assets. They produce cash. They are real and they produce products which there is a demand for around the world. I think that the answer to the question lies in that general area.

I would just add to it that the comments that I made about energy, clearly energy is hugely important in the running of the modern world. I use the phrase "energy hungry world" in my talk. I think that really is the position. We have seen repeatedly around the world areas where energy shortages have occurred. We are well positioned to start looking at those areas through the products that we produce and the skills that we bring to bear on it. So I don't want to overdo this one because I mentioned in my talk but it is an area, I think, that does offer us a lot of promise in the future.

Perhaps I could just add as well that the phrasing of the question almost implies some kind of old-fashioned type technology. I wish I could take you along to sit at the trading desk in the Hague or in Singapore. I mean, we have some of the brightest people in the industry who now want to come and join us, to come and work for us, because we are looking at the supply to the market in a completely different way to that old dig and deliver corporation that I spoke about. We are trying to bring to bear the very best skills that we can in that area. We are doing that on the basis of hard assets that have physical liquidity. We can actually deliver something that we produce if we have to. So I mean it is a completely different area to what is being implied in that question and I can simply repeat that very bright people who have spent their professional lives in areas of computer screens and so on want to join this corporation now.

Question. Could you expand on the environmental component of zero harm?

Brian Gilbertson: Well, I think that phrase really captures the essence of what we are trying to do. It relates first and foremost to the people who work in our operations. We are making a huge effort to cut back on the injuries that take place in our operations and around them. I mean, I mentioned that the 12 people who died, 12 people who either worked for us or for contractors working for us, have largely been in vehicle and heavy machinery equipment.

Now there has been this very intensive process which we have gone through over the last eight weeks with Dupont which is one of the best safety records in any industry in the world. It was fascinating to me standing in this room before you all arrived, because I arrived a bit early, one or two slides had to be changed, and to watch the almost industrial processes underway to set up the lights and the tables and so on, most of those we would not allow in our operations. We would have people strapped to chains, they would be holding on to handrails as they went up things. I just want to leave you with the impression that our commitment to safety is a huge one.

Then we look at the health of the communities in which we operate and the people who work for us. I mean, one of the more serious ones is malaria which is principally in Mozambique and we had it particularly badly when we were building the smelter there and of course AIDS is a major problem in Southern Africa. So these are areas where we will provide our work force with counselling, with medical services and so on.

Then the environment, I think everyone is familiar with the perception that large mining operations are hostile to the environment. It is not possible to construct almost any operation in our industry without affecting the environment in some way, but there is a huge commitment on the part of the major corporations like BHP Billiton to doing that in the least destructive way and in the most environmentally friendly manner, and so achieving the objectives of sustainable development which is that you get not only economic returns but you protect the environment and you serve the society in which you are doing this. We have drawn into our decision-making process representatives of NGOs, of people who have the environment as their principal concerns, and it is one of the reasons why the large major organisations, I think, have to be - are - the way of the future because the complexities of dealing with the challenge of sustainability development are such that only the largest corporations can do that properly.

Paul Anderson: I would like to just add for those of you who really want to get into the issues of environmental objectives we produce annually a health safety environment and community report that goes into a lot of detail in terms of the specific measures that we look at as getting towards the goal of zero harm and they are such things as no level 3 incidents, no oil spills, et cetera, et cetera. We have some much more detailed objectives.

That report last year came out as a stapled report between old BHP and old Billiton and we didn't have a totally integrated report. This year along with our annual report we will have a totally integrated report and I think it will give you a lot of substance to what we are doing there.

Mike Shephard: It is well after 2 o'clock and I think I will ask two more questions. In doing so I will try to consolidate two questions together.

Question. Power. Returns in this business, how do they compare with other sectors such as minerals and petroleum, and the relationship to the previous strategy, particularly in China. I think maybe just cut it off - how do the returns in the possible move into power compare to petroleum and minerals?

Brian Gilbertson: I think it would be much too early for us to try to answer that. It really is in embryo stage at the moment. There is a team of bright people working on it. They are looking at a particular transaction which would test the way. We have not wanted to go forward with this initiative in any serious way until, one, we had the skilled people in place, and as I mentioned we have recruited a variety of people as well. Secondly, that we have the risk measurement and control systems in place that would ensure that we didn't go seriously awry in the risk/return tradeoff that has to be made. So I guess I'm ducking that question at this stage.

Question. Again, trying to consolidate questions which was dangerous on the previous one. Growth in petroleum and options for that, how do the prices compare in acquisitions in comparison to exploration costs?

Paul Anderson: As you are probably aware, things cycle. There is the old expression that comes out, it is cheaper to explore for petroleum on Wall Street used to be a real favorite expression out there. Right now acquisition costs are high relative to finding costs. So if you said where are you going to place your effort today, you would be doing exploration and development work as opposed to acquisitions out there. It cycles constantly. It is an industry I have seen go through three or four periods where acquisitions were by far better than finding and development costs, but as of today finding and development costs are lower than acquisition costs.

Mike Shephard: Before I close, Paul, Brian, any other remarks you would like to make?

Paul Anderson: We are happy.

Mike Shephard: Ladies and gentlemen, thank you very much for of all of those questions. I am sorry if we didn't get to yours. Thank you very much for coming today. Last of all, but not least, can you please join with me in thanking Brian and Paul.