Executing the Strategy and Providing for a Growth Economy
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I want to talk to you today about two topics: first of all, a review of the BHP Billiton strategy and talk about our progress over the past couple of years, and then talk a little bit about some of the growth that we are seeing around the world and try to put a perspective on how we think about dealing with that from a BHP Billiton point of view.

Just a reminder about the company and what BHP Billiton is. We are the world's largest diversified resource company. We break our businesses into seven different business units, or Customer Sector Groups. Up in the upper left-hand corner, you see our Petroleum business and in the Petroleum business, we are upstream.

We produce crude oil, natural gas and LNG. In the Aluminium business, we produce the metal, itself, as well as alumina, which is the raw material for aluminium production. In Base Metals, we produce copper, lead, zinc, and silver. In Carbon Steel Materials, we do not produce carbon steel, but we do produce the iron ore, coking coal and manganese that is necessary for carbon steel production. Diamonds and Specialty Products includes the diamond business, the titanium business, and the metal distribution business here in North America. Energy Coal is thermal coal, which is used for power generation around the world. Finally, Stainless Steel Materials, again we do not produce stainless steel, but we do produce the nickel and chrome that go into stainless steel production. Our businesses are spread all over the world. We produce products in six continents around the world.

Our major production centres are in Australia, Latin America and Southern Africa; we have a growing base in North America and do produce products in Asia also. Our sales are quite diversified. About a third of our sales take place in Asia, about a third in Europe, and the rest of the world is the balance. Obviously, the biggest part is North America and then Australia is about eight per cent of our sales. We generally produce products in the southern hemisphere and sell into the northern hemisphere. It is a very large and complex company. We produce a lot of products, obviously, from petroleum to diamonds, to bulk products, to exchange-traded commodities. We produce, as I said, in many regions and sell into many markets.

Our strategy is actually quite simple. The pyramid in front of you helps me explain what that is. At the bottom of that pyramid, the base of the company is large, low-cost, high-reserve assets. Those assets produce the cash flow that we use to not only fund our growth and expansion, pay our employees, pay taxes, and ultimately, pay dividends. But, in addition, they provide visibility to new opportunities around the world. The next area is cost-savings and efficiency. As a large company doing a lot of things, we can share knowledge across 100 assets around the world and being able to share that knowledge and get best practice shared quite quickly, we benefit from those efficiencies, in addition to the economies of scale that come from our size.

The growth pipeline is a distinguishing feature for BHP Billiton. It was a feature that we talked about at the time of the merger, and we have continued to progress that over the last several years. I will talk about that in a few minutes.

In addition to having organic opportunities, our marketing activity is quite different than many of the competitors in our industry. We try to get very close to our customer. We have centralised our marketing activities and put it right in front of that customer. What that customer is trying to do with their business over the next three, five, and ten years is critical to what we do. How they plan to grow, what products are important to them, help us understand how we put capital to work. So, that marketing effort helps our growth pipeline and to identify where we can, in turn, grow. On top of that, we have bolt-on acquisitions and public market M&A. Those two opportunities, from time to time, play a role in the company.

Over the last several years, we have generally been divesting certain assets, including the steel business and certain other assets. But, what I look at and say is that if you think you are going to build a great company by going out and picking cheap M&A opportunities, you are kidding yourself. Having the opportunity to grow organically is an excellent option, and from time to time, an M&A opportunity would be very good, but you are going to pay the highest price that anybody else is willing to pay and that is going to make your long-term returns difficult.

That bottom of the pyramid, those first two items I mentioned, cost efficiencies and running your assets well, have reflected themselves in terms of our EBIT margin over the last three years and our return on capital. We have seen both those items grow, again, a reflection of being able to run the assets at peak efficiencies and being able to save costs across our business.

One of the features of our company is quite stable cash flow. Now, you may think about a commodity company and say, you are a very volatile business, you are going to have periods of peak demand and high prices and low demand and low prices. Where that is probably true in individual commodities, when you take a look at the aggregate for BHP Billiton, you get quite a different story. In fact, the natural hedges that take place in the portfolio indeed do work.

We are presenting on the slide in front of you, the EBITDA by quarter in each of the ten quarters since the merger took place in the middle of 2001, and despite some pretty tough economic times and a number of one-time events including SARS, the Iraq war, 9/11, Enron and so on, we have seen a very stable level of cash generation. Now, individually, within the commodities, there is significant volatility. Oil prices have been as low as $19 and as high as $36. Copper prices have been 58 cents and 96 cents. The Australian dollar has been 50 cents and up to 75 cents, and despite that, cash generation is rock solid.

Now, what does that allow us to do? It allows us to consistently plan how we put our money back to work in our business. What we have done over the last two and a half years is complete 15 projects across our businesses. They have invested in areas of six of our seven CSGs and in every continent around the world. That stable level of cash generation allows us to predictably understand that we can fund these projects. Every one of them has come in on budget and on schedule, or better, almost $4 billion of capital investment. And, a couple of years ago, when we committed to some of these, some of the analysts around the world said "Isn't that silly, why would you be able to build an aluminium smelter or expand one at a time of low aluminium prices?" Well, the answer was simple. They are the best expansions in the western world. The team had delivered, time in and time out, and the world is not stable; in other words, it changes all the time. And here, we find ourselves with a production that comes from 15 projects coming on stream, in obviously quite a robust commodity environment. But, it is the stable generation of cash flow, the comfort that that will occur, and having good opportunities to put that money to work in organic and sometimes greenfield investment opportunities. That is the BHP Billiton strategy. It is quite consistent. It is one that works in good times and in tough times, again, being able to generate solid cash flow that we reinvest in our business.

Now, I mentioned I would like to talk a little bit about growth. You have probably heard more about China than you can possibly comprehend and probably heard more than you would need to hear about, but I did want to talk about how we look at China.

You will find that where you are quite interested in what is going to happen in China next week or next month, we cannot think that way. Our business is long term. Our projects last 30 and 40 years and our development times, on a good project, or a greenfield project, is two to three years.

So, we cannot just look at what next week's going to be like, we have to look out farther than that. So, just a couple of slides for your interest. Steel consumption by sector over the last nine years – here you see a steady growth in steel consumption and you see the areas in which that is occurring in and many people ask "Is that just cannibalising steel demand in other parts of the world?" Steel does not move very effectively across borders. We see there that buildings, capital goods, highways and roads, and autos - and autos in this case do not export - all that product stays in China, a very strong demand across that period of time in areas that do not cannibalise what we would see in the rest of the world.

The question is “what is going to happen to China in the years ahead?” We are showing a steel demand intensity slide here. Along the Y-axis, we have steel consumption per capita; along the X-axis, GDP per capita; the red boxes are Japan and the blue boxes are the US, and that is the line that comes across the bottom. The line that goes to a steeper slope is Taiwan and South Korea. China, you may see in the lower left-hand side, is that little red dot and where they are today in the steel consumption per capita. The question: “which route will it take?” Will it take the steeper slope over Taiwan or South Korea, or does it take a more gradual slope with the US and Japan? It will be interesting to see in the years ahead. Whatever, their consumption is significantly below the rest of the world.

Arguably, it is probably going to take the more US /Japan-oriented slope. The reason for that is a significant amount of demand in China stays in China. Unlike many economies around the world, China’s domestic consumption accounts for about 95% of their goods production, the same as the United States, but very different from many of the countries in Asia and the countries in Europe.

In the area of copper, a similar thing. Over the last 12 years, a significant part of copper consumption has come from China. Again, the products that use copper in China are infrastructure in buildings and houses, infrastructure in transportation. You will see that in goods that can move across borders, but a great deal of that does continue to stay in China. In addition, the Chinese have dropped production costs that allow things like air conditioners and refrigerators that previously may not have been affordable in the Philippines and Thailand and so forth to now be a product that those markets can consume. So, some of even their industrial production does not necessarily cannibalise third-world production of copper goods.

In the area of aluminium, a similar picture to what you saw before. On the left-hand side, it is the metal production in China, again since 1990, significant growth across that spectrum, and on the right side, alumina imports. You can see until the last three years they were able to meet that demand internally - now, they have needed to go to the export market.

I might comment that in the area of iron ore, we have seen a similar type of growth in terms of iron ore consumption in China. It is actually quite positive. The decision to increase iron ore that comes from Brazil or Australia is an excellent economic decision. The grade of that iron ore, in terms of iron units per ton, is about 62 to 64%. Domestic Chinese iron ore is somewhere between 35 and 42%. So, for every ton of material that goes into a blast furnace, you get a significantly greater amount of iron that comes out by using imported products. That is an excellent decision. That tells you that the government is not ordering people to take domestic iron ore, they are allowing companies to make individual decisions about what is best economically.

Now, when you look at that chart, it certainly looks great, as did the other ones that I showed you before, but I think it is important to note that this will not be a straight line up. Economies do not do that. There are dips and bumps that come from time to time and those can be healthy. As an example of that, this is a very busy slide and I certainly do not need to go through each part of this, but, it is essentially the last 115 or 120 years of the real copper price, and if you look at your chart, probably in your book, there is a line that goes from 1890 to the current period, about 2004 or 2005. That slope is about a real decline of 1% or 2% in the copper price.

Do we think that is going to change? No. Technology wins this game, whether it is in copper or other resource projects. The technology will allow you to continue (in real terms) to drop the production costs of copper. But, that does not mean that prices fall every year or every decade, and in the middle of that chart, you see a period of time, around 1940 or 1945, to about 1970, where the real price of copper tripled. So, what happened during that period? Well, the end of World War II, industrialisation in Japan, reindustrialisation in Europe, baby boomers in North America buying everything from cars to refrigerators to air conditioners. Does China represent the next opportunity to be that way? Good question. We will see. But, I would also point out that even though we see from 1945 to 1970 a pretty exciting period in terms of real copper price moves, there are plenty of times along the way when you had to question whether or not that was really going to take place. You see significant drops during that period.

Now, for a company like ours, that is not a negative. That diversified cash flow stream protects us from many of those issues. In fact, drops like that are opportunities for us. Companies that are only in a single product, are only in one part of the world, they are going to have a very difficult time in those markets, but for companies that are diversified, who depend on low-cost resource supply, they represent an excellent opportunity for us.

We have a strategy that will work in both markets. Now, I happen to be here in the US, I will just comment on an article that was in the FT about two months ago and it was written by the FT's correspondent in Beijing, a guy that I had dinner with a few months ago, and the title was "The Chinese Boom is About to End in Tears, but it might not end for another ten years… With bumps along the way." That was the title of the article. He then goes into a description of something we talked about at that time and that was China in the 21st century might look like the United States in the 19th century. And for those who remember the history here, we began in the 19th century here with basically the British burning the White House. We then went through a period of about ten financial panics, and obviously went through a civil war. But, as you ended that decade, you entered a period of incredible growth, incredible innovation, and obviously ended on the doorstep of what was going to be the 20th century with this tremendous amount of additional change. China won't be a lot different than that.

China is going to have its periods of panics; it is going to have its uncertainty in demand, but where you have to look at next week, we have to look at multi-decade periods and where you can go from euphoria into depression in a nanosecond, we can not run our business that way. So, what we try to do is keep visibility to the near term but keep our eye on that long-term picture. Now, I think if you have a chance, taking a look at that article again, because China, economically, is actually quite similar to the US in the way that it has developed, significant domestic demand.

So, in simple terms, strong underlying fundamentals of growth in China, our belief is that it will continue over time. There will be increasing demand for raw materials. It is an area of the world where they, although probably in terms of economic activity are probably number seven or eight in world economic activity, their demand for raw materials places them one, two or three in essentially those major areas.

Now, the question is, how does BHP Billiton deal with that? Many of you are familiar with our project pipeline. Very simply, across the middle are the calendar years. Each bubble is a separate project. The colour of the bubble ties to our business units. Along the lower right-hand side, you see the colour scale. At the bottom, in the box is a $200 million sized project, so the size of the bubble scale is to the capital investment required. Where that project hits the pipeline, where the arrow hits the pipeline is when that project would start up. I am not going to talk about this in great detail, but simply to say, take a look at the yellow ones. Those are copper projects and there are four separate projects there. If we looked at the old world, in other words, 1% to 2% real decline year in and year out, would we bring on over a billion pounds of copper production in nine months? Probably not, but in a world where China looks like it is going from three million tons of copper consumption annually today to six million tons in 2006, might we do it? Yes. Can we afford to do it? Absolutely. Those projects, I think you will find for their size, are the best and lowest cost copper expansions in the world and they can come on faster than just about anything else that we are aware of.

The message is, if there is copper growth, we are going to go after that. I would be quite reticent to look around our industry and give you a positive outlook on so many of the projects that you do see that depend on $1 copper or $1.20 copper and assume those companies with legacy assets that can be readily expanded are going to simply sit back and do nothing. If copper growth is going to occur in the world, we certainly want to be the ones that do it. There are others that will do it also, but the world is not going to be built on $1.20 copper, it is going to be lower than that over time, but large, low-cost, long-reserve life assets will be good investments in good times and bad, and companies like ours will not sit around and wait for others to take that opportunity.

A couple of years ago, somebody called me and said, “We’re raising a fund of two or $300 million dollars to invest in the minerals business.” I said, “it’s a terrible business, don’t put any money into this business.” We have all the money we need to do the projects that make sense, but we do not have any money for projects that do not make sense. But, I always talk to investors and say “If you look out there and say “how long will this business be good?” a lot of it depends on you. If you are willing to fund projects that are not economic in the long term, that will be something that will rest on this industry for 20 years.” We want to make sure the good ones get done.

So, in simple terms, we will continue to maximise the performance of our business. You have to take care of those strong assets in good times and bad. Safety is critical to what we do, but EBIT margins have grown to 27%; return on capital, 15%, and those numbers, we obviously look to continue to grow. Savings and efficiencies across our business are critical. We need to maximise that; it is a competitive advantage that we have. But, reinvesting in growth projects will continue to be an important item for the company. We have done 15 projects essentially up to the end of December, in the two and a half years ending December.

We have 13 projects currently in development, three in feasibility; we have seven smaller-scale projects that are excellent efficiency projects that allow us to deal with the current demand that we are seeing around the world. Running all those parts of our triangle allow us to meet the demand of our current customers but have the options available to try to take advantage of what we see in China. Our business is about running the assets well and finding a series of options that we can exercise as we see those markets develop.

OK, with that, I will open it up to questions.

<u>Question and Answer Session:</u>

QUESTION: If you could have a plain sheet of paper now with all your money invested in the businesses you have, if you could have three businesses for the long term, 30, 40, 50 years, what would you choose?

CHIP GOODYEAR: Let me start by saying that we like all of the businesses that we are currently in. I think there are a number of things I would say about that. First of all, we like being very close to the dirt. Processing businesses, we think, are ones where there are others who are better capable of doing those things. So, if China can compete by putting people to an issue, it would be very difficult to compete with that. So, being quite close to the dirt is one that we like.

I would also say, if you take a look at individual discontinuities that might exist out there, certain areas for us - I have to say like Petroleum - are actually quite interesting.

The reason for that is petroleum has been a little bit of a sleeper. The reason is that many people just look at the price volatility and looked at OPEC and in the developed part of the world, but China is having a big impact on crude oil demand and on liquid fuel demand. All those cars need fuel and China is not rich in those areas. So, I think you may see pricing in Petroleum be better than you might have otherwise expected.

Areas like iron ore, I think are quite good. The industry structure is excellent in iron ore. Aluminium would be the same way. But I think a lot of it depends very much on the product and I do not think you will find us getting to the point where we want to focus on only three businesses because those natural hedges do indeed provide a great advantage in terms of stable cash flow. We do not invest in projects that do not make sense. First of all, they have to make sense and then we put them in the portfolio. But, I would certainly say those areas of carbon steel - coking coal and iron ore. Alumina is good. Petroleum, I think will be an interesting one to watch. Copper, from time to time, I think can be quite good. OK, other questions.

QUESTION: How do you go about really investigating what does go on in China to supply your businesses? What do you actually do? How do you employ people? How do you measure what is really going on, because there is often a lot of conflict about what really is happening there; there are different opinions. How do you go about it?

CHIP GOODYEAR: As I mentioned to you, we changed our marketing model about two or three years ago, now with the BHP Billiton merger.

The idea of getting closer to the customer became a critical driver for the things that we do. What we did in China was we set up a marketing office in Shanghai and 90% of that staff are Chinese nationals. The business language in that office is Mandarin. Our sales people are out talking to their customers three and four days a week. And, it is through that knowledge and that direct contact day in and day out that we get knowledge back into the company. That is good for three months or six months. That won't tell you what the world's going to be like in 12 months or 24 months, but it does give us very good visibility to that. I will give you a couple of examples of that.

A year ago, when SARS was a big issue, I talked to our people about iron ore demand there and they said iron ore demand continues to be very good. Our customers are feeling very good about it. They said that one of the things that is happening is that with SARS, many people do not want to ride on the bus and what they are going to do is that people are buying more cars so that they do not have to ride on the bus. I said that is the biggest bunch of crap I have ever heard. But three months later, I read in an article in the FT, that sales of cars in April and May were up 60 and 90% respectively. In an interview with an individual, he was a 30-year-old guy, he said that with SARS, "I did not want to die without driving a nice car and so I went out and bought a Volkswagen". I said this could not be the case. Now, I have to say people say yes, but now SARS is over and they are going to go back to the bus, but they do not. Once you have been in your own car and you get a look at those buses again, you do not go back to the bus. So, that was excellent knowledge that they brought from being on the ground.

Another item is earlier this year, one of the competitors of Merrill wrote an article which said Chicken Little, the sky is falling, inventories are building in China. Some people in China read that, and they were talking to their customers, and the customers said we do not have any idea what you are talking about. The product goes in the front end and out the back end, into a truck and into a building. A lot of people were seeing that and their customers reported that also. So, our guys looked at the numbers again, and what the analyst had done was take the US dollar value of the inventory, what has happened to the price last year, gone up. If you took a look at it in real dollars, physical inventories had fallen. Now, I have to say - and they called the analyst and the analyst said sorry, let me change my story. I am not sure there is anybody who could have given me that data, that quickly. But again, it is good for three months or six months, it is not good for year, two years, but that is how we do it. We have modelled a huge amount of industrial activity in China, we use it by direct face-to-face, Mandarin-to-Mandarin, discussion of what is happening in China.

QUESTION: I have a question on your copper-operating rate. A lot of people are focusing on the increasing rate of copper production in the second half, certainly it is within an overall deficit, what operating rate are you planning on going to or where are you now. There was some talk that Escondida was having some teething problems getting up to full capacity. On the Spence deposit as a follow up, what time frame do you see for bringing that into production? I know it is a good grade deposit, it is buried underground so there is a period of stripping, so I was wondering on the time frame for when metal might be seen out of that as well.

CHIP GOODYEAR: In terms of operating, we are striving now for maximum operating rate across our businesses. With regard to Escondida, there are certain issues with the ramp up of Phase Four that put us at probably a 90 to 95% operating rate. That has to do with water recovery from the tailings dam as well as equipment movement in the pit, material movement in the pit. I cannot tell you when that is going to be resolved, but it is not something I would expect in the near term that we will find an answer to, but we should make steady progress, quarter on quarter. We are not holding back any production that we have available to try to bring forward.

With regard to Spence, our time line, I believe showed Spence coming on during calendar year 2006. The project would come for Board approval most likely in the second half of this calendar year, so it will depend obviously on its movement through the feasibility process and obviously, ultimate approval. So, that is the general time frame we would expect to see, assuming we do get board approval this calendar year.

QUESTION: This morning on the news, there were facts that OPEC is producing at 25 million barrels a day, two million over their quota, oil's on a 13-year high over $40 a barrel, and the commentary was will there be enough oil to meet global demands, just the basic supply and demand issue. The question I have for you is what kind of exploration budget do you have and what do you see for oil going forward? Will it become a larger part of your portfolio?

CHIP GOODYEAR: The oil price, I can remember in 1980 in my geology days doing my projection of oil price, and we had it well over $120 a barrel. I would just say that will the world run out of oil? No. It is a question of what will it cost. I think with all of the stories we have heard this morning on CNN and the networks, all said yesterday's price for gasoline in the US was the highest ever. Last night on the CNN article, was in terms, what your grandparents paid in 1950. So, the real oil price has fallen quite dramatically. Now, what do we expect to happen? You will see continued investment and if the oil price did indeed stay here, projects that are economic at $20 will be economic at $40. I think it is highly unlikely you would see prices stay here, but you can read around the world whether it is Shell or BP, everybody's had issues with production volume and being able to replace production. Now, the running scenario is initially $16 oil.

Recently, they have started talking about moving that to $20. Would that bring on more oil? Who knows? But, it is going to be an issue as I think OPEC, to think that they have significant production capacity to deal with issues in the near term, that is certainly not their strategy. We get some commentary from them that indicate their ability to move production up from where it is today is not great. There has not been a heck of a lot of investment in that area. So, in terms of overall outlook, our price protocol for oil is $19 to $20, like everybody else.

We very much look at organic opportunities, and if you follow us in any detail, you would know that our exploration success there has been excellent. We spend about $300 million a year in exploration in the oil business and it will probably stay around that level. It is critical that you continue to remain focused on those key drivers. You do not let price lead you to a bad decision in that business. You also find that if you projected our business over the next five years, that oil actually becomes a smaller part of our business. Although production moves from about 120 million barrels a year to something like 180 million barrels a year over the next five years, the growth that is happening in the copper business, in the iron ore business and in the aluminium business all at least keep pace with that. Again, we do use a lower oil price. If our oil stayed at $40, it would have a higher contribution. Generally, it will be somewhere in the 25% range, we would expect.

QUESTION: We have seen some changes to fiscal regimes in South Africa, central changes to the mining law in Chile, how have these impacted you and more importantly, on a go-forward basis, does it change how you enter into negotiations with a country with regard to projects. Do you go to more project-specific fiscal arrangements, do you think on a go-forward basis?

CHIP GOODYEAR: It is certainly with high US dollar prices. It is important to note, obviously, that currencies have an important role to play in the ultimate return. With high US dollar prices, there is a great deal of interest in sharing the wealth, which we do as an industry very significantly through royalty payments and otherwise. But we are seeing pressures around the world for a greater percentage of those revenues to end up in various hands, whether it is employee hands, or government hands, and so on. I would say that the incremental impact is not great in the scale of a company that has a market value of 50 or $60 billion. The trend is not a good one. It is something that we have to be quite diligent in doing.

Long term, you find that appropriate fiscal regimes are the best answer to economic development in a country. Indonesia recently allowed additional development in certain areas that had been prohibited. Now, one of the reasons they did that is exploration investment in Indonesia, I think, dropped to $9 million a year. Companies will react. Unfortunately, they cannot react today. It takes time. So, what we have to do is to continue to point out the long-term value of what we bring and bring economic systems, we bring hospitals, we bring schools, we bring lots of tax revenue, we bring lots of business activity for surrounding communities and companies and so on, so that is the case we have to make. So, it is not a big issue in terms of near term return, long term, it will work itself out; it is that middle term where people feel they can raise the tax or do something and there is no constituency that will fight against that and we have to try to educate governments and employees around that. We do. I think we are pretty effective at doing it. It is something you have to watch.

QUESTION: If you were in our shoes as an investor, how would you satisfy yourself that companies taking stuff out of the ground have high environmental standards, that they walk the walk but just talk the talk?

CHIP GOODYEAR: We produce, as many of our peer companies do, a report on health safety, environment and community activities and that is where I would go, first of all, in terms of satisfying yourself what happens there.

We also certainly make ourselves available to talk to individual investors. I think a quite important thing is to talk to some of the various groups that go around and assess companies like ours. I think you will find that we cannot say our impact is zero in terms of environment or community, we think long term in the overall economic system it is quite positive, but we take material out of the ground and that is going to have an impact.

I think you will find the way we handle that is as technologically advanced and with as minimal impact as anything that can be done. I think you will find, in fact, particularly the large companies, the companies that you are probably seeing here during this conference, you will find that those companies have a vested interest in doing the right things, because if we did something wrong somewhere in one of a 100 assets around the world, it does not just impact that asset, it impacts every one of our businesses and not only in what we do today but how we grow in the future.

The website makes everything transparent. So, we have a vested interest in doing the right thing. I think our reports show that. I think that although you are not going to satisfy everyone, I think that if you talk to responsible third parties, you will see that in general, they will have favourable comments about many of the companies that you would see in a public forum. There are lots of issues out there.

QUESTION: Could you share your view for demand in the world outside of China? Do you see anything over the next five or ten years that would decline enough to offset the incremental demand of China?

CHIP GOODYEAR: Well, I tell you, in China, whilst growing very rapidly, is still only at 10% of sales. So, just to give you a quick tour of the world; Asia continues to be quite good. They are benefiting from China. Most countries there have positive trade surpluses with China. Japan just went to the positive trade surplus with China. So, China is having a contagion effect around the region. In my opinion, Japan is as good as it has been in 15 years, and you are being a benefit that happens there. If China falls off, it is going to have some impact but those economies are actually doing quite well. The US, no doubt in our mind, a year ago, we said, or months ago, we said we saw the US recovering. Now, we are recovering.

Our distribution business here gives us very good visibility to the metals movements and we are seeing very good movement there. So, the US certainly looks very good. Europe is a challenge. Europe is going to continue to be a challenge for decades to come. That is certainly an environment where right now, we do not see great things happening. I think it is unlikely you will see something fall, assuming China continues on a pretty reasonable growth path. We can make up for that, given where they are in their economic cycle.

QUESTION: Looking for the next big thing, obviously not China, something else. We see Russia mineral and petroleum assets, most pronounced in petroleum but this is clearly a trend. Do you see BHP Billiton consolidating and maybe building stakes in aluminium and nickel assets in Russia?

CHIP GOODYEAR: We certainly have to take a look at Russia. If you look at a world where intensity falls through raw materials and a 1% or 2% decline in price, we could probably expand what we have and be just fine. But, if you look at a world where China indeed does increase intensity and you have got 1.3 billion people, you have to start looking in some other areas, and Russia would be one of those areas, but I have to say it is old habits that die hard.

Russia is a tough place and whether or not you would see us go in there in any significant way, probably unlikely, but we certainly want to keep our ear to the ground and make sure we know what is going on there. That is going to be true in other environments also.

QUESTION: I will take the last question, Chip, and it is a question about the big D word, dividends. BHP Billiton has a lower dividend than many of its global peers and you have a progressive policy. How do you think in the strong cash flow environment you are looking at over the next couple of years, your dividends will end up with respect to return to shareholders?

CHIP GOODYEAR: I love the fact that our dividend yield is less than everyone else. We all went to corporate finance school and the answer is that value is a combination of your current cash flow and the value created in growth. So, the reason that the market is willing to pay what they are for us - lower current yield, is that they appreciate the growth opportunities the company has. So to me, that is a very positive sign.

Now, in terms of our dividend policy, it is actually quite simple. We would love to continue to invest in high-value growth opportunities. That is our first priority.

The second priority is keeping the capital structure in line and that has certainly been done, there is not much to talk about there. We have had rating upgrades from the agencies over the last two and a half years, and the third thing is, if we do not have other opportunities to put the money to work and our capital structure makes sense, and then return it to shareholders. We have done that, we have increased the dividend four times, the last four times, we have a dividend declaration we bought back stock. I love the fact we bought back stock a year ago at 2 pounds 99 in the UK. That is opportunistic. We have programs in both Limited and PLC to do that and then we have also had distributions of capital by spinning off various companies, including the steel company. So, the dividend will be what it is after we say, hey, where can we put money into and our capital structure makes sense. Having said that we have continued to increase the dividend in a pretty, I think, consistent fashion over the last four or five dividend periods.

<u>END OF TRANSCRIPT</u>