

## DIRECTORS' REPORT

The Directors have pleasure in submitting their first Annual Report since the Dual Listed Companies merger (the DLC merger) with BHP Billiton Limited, including the financial statements for the year ended 30 June 2001.

### Dual Listed Companies merger

The DLC merger of Billiton Plc and BHP Limited was completed on 29 June 2001. The companies both continue as separate, publicly listed entities retaining their existing stock exchange listings and index participations. The effect of the DLC merger is that BHP Billiton Plc and its subsidiaries and BHP Billiton Limited and its subsidiaries operate together as a single economic entity ("the BHP Billiton Group"), with neither assuming a dominant role. Under the arrangements:

- The shareholders of BHP Billiton Plc and BHP Billiton Limited have a common economic interest in both groups;
- The shareholders of BHP Billiton Plc and BHP Billiton Limited take key decisions, including the election of Directors, through a joint electoral procedure under which the shareholders of the two companies effectively vote on a joint basis;
- BHP Billiton Plc and BHP Billiton Limited have a common Board of Directors, a unified management structure and joint objectives;
- Dividends and capital distributions made by the two companies will be equalised; and
- BHP Billiton Plc and BHP Billiton Limited executed a deed poll guarantee, guaranteeing (subject to certain exceptions) the contractual obligations (whether actual or contingent, primary or secondary) of the other incurred after 29 June 2001 together with specified obligations existing at that date.

In the case where an action by either BHP Billiton Plc or BHP Billiton Limited is proposed such that the ratio of the economic returns or voting rights in relation to Joint Electorate Actions of a BHP Billiton Plc share relative to a BHP Billiton Limited share would no longer be in proportion to the then existing Equalisation Ratio or which would benefit the holders of shares in one company relative to the holders of shares in the other company, then either a matching action shall be undertaken by such other company unless the Boards of Directors determine that it is not appropriate or practicable or if no matching action is to be undertaken, an appropriate adjustment to the Equalisation Ratio shall be made, in order to ensure that there is equitable treatment as regards the holder of one BHP Billiton Plc share and the holder of one BHP Billiton Limited share. However, if the Board of Directors determines that it is not appropriate or practicable to undertake either a matching action or adjust the Equalisation Ratio in relation to an action, then the action may be undertaken by the Board of each company only after it has been approved by the shareholders of the other company.

### Principal activities and business review

BHP Billiton Plc operated solely as a holding company for the BHP Billiton Plc Group during the period. For the year to 30 June 2002, and following periods, BHP Billiton Plc will also provide services to certain group companies. Following the DLC merger the BHP Billiton Group has assembled its major operating assets into Customer Sector Groups ("CSGs"). These comprise:

- Aluminium (Aluminium, Alumina)
- Base Metals (Copper, Silver, Zinc, Lead)
- Carbon Steel Materials (Metallurgical Coal, Iron Ore, Manganese)
- Stainless Steel Materials (Chrome, Nickel)
- Energy (Steaming) Coal
- Petroleum (Oil, Gas, LNG)
- Steel.

The BHP Billiton Group's principal activities are mineral and hydrocarbon exploration and production, metals production, marketing and research and development. A summary of the Group's main activities appears at the front of this annual report.

The Directors' Report should be read in conjunction with the Chairman's Report, the CEO's Report, the Financial Review, the Customer Sector Group Reviews, the Directors' Report on Board Remuneration, and the other material in the Annual Report which includes information on the BHP Billiton Group's business, performance and future development.

### Results and dividends

The consolidated profit and loss account set out on page 80 shows an attributable profit of US\$1 529 million compared to US\$1 506 million in 2000.

Following the completion of the DLC merger, a second interim dividend was paid by BHP Billiton Plc on 2 July 2001 in lieu of a final dividend, resulting in a total for the year of US\$0.12 per ordinary share. The Directors do not recommend any further dividends for the year.

### Share capital

The authorised and issued share capital of BHP Billiton Plc is set out in note 22 on page 129 of the financial statements. In September 2000 BHP Billiton Plc raised US\$850 million net of costs through a placing of 235 million ordinary shares, at a price of 265p per share (representing a 3% discount to the closing price on 14 September). The placing comprised 181.1 million new shares and the whole of the 53.9 million shares held under the share repurchase scheme.

In connection with the DLC merger, the authorised share capital of BHP Billiton Plc was increased by the creation of one Special

## DIRECTORS' REPORT CONTINUED

Voting Share of US\$0.50 which was issued on 29 June 2001 and one Equalisation Share of US\$0.50 which is unissued. The Special Voting Share was issued to facilitate the joint voting by the shareholders of BHP Billiton Plc and BHP Billiton Limited on Joint Electorate Actions. The Equalisation Share was authorised to enable a distribution to be made by BHP Billiton Plc to the BHP Billiton Limited Group should this be required under the terms of the DLC merger. The Directors have the ability to issue the Equalisation Share if required under those terms.

An ordinary resolution will be proposed at the forthcoming Annual General Meeting to authorise the Directors in accordance with Section 80 of the Companies Act 1985 to allot shares up to an aggregate nominal amount of US\$386 million for a period that shall expire at the conclusion of the next Annual General Meeting. The Directors believe that they should have the authority proposed in the resolution to enable allotments to take place to finance business opportunities as they arise. Conditional upon the passing of this resolution, a special resolution will be proposed, subject to the approval of the Section 80 amount, which will enable the Directors to allot not more than US\$58 million (nominal value) in aggregate, representing 5 per cent of the nominal value of the issued share capital for cash, without first offering the shares to existing shareholders. The Notice of Annual General Meeting, which is sent to shareholders separately with this report, also provides information on these proposed resolutions.

Details of disclosable interests in the ordinary share capital are shown on page 65 to 68. In addition, BHP Billiton Limited owns the whole of the preference share capital.

### Contingent purchase contract

At the Annual General Meeting of BHP Billiton Plc held on 1 November 2000, shareholders approved the terms of a contingent purchase contract between BHP Billiton Plc and MSI investments (BVI) Limited, an indirect wholly-owned subsidiary of BHP Billiton Plc. This resolution allowed BHP Billiton Plc to put in place a structure intended to have an effect similar to market repurchases by BHP Billiton Plc of its own shares while giving the BHP Billiton Group greater flexibility in terms of the management of its capital structure. Under the structure appointed brokers are able to purchase up to 231 million ordinary shares in BHP Billiton Plc in the market on behalf of a special purpose vehicle, Nelson Investment Holdings Limited ("Nelson"). This represents nearly 10 per cent of BHP Billiton Plc's issued capital as at 28 August 2001. The contingent purchase contract, if entered into, will give BHP Billiton Plc the right, but not the obligation, to repurchase and cancel at any time prior to the expiry of the contingent purchase contract up to 231 million of its shares purchased and held by Nelson. Alternatively, Nelson can place the shares in the market for the benefit of the BHP Billiton Group. It is not intended that the shares would be placed in the market unless this is appropriate for the capital requirements of the BHP Billiton Group.

The authority given at the Annual General Meeting in 2000 to repurchase and cancel the shares was not used during the year. Shareholders will be requested to give a similar authority at the Annual General Meeting on 19 October 2001.

Director	Date of appointment	Date of resignation
B C Alberts	29 June 2001	-
P M Anderson*	29 June 2001	-
D R Argus	29 June 2001	-
M A Chaney	29 June 2001	-
J C Conde	29 June 2001	-
D A Crawford	29 June 2001	-
M L Davis*	-	29 June 2001
D A Jenkins	29 June 2001	-
S B Kesler*	-	5 March 2001
R J McNeilly*	29 June 2001	-
D J C Munro*	-	29 June 2001
J T Ralph	29 June 2001	-
M Salamon*	-	29 June 2001
J M Schubert	29 June 2001	-
M H Visser	-	8 December 2000

\* executive directors.

## DIRECTORS' REPORT CONTINUED

### Corporate governance

A report on corporate governance and compliance with the provisions of the Combined Code appended to the Financial Services Authorities' Listing Rules is set out on pages 69 to 75. The Directors' Report on Board Remuneration is set out on pages 56 to 68.

### Directorate

The names of current Directors of BHP Billiton Plc are set out on pages 40 to 43. Changes in the directorate during the year are set out in the previous table.

In accordance with the Articles of Association, Directors must submit themselves for re-election at least every three years. At the Annual General Meetings to be held in 2001, 2002 and 2003 those Directors appointed to the BHP Billiton Plc Board at the time of the DLC merger are deemed to have been appointed at the time that they were appointed or were last elected as directors of BHP Billiton Limited. Accordingly, Mr D R Argus, Mr D A Crawford, Mr C A J Herkströter, Mr B D Romeril and Mr J T Ralph will retire at the Annual General Meeting on 19 October 2001 and being eligible, offer themselves for re-election. In addition, in accordance with article 82.3 of the Articles of Association, Mr J B H Jackson (who is 72) and Mr D L Keys (who will be 70 at the time of the Annual General Meeting) submit themselves for re-election as Directors by special resolutions.

A statement of Directors' interests in the shares of BHP Billiton Plc is set out in the Directors' Report on Board Remuneration. Mr Gilbertson and Mr Davis have been given an option (by Chrystal Services Limited, a subsidiary of BHP Billiton Plc) to purchase the properties owned by the Group, which they currently occupy rent free, at the open market value at the time the option is exercised, at which time the provision of rental accommodation will cease. The option period will expire on 6 October 2001. Otherwise, none of the Directors has any material interest in any contract or in any arrangement entered into by BHP Billiton Plc or its subsidiaries during the year, other than service contracts.

### Exploration, research and development

Companies within the Group carry out exploration and research and development necessary to support their activities.

### Value of land

Much of the BHP Billiton Group's interest in land consists of leases and other rights which permit the working of such land and the erection of buildings and equipment thereon for the purpose of extracting and treating minerals. Such land is mainly carried in the accounts at cost, and it is not possible to estimate the market value as this depends on product prices over the long term, which will vary with market conditions.

### Employee policies and involvement

The BHP Billiton Group's policy is to encourage effective communication and consultation between employees and management. Group companies develop their own consultative and communication procedures as part of their employment practices.

Group companies give full and fair consideration to applications for employment made by disabled people, having regard to their aptitudes and abilities. Should employees become disabled during employment they would be considered for any necessary retraining and available work within their capabilities. For the purposes of training, career development and promotion, disabled employees are treated in the same way as other employees.

### Creditor payment policy

When BHP Billiton Plc enters into a binding contract with a supplier, payment terms will be agreed when the contract begins and the supplier will be made aware of these terms. BHP Billiton Plc does not have a specific policy towards its suppliers and does not follow any code or standard practice. However, BHP Billiton Plc seeks to abide by the terms of the contracts to which it is bound. BHP Billiton Plc had no trade creditors at 30 June 2001.

### Political and charitable donations

During the year the BHP Billiton Group made UK charitable donations of US\$260 million (2000: US\$378 million) and no political contributions. (2000 : Nil)

### Auditors

A resolution to reappoint the joint auditors, KPMG Audit Plc and PricewaterhouseCoopers, will be proposed at the Annual General Meeting in accordance with Section 384 of the Companies Act 1985.

### Annual General Meeting

The 2001 Annual General Meeting will be held on Friday 19 October 2001 at 10:30 am at The Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London, SW1P. The notice convening the meeting is sent to shareholders separately with this report, together with an explanation of the items of special business to be considered at the meeting.

By order of the Board

**Karen J Wood**

Company Secretary

3 September 2001

## DIRECTORS' REPORT ON BOARD REMUNERATION

This Remuneration report sets out the remuneration policies to be operated by the BHP Billiton Group including the principles that underpin remuneration of Executive Directors, from completion of the dual listed companies merger (the DLC merger) on 29 June 2001. It also contains a description of the policies applied by BHP Billiton Plc and BHP Billiton Limited during the year ended 30 June 2001. The report includes the remuneration earned by Directors of BHP Billiton Plc and BHP Billiton Limited in 2001 in accordance with the remuneration policies and programmes operated by each of them as independent companies. In compiling this report BHP Billiton Plc has followed the provisions of Schedule B of the Combined Code.

### The Remuneration Committee

#### BHP Billiton Group

Following completion of the DLC merger the Remuneration Committee comprises John Jackson (Chairman), John Conde, Derek Keys and John Ralph. All members are Non-executive Directors. The Committee will support and advise the Boards by determining executive remuneration policy and remuneration of Executive Directors, by reviewing and approving the remuneration of persons who report directly to the Chief Executive Officer and Managing Director and Deputy Chief Executive Officer and all equity incentive plans and other executive benefit programs. The Group Vice President Human Resources will attend meetings of the Committee as an adviser. The Committee will also have access to external advisers as required. The Company Secretary will act as Secretary to the Committee.

#### BHP Billiton Plc

Prior to completion of the merger the members of the BHP Billiton Plc Remuneration Committee were John Jackson (Chairman), Lord Renwick, Matthys Visser (until his resignation as a Director on 8 December 2000) and Barry Romeril. All members were Non-Executive Directors. Derek Keys acted as a non-voting special adviser to the Committee. Brian Gilbertson attended meetings of the Committee, but was not present when his own remuneration was considered. Ian Fraser, BHP Billiton Plc's Group Human Resources Director, attended as an adviser to the Committee. The Committee had access to, and used, external advisers as required. The fees payable to Non-executive Directors were set by the Board.

#### BHP Billiton Limited

Prior to completion of the DLC merger, responsibility for setting the remuneration of Executive Directors and other senior

executives lay with the Board of BHP Billiton Limited. Fees payable to Non-Executive Directors were determined by the Board in accordance with that company's Constitution.

### 1 Executive Directors' remuneration policy

#### BHP Billiton Group

Following the DLC merger, the Remuneration Committee will review existing share incentive arrangements and develop a new compensation program. The strategy adopted will be structured to enable the BHP Billiton Group to continue to attract, retain, and motivate high calibre employees while at the same time protecting the interests of shareholders.

The Boards and the Remuneration Committee recognise that the BHP Billiton Group operates in a global environment and consequently must be able to recruit and provide incentives to internationally mobile executive talent. The principles that underpin the new remuneration strategy will recognise the need to utilise executive talent wherever required and reward performance.

Each element of compensation will be addressed separately but within an overall context of delivering a competitive total package. The key objectives of this new package will be to:

- bind the combined executive team to the BHP Billiton Group;
- focus executives on the results of the BHP Billiton Group as a global entity;
- reward executives by reference to the BHP Billiton Group's global performance;
- facilitate the deployment of resources around the BHP Billiton Group;
- deliver rewards of equivalent net value for comparable positions globally after taking into account cost of living differentials in different countries; and
- support the delivery of outstanding returns for shareholders by aligning performance related rewards with the value delivered to shareholders.

The new BHP Billiton Group reward structure will combine:

- (a) Base salaries, quantified by reference to roles, individual performance, capability and potential. Market data will be used as salary benchmarks with particular consideration given to data from international comparator companies.
- (b) Short term incentive awards, made to Executive Directors and other senior executives. These awards will support the

## DIRECTORS' REPORT ON BOARD REMUNERATION CONTINUED

achievement of specified financial and non-financial performance objectives determined by the Remuneration Committee in respect of a single financial year.

- (c) Integrated long term incentive plans, consistent with existing incentive arrangements in the BHP Billiton Group and reflecting the key package objectives outlined above.

In setting the remuneration policy for Executive Directors, the BHP Billiton Group will be guided by the principles of good corporate governance, the provisions of the Combined Code (including those in Schedule A relating to the design of performance related remuneration) and the Listing Rules of the Australian Stock Exchange.

In determining the remuneration of executives, the Remuneration Committee will take account of the benefits enjoyed by former BHP Billiton Plc Group executives as a result of the early vesting of entitlements under the applicable share based incentive schemes.

The Remuneration Committee met in August and considered the short and long-term incentive plans for the year ending 30 June 2002. The Committee has approved an alignment of the existing BHP Billiton Plc and BHP Billiton Limited plans for this year. The Committee intends to finalise a new plan to operate from the 2003 financial year.

### **BHP Billiton Plc**

The aim of BHP Billiton Plc's remuneration policy was to ensure that Executive Directors were rewarded in a way that enabled BHP Billiton Plc to attract and retain management of the highest quality who were motivated to achieve performance superior to competitors which served the best interests of shareholders. In framing its remuneration policy, BHP Billiton Plc applied the relevant principles of the Combined Code and the detailed provisions set out therein (including those in Schedule A relating to the design of performance related remuneration).

#### **(a) Competitiveness of remuneration packages**

All elements of the compensation and benefits packages for Executive Directors were reviewed against external market data in the UK and overseas with particular focus on the competitiveness of the total package. The Remuneration Committee had regard to pay and employment conditions in the BHP Billiton Plc Group and the key economies within which it operated. As well as developing executive talent internally, BHP Billiton Plc recruited Executive Directors from

other international companies. To enable high calibre executives to be recruited and internal equity to be maintained, BHP Billiton Plc's executive pay policy was based on external market data. It was BHP Billiton Plc's policy to position the Executive Directors' total remuneration from the BHP Billiton Plc Group as a whole at competitive market rates in line with the companies with which BHP Billiton Plc was competing for executive talent. For Executive Directors who were well established in their roles and were performing at a level which exceeded identified performance indicators, total remuneration was positioned in the top quartile. Challenging performance criteria were used which were tied to the Executive Directors' performance and efforts rather than general market fluctuations. A significant part of the Executive Directors' remuneration was linked to the performance of the BHP Billiton Plc Group.

#### **(b) Base salary**

The Remuneration Committee set the base salary of each Executive Director by reference to individual performance and external market data.

#### **(c) Housing**

In addition to relocation expenses, a housing allowance of US\$145 230 per annum for the first three years following relocation was payable to Executive Directors who had relocated to the UK to enable them to efficiently perform their world-wide duties under their service contracts. Executive Directors could be provided with living accommodation instead of all, or part of, the housing allowance at the discretion of the Remuneration Committee.

Mr Gilbertson, under his employment contract with Billiton Services Jersey Limited, occupied a flat in London rent-free for the first three years of his employment. This benefit has been extended and Mr Gilbertson has the option of purchasing the property, which is owned by the BHP Billiton Plc Group, at open market value until 6 October 2001.

Mr Davis, under his employment contract with Billiton Jersey Limited occupied accommodation in London rent free from 1 April 1999. Mr Davis has the option of purchasing the property at open market value until 6 October 2001, and has notified Chrystal Services Limited (a subsidiary of BHP Billiton Plc), the freeholder, of his intention to exercise the option.

## DIRECTORS' REPORT ON BOARD REMUNERATION CONTINUED

### (d) Other benefits

The Executive Directors were entitled to medical insurance, permanent health insurance, a US\$21,785 car allowance and the use of certain BHP Billiton Plc Group facilities and benefits. The total amount of these benefits is set out in section 2.

### (e) Annual performance related bonus

In addition to a base annual salary, the Executive Directors were entitled to participate in an annual bonus scheme. Under the scheme, for the year ended 30 June 2001, the Directors had a maximum target bonus of 100 per cent of base salary if personal performance objectives set by the Remuneration Committee were met. The bonus for the year for each Executive Director who was entitled to participate, which averaged 75.5 per cent of base salary, is shown in section 2.

The bonus scheme for Executive Directors was periodically reviewed to ensure that it was maintained in line with priorities and that performance conditions under the scheme continued to be relevant, stretching and designed to enhance the business.

### (f) Long term incentive plans

Awards made during the year under the long-term incentive plans are detailed in section 3 below. BHP Billiton Plc operated two long-term incentive plans.

#### ***BHP Billiton Plc Restricted Share Scheme ("the Scheme"):***

- (i) The Scheme: BHP Billiton Plc established the Scheme which operated in conjunction with the Billiton Employee Share Ownership Trust ("the Trust"). Awards under the Scheme were made by the Trustees of the Trust or by BHP Billiton Plc. In respect of the Executive Directors, awards were made on the recommendation of the Remuneration Committee. In the case of other employees, the Remuneration Committee recommended the level of award following proposals from the Executive Committee. Awards were normally made annually in the six weeks after the announcement of the annual or interim results. All full-time employees of the BHP Billiton Plc Group were eligible to benefit under the Scheme, unless they were within two years of their normal retirement date under their contract of employment. The Scheme primarily applied to senior executives.
- (ii) Making of awards: Awards took the form of conditional share awards or share options. The Remuneration Committee

recommended the value of the Ordinary Shares to be comprised in an award. This value would not exceed 100 per cent of a participant's annual base salary and would not be pensionable. Awards were made subject to a performance condition ("the performance condition") recommended by the Remuneration Committee.

- (iii) Vesting of awards: At the end of the period (the "performance period") to which the performance condition related, the extent to which the performance condition was satisfied was determined and a participant became absolutely entitled to the appropriate number of Ordinary Shares (if any), or where appropriate, exercised his option over the relevant number of Ordinary Shares subject to his paying to the Trust or to BHP Billiton Plc the amount of the tax liability (if any) in respect of the award. In certain circumstances, these Ordinary Shares could be transferred directly to a participant's family trust.
- (iv) Employee share ownership trust: The Trust is a discretionary trust for the benefit of all employees of BHP Billiton Plc and its subsidiaries. The Trustee is a subsidiary of BHP Billiton Plc, resident in Jersey. The Trust uses funds provided by BHP Billiton Plc and/or its subsidiaries as appropriate to acquire Ordinary Shares to enable awards to be made or satisfied under the Scheme. The Ordinary Shares may be acquired by purchase in the market or by subscription at not less than nominal value. Ordinary Shares which are subscribed will rank equally with existing shares on the date of allotment and application will be made for them to be admitted to the Official List of the London Stock Exchange.

#### ***BHP Billiton Plc Co-investment Plan ("the CIP")***

- (i) Eligibility
 

All full-time employees (including Executive Directors) of the BHP Billiton Plc Group were eligible to participate in the CIP. Employees who were within two years of the date on which they are required to retire could only participate in exceptional circumstances, at the discretion of the Remuneration Committee.
- (ii) Invitations to Participate and Committed Shares
 

Invitations to participate were made to selected employees following the approval of the CIP by shareholders.

The selected invitees were asked to indicate what proportion of their discretionary annual bonus for the current financial year they wished to invest in the CIP.

## DIRECTORS' REPORT ON BOARD REMUNERATION CONTINUED

The Remuneration Committee prescribed minimum and maximum limits on the investment that could be made. Within those limits, part of the bonus (on a net or gross of tax basis, as appropriate) that would otherwise have been paid in cash was used to acquire ordinary shares in BHP Billiton Plc. These shares were known as Committed Shares.

The Remuneration Committee invited all Executive Directors and selected senior employees to participate in the first operation of the CIP for awards made in December 2000. Executive Directors were permitted to invest up to 100 per cent of their after tax annual bonus in the CIP.

### (iii) Matching Awards

Each invitee who had acquired Committed Shares ("Participant") was also granted an award (a "Matching Award") over shares in BHP Billiton Plc. Matching Awards would normally be granted during the 42 day period commencing on the day on which BHP Billiton Plc released its results for any financial period. The Matching Award entitles the Participant to acquire a number of shares in BHP Billiton Plc for nil consideration, subject to the satisfaction of performance conditions and (normally) the continuing employment of the Participant. The Matching Award would, in normal circumstances, be exercisable two years from the date of grant in respect of the number of shares that had vested in accordance with the performance conditions. Subsequently, if unexercised prior to that time, it would have been exercisable four years from the date of grant in respect of the number of shares that had vested at that time in accordance with the performance conditions.

### (iv) Special Situations

If prior to vesting of a Matching Award, a Participant ceased to be employed for any reason other than a compassionate circumstance (which included being injured or disabled and evidenced to the satisfaction of the Board), or was made redundant, or retired on reaching normal retirement age, or where a Participant's employer ceased to be a member of the BHP Billiton Plc Group, or where the business in which a Participant is employed was transferred out of the Group or any other circumstance which the Remuneration Committee determined to be a compassionate circumstance, a Participant's Committed Shares were forfeited and the related Matching Award also lapsed and ceased to be exercisable.

The BHP Billiton Plc Remuneration Committee gave extensive consideration as to how the merger would affect outstanding BHP Billiton Plc shares and awards under BHP Billiton Plc's two share incentive schemes. At the time of the merger, awards were outstanding under the Scheme from 1998, 1999 and 2000 and under the CIP from 2000.

The merger of Billiton Plc and BHP Limited could have been structured in a manner which would have triggered the automatic vesting of Scheme awards and Matching Awards and the release of CIP Shares. However, the structure that was selected (under which no such vesting was triggered) was considered by both companies to be the most appropriate way to achieve the merger from a shareholder perspective.

The BHP Billiton Plc Remuneration Committee concluded that on the merger completion date, the outstanding Scheme awards should vest in full and, under the CIP, Committed Shares should be released and Matching Awards vest in full at a multiple of 3.05 times the amount of the pre-tax bonus invested by the individual. This recommendation was agreed by shareholders at the Extraordinary General Meeting on 15 May 2001. The Trustees indicated on 29 June 2001 that the date of the vesting of awards granted under the Plans should be 20 August 2001, being the date of BHP Billiton's preliminary announcement of results for the year ended 30 June 2001.

In reaching its decision to recommend full vesting, the BHP Billiton Plc Remuneration Committee took the considered view that the choice of the merger structure should not adversely affect rewards under BHP Billiton Plc's incentive arrangements. In addition, the BHP Billiton Plc Remuneration Committee took into account BHP Billiton Plc's performance since its listing in 1997 and the management team's commitment to and record of creating shareholder value. The Committee also considered the changes in the nature and structure of the business following the merger, including the changing roles of BHP Billiton Plc personnel. The BHP Billiton Plc Remuneration Committee did not consider that the benefits available as a result of this vesting constituted, in fact or spirit, a reward for completion of the transaction.

In the case of Matching Awards held under the CIP by the most senior executives, vesting is subject to an agreement by the executive to retain approximately three quarters of the shares acquired on exercise, for 12 months, or in the case of

## DIRECTORS' REPORT ON BOARD REMUNERATION CONTINUED

Mr Gilbertson, for three years following the DLC merger (subject to deductions to cover tax and national insurance contributions). BHP Billiton Plc has also encouraged all other participants to retain the shares which have vested as a result of the DLC merger, for a period of at least 12 months.

### (g) Pension provision

BHP Billiton Plc has established non-contributory defined benefit pension arrangements under which the Executive Directors will be entitled to a pension at normal retirement date at age 60, equal to two-thirds of their base salary provided they have completed 20 years' service with the Group (which includes service with Gencor prior to separation).

Each year the Executive Directors have the right to determine whether their pension provision for that year's salary, under each service contract with a BHP Billiton Plc Group company is made under a defined benefit or a defined contribution arrangement. Alternatively, the Executive Directors can choose to receive a cash sum at equivalent cost to BHP Billiton Plc. If an Executive Director has chosen in any year to have a defined contribution arrangement he may elect subsequently to have the defined contribution benefit for that year and any previous years converted to a defined benefit promise, in which case he must surrender the defined contribution benefit accrued.

In the event of death in service, a lump sum death in service benefit of four times base salary will be paid. A spouse's pension on death in service of two-thirds of the Executive Director's prospective pension will also be paid. If prospective service to age 60 is less than 20 years the spouse's pension is reduced proportionately.

In the event of the death of an Executive Director while in retirement, a surviving spouse's pension of two-thirds of the pension in payment, before the effect of commutation, will be paid. All pensions in payment and deferred pensions will be indexed in line with the retail price index.

If an Executive Director retires early, his accrued defined benefit pension entitlement will normally be reduced for early payment at the rate of 4% per annum for each year before age 60.

Following the merger, Mr Gilbertson will accrue additional pensionable service at a rate of 1/30th of his annual salary per annum until he either leaves service or completes 30 years of pensionable service, whichever occurs first. BHP Billiton Plc may give its consent to the use of a lower rate.

No element of remuneration other than basic salary is pensionable.

### (h) Service contracts

In order to accurately reflect their work and duties for the respective companies within the Group, the Executive Directors had employment contracts with a number of BHP Billiton Plc Group companies. Each Director had a different structure of contracts reflecting his respective duties. A typical example is:

- (i) a contract with BHP Billiton Plc in respect of duties in relation to the BHP Billiton Plc Board; and
- (ii) a contract with Billiton Services Jersey Limited, a wholly-owned subsidiary of BHP Billiton Plc, in respect of certain duties performed in relation to other activities world-wide.

Each employing Company regularly reviews the duties and responsibilities of the Executive Directors in line with that Company's business activities to ensure that they accurately reflect the nature of the duties the Executive Directors carry out for that Company. The nature of the duties will be amended (whether during the year or otherwise) to take into account any significant changes. This may also involve a change in the remuneration earned by the Executive Directors under that employment. However, any changes to the remuneration will be revised within the annual maximum limits set by the Remuneration Committee. These contracts are terminable on 12 months' notice.

If an Executive Director leaves employment within 12 months of any change of control of BHP Billiton Plc then, provided that he is not leaving voluntarily or because BHP Billiton Plc is entitled to terminate his employment for other reasons, he may elect to receive a liquidated damages payment equal to two years' basic salary. An Executive Director electing to take such a payment will be required to execute settlement documentation in a form required by BHP Billiton Plc.

### BHP Billiton Limited

During the year BHP Billiton Limited has operated an executive compensation approach linked to value creation. The approach is underpinned by the Company Charter that defines the Company's purpose, business imperatives, values and vision. The underlying objective of the approach is to enable BHP Billiton Limited to attract and retain the highest calibre executive leadership team to ensure superior performance and the delivery of shareholder value.



## DIRECTORS' REPORT ON BOARD REMUNERATION CONTINUED

The Chief Executive Officer and Managing Director is engaged on a contract, the remuneration elements of which principally involve a cash salary, performance rights to BHP Billiton Limited shares under the BHP Performance Share Plan and performance options under the BHP Employee Share Plan. The share-based elements of this package were approved at a meeting of shareholders on 26 February 1999. Details of the remuneration of the Chief Executive Officer and Managing Director are set out in section 2.

### (a) Base salary

The Board of BHP Billiton Limited set the basic salary of each of the Executive Directors by reference to individual performance and external market data.

### (b) Other benefits

No additional benefits are provided to Paul Anderson. Ron McNeilly is provided with health insurance and, for the year ended 30 June 2000, a car allowance of US\$45 969. No car allowance was paid for the year ended 30 June 2001.

### (c) Annual performance related bonus

In addition to a base salary, Executive Directors are entitled to participate in an annual incentive plan. Under the plan for the year ended 30 June 2001, Paul Anderson had a target bonus of 100 per cent and Ron McNeilly had 75 per cent of base salary tied to the achievement of pre-established performance objectives. The bonus for the year for each Executive Director is shown in section 2.

### (d) Long term incentive plans

BHP Billiton Limited operated two incentive schemes in which the Executive Directors participate.

#### ***BHP Billiton Limited Performance Share Plan ("PSP")***

The PSP provides for a grant of Performance Rights to eligible executives. For each grant received by an executive, the executive will receive a number of BHP Billiton Limited shares if the performance or service hurdle is achieved. The Performance Rights are effectively an option with a performance or service hurdle and a nil exercise price.

Performance Rights were issued during the year ended 30 June 2001 on the following terms:

- (i) The hurdle is first measured at a nominated date (the First Hurdle Measurement Date). Performance Rights vest only if the performance hurdle is met on the First Hurdle Measurement Date, or during a nominated period (the Hurdle

Measurement Period). The performance hurdle is tested monthly during the performance period.

- (ii) The exercise period for each grant commences on the date the performance hurdle is achieved, and ends on a nominated expiry date. If the hurdle is not met on the First Hurdle Measurement Date nor during the Hurdle Measurement Period, then the option lapses at the end of the Hurdle Measurement Period and the Executive can exercise the performance rights at any time up to the expiry date.
- (iii) The proportion of the original Performance Rights grant that vests depends upon the ranking of BHP Billiton Limited's Total Shareholder Return within a group of peer companies, comprising companies selected by BHP Billiton Limited as international competitors.
- (iv) If an executive leaves employment and their Performance Rights are exercisable at the date they leave, the Performance Rights will not lapse until six months after leaving employment. However, non-exercisable Performance Rights will lapse at the date of leaving in the case of resignation or termination for cause. In all other cases, entitlement to Performance Rights which are not exercisable at the date of leaving continues on a pro rata basis subject to performance hurdles until six months after the end of the first Hurdle Measurement Date, when they lapse.

#### ***BHP Billiton Limited Employee Share Plan ("ESP")***

The ESP provides for a grant of options to eligible employees. For each grant received by an executive, the executive can, subject to the achievement of performance hurdles, purchase a number of BHP Billiton Limited shares at a fixed exercise price during the exercise period for that grant.

Options were issued during the year ended 30 June 2001 on the following terms:

- (i) The hurdle is first measured at a nominated date (the First Hurdle Measurement Date). Options vest only if the performance hurdle is met on a nominated measurement date (the First Hurdle Measurement Date), or during a nominated period (the Hurdle Measurement Period). The performance hurdle is tested monthly during the performance period.
- (ii) The exercise period for each grant commences on the date the performance hurdle is achieved, and ends on the nominated expiry date. If the hurdle is not met on the First Hurdle Measurement Date nor during the Hurdle Measurement Period,

## DIRECTORS' REPORT ON BOARD REMUNERATION CONTINUED

the option lapses at the end of the Hurdle Measurement Period and the executive can exercise the options any time up to their expiry date.

- (iii) If an executive leaves employment and their options are exercisable at the date they leave, the options will not lapse until six months after leaving employment. However, non-exercisable options will lapse at the date of leaving in the case of resignation or termination for cause. In all other cases, entitlement to options which are not exercisable at the date of leaving continues on a pro rata basis subject to performance hurdles until six months after the end of the first Hurdle Measurement Date, when they lapse.

### (e) Pension provision

Paul Anderson does not participate in a BHP Billiton Limited pension scheme.

BHP Billiton Limited has established the BHP Superannuation Fund of which Ron McNeilly is a non-contributory member.

Members are entitled to a lump sum benefit from the Fund at the age of 55 which is equal to 20 per cent of Final Average Salary for each year of membership up to 36 years.

Mr McNeilly has achieved service in excess of 36 years.

If a member retires after the age of 60 it is possible to opt for a pension benefit instead of a lump sum benefit. The pension would be equal to 1/54th of Final Average Salary for each year of membership. In the event of death in service a lump sum benefit equal to 20 per cent of Salary for each year of membership (based on prospective service to age 65) will be paid. If a member leaves the Fund, for reasons other than death or disablement before age 55, the lump sum entitlement will be reduced at the rate of 2 per cent per annum for each year before age 55. Salary excludes overtime and other allowances. Final Average Salary is a three year average of salary calculated immediately before the member leaves the Fund.

### (f) Service contracts

Mr. Anderson is employed by BHP Billiton Limited under a fixed term contract which will conclude on 31 October 2003. Prior to that time, the contract is terminable by Mr. Anderson by giving not less than 60 days' written notice. The contract is also terminable by BHP Billiton Limited for cause, or may be terminated by reason of death or disablement or protracted illness.

Under that contract Mr. Anderson receives an annual salary of A\$1 600 000. He also received a grant under BHP Billiton Limited's Performance Share Plan of 1 000 000 Performance Rights ("PRs") over the life of the contract, which are subject to performance and service conditions. The terms of issue of these PRs provide for the issue of a corresponding number of BHP Billiton Limited Shares, as adjusted to reflect the effect of the capital reduction undertaken in October 2000 and the bonus issue made in July 2001.

In the event that Mr. Anderson's contract is terminated for a reason other than cause, or terminates by reason of death, disablement or protracted illness, he is entitled to a payment equal to twice his annual salary and reimbursement of reasonable relocation costs for himself and his immediate family from Australia to the USA. In the event that BHP Billiton Limited fails to renew Mr. Anderson's contract after its expiry on 31 October 2003 or to otherwise employ Mr. Anderson, BHP Billiton Limited is liable to pay Mr. Anderson an amount equivalent to twice his annual salary and he is entitled to the reimbursement of reasonable costs for relocation of his family to the USA.

In addition to salary, Mr. Anderson's contract provides that he shall be entitled to a lump sum payment of A\$125 000 on 31 October 2003 if he is employed by BHP Billiton Limited on that date. Mr. Anderson may at his discretion direct that deductions are made from his salary to enable him to participate in benefits programmes available to executives of BHP Billiton Limited from time to time. Mr. Anderson's salary may be increased during the term of the contract and whether or not an increase shall be awarded will be determined annually on 1 December.

Following the completion of the DLC merger the Remuneration Committee has resolved to review the remuneration of the Chief Executive Officer and Managing Director with a view to reaching parity, in terms of total compensation, with the Deputy Chief Executive Officer. This review has not yet taken place.

Mr. Ron McNeilly serves as an Executive Director on the Board. There is no written service contract for Mr. McNeilly, but his terms of employment are outlined below.

Mr. McNeilly's current salary is A\$1 026 500. He also participates in BHP Billiton Limited's executive incentive programme, which provides him with a cash bonus target

## DIRECTORS' REPORT ON BOARD REMUNERATION CONTINUED

equal to 75 per cent of his salary (maximum 150%) if target key performance indicators are met.

Mr. McNeilly's employment is terminable by BHP Billiton Limited giving not less than two months' notice. Upon termination of employment by BHP Billiton Limited, Mr. McNeilly is entitled to a severance payment (so far as permitted by the cap on permissible payments under Section 200G of the Corporations Law) calculated in accordance with BHP Billiton Limited's prevailing policy for severance of executives as applicable to Mr. McNeilly's seniority and length of service. However, if BHP Billiton Limited terminates Mr. McNeilly's employment prior to 31 July 2005, the amount of severance would not be less than the amount which would

be calculated by applying to Mr. McNeilly's salary a multiplier reducing evenly from 2.5 times to zero times over that period. These entitlements upon termination of the contract do not apply in the instance of termination due to serious misconduct or termination by reason of protracted illness or disablement.

## 2 Executive Directors' emoluments

The following table sets out an analysis of emoluments including bonuses and termination payments, but excluding the awards made under any Long Term Incentive Plan or other share-based compensation, of the individual Executive Directors who held office during the year ended 30 June 2001. Comparative information for 2000 is shown.

		Base salary	Annual bonus	Other benefits	Termination payments	2001 Total	2000 Total
		US\$	US\$	US\$	US\$	US\$	US\$
Paul Anderson	a,b	849 141	1 030 812	-	-	1 879 953	1 945 250
Brian Gilbertson	c	1 132 794	855 259	241 778	-	2 229 831	1 654 214
Ron McNeilly	a	550 512	515 897	1 770	-	1 068 179	1 225 182
		2 532 447	2 401 968	243 548		5 177 963	4 824 646
Michael Davis	d	688 855	520 086	443 188	-	1 652 129	1 415 624
Steve Kesler	e	415 791	-	124 268	2 042 499	2 582 558	1 029 386
David Munro	f	688 855	520 086	159 378	-	1 368 319	1 236 790
Miklos Salamon	f	688 855	520 086	288 650	-	1 497 591	1 217 052
<b>Total</b>		<b>5 014 803</b>	<b>3 962 226</b>	<b>1 259 032</b>	<b>2 042 499</b>	<b>12 278 560</b>	<b>9 723 498</b>

- (a) Although the Boards of BHP Billiton Plc and BHP Billiton Limited will remain separate and will be subject to separate legal obligations, they will comprise the same persons to ensure that the BHP Billiton Group is managed as a unified economic entity. During the year ended 30 June 2001, Paul Anderson and Ron McNeilly were members of the BHP Billiton Limited Board and on implementation of the merger they also became members of the BHP Billiton Plc Board.
- (b) In addition to his cash salary and bonus included above, Paul Anderson is entitled to short term share-based compensation, details of which are set out below. The value of shares arising on Performance Rights becoming exercisable during the year ended 30 June 2001 was US\$2 322 901 (2000: US\$2 433 896).
- (c) For the year ended 30 June 2001 Brian Gilbertson was a member of the BHP Billiton Plc Board and on implementation of the DLC merger he was also appointed as a director of BHP Billiton Limited.
- (d) Michael Davis did not take up an appointment as a Director of BHP Billiton Limited and resigned from his role as a Director of Billiton Plc on 29 June 2001. He continues to be employed by the BHP Billiton Plc Group until 1 October 2001 on the same terms.
- (e) Steve Kesler resigned as a Director of Billiton Plc on 5 March 2001. In addition to his termination payment included above, which he received as compensation for loss of office, the shares which he was awarded under the Restricted Share Scheme vested on a pro-rated basis and Mr Kesler received a total of 308 629 shares. Pursuant to the rules of the CIP, the 19,169 Committed Shares he held were forfeited and the corresponding option to receive shares under the Matching Award lapsed and ceased to be exercisable on the date of cessation of employment. The termination payment also includes US\$683 233 in respect of the defined benefit pension promise waived on leaving service. He continues to be available to provide ad hoc consultancy services to Billiton Services Jersey Limited for a maximum period of up to 12 months from the date of his resignation at no further cost.
- (f) Miklos Salamon and David Munro resigned from their roles as Directors of Billiton Plc on 29 June 2001 but remain employed by the BHP Billiton Group. They received no compensation upon their resignation.

## DIRECTORS' REPORT ON BOARD REMUNERATION CONTINUED

Other benefits include the housing allowance and accommodation costs, together with medical insurance, life assurance, subscriptions, travel costs, car allowance, relocation costs, professional tax advisory fees, home security and personal use of company assets.

Miklos Salamon is paid a housing allowance of US\$145 230 per annum from September 1999. Brian Gilbertson and Michael Davis have occupied properties in London rent-free under agreements with subsidiary companies. The values of these benefits based on estimated market rent are US\$85 620 and US\$314 758 respectively. With the permission of the Remuneration Committee, Brian Gilbertson continues to occupy the property rent-free. The BHP Billiton Plc Remuneration Committee has also exercised its discretion in the case of Michael Davis to continue to provide him with rent-free accommodation.

No Director waived emoluments in respect of the year ended 30 June 2001. This is consistent with the prior year.

### Short Term Share Based Compensation

Paul Anderson holds Performance Rights entitling him to acquire BHP Billiton Limited shares at no cost. Those rights were issued pursuant to the equity component of his contract of employment and were approved by shareholders at a meeting on 26 February 1999. During the year he became entitled to exercise 200 000 Performance Rights.

### Long Term Incentive Plans

#### *BHP Billiton Plc*

Details of awards granted during the year under the Long Term Incentive Plans are set out in Section 5 below.

At the Extraordinary General Meeting held by BHP Billiton Plc on 15 May 2001 it was agreed by shareholders that on the completion of the merger all outstanding Scheme Awards could vest in full, Committed Shares, under the CIP could be released and the Matching Awards could vest to the maximum extent possible and become exercisable on a date to be decided by the Trustees. Completion of the merger occurred on 29 June 2001. The Trustees announced on 29 June 2001 that the date of vesting of awards granted under the Scheme and the CIP should be 20 August 2001, the day of BHP Billiton Plc's preliminary profit announcement. All awards have vested at the date of this Report.

#### *BHP Billiton Limited*

During the financial year, Ron McNeilly was granted 57 222 Performance Rights over 118 170 BHP Billiton Limited shares under the Performance Share Plan at no cost.

	Age at 30 June 2001	Years of service at 30 June 2001	Pension waived during the year US\$	Defined contribution switch	Additional pension net of inflation US\$	Accrued annual pension entitlement end of year 30 June 2001 US\$	Accrued annual pension entitlement at start of year 1 July 2000 US\$
Brian Gilbertson	57	31	–	–	128 412	731 000	641 100
Michael Davis	43	7	–	–	15 393	96 500	86 200
Steve Kesler	50	3	55 038	42 722	17 506	14 698	10 300
Miklos Salamon	46	16	–	–	54 546	361 200	325 900
David Munro	46	20	–	–	55 373	444 500	413 200

### Pensions

#### *BHP Billiton Plc*

The above table sets out information relating to the defined benefit pension entitlements of the individual Executive Directors who held office during the year ended 30 June 2001. The basis on which the table has been prepared is to set out the amount of increase in the accrued pension, before commutation, to which each Director has become entitled during the year. These amounts are inclusive of the benefits payable under the Billiton Executive Provident Fund. The information given below and in the BHP Billiton Plc Remuneration Committee policy statement above should enable a reasonable assessment of the year's increase in transfer values to be made.

The annual pension entitlements shown above are those which would be paid on retirement based on service to 30 June 2001. Shown above is the additional pension earned in the year net of

inflation and exchange rate movements. This amount reflects the effect of regular salary increases and an additional one year's service where appropriate.

Steve Kesler elected to switch his defined contribution entitlement for a defined benefit promise immediately prior to leaving service at which time he also waived an element of his defined benefit promise in exchange for a cash payment disclosed above.

At 30 June 2001, Brian Gilbertson had 20 years of pensionable service. Under his new contractual arrangements he is entitled to accrue up to 10 additional years of pensionable service from 1 July 2001.

The table opposite sets out information relating to pension contributions made by companies in the BHP Billiton Plc Group for the individual Executive Directors who held office during the year ended 30 June 2001 and who elected to receive part of their pension provision in defined contribution form:

## DIRECTORS' REPORT ON BOARD REMUNERATION CONTINUED

	Contributions paid for the year ended 30 June 2001 US\$	Contributions paid for the year ended 30 June 2000 US\$
Michael Davis	228 000	214 500
Steve Kesler	122 391	185 400

As explained above, all the defined contribution benefit arising from contributions made on behalf of Steve Kesler were switched to the defined benefit arrangements above.

**BHP Billiton Limited**

Ron McNeilly is entitled to a lump sum payment on retirement.

Based on his service to date, (in excess of 36 years) the amount payable at 30 June 2001 was US\$3 603 483 (2000: US\$3 919 082).

**3 Executive Directors' interests in Long-Term Incentive Plans and other Share Schemes****BHP Billiton Plc****Restricted Share Scheme**

Name	Awards made in current year	Awards made in previous years	Awards vested/lapsed in current year	Total Outstanding Awards as at 30 June 2001
Brian Gilbertson	353 207	953 047	213 636	1 092 618
Michael Davis	214 786	682 246	159 091	737 941
David Munro	214 786	682 246	159 091	737 941
Miklos Salamon	214 786	682 246	159 091	737 941
Steve Kesler	192 253	402 814	595 067	-

During the current year (on 29 August 2000), the conditional awards made on 29 August 1997 vested to the extent of 50 per cent with the remaining 50 per cent lapsing.

The aggregate value of shares vesting under the RSS in the year to 30 June 2001 based on the market price of shares on the day of vesting is as follows:

Name	Number of shares vesting	Aggregate market value of awards at date of vesting US\$
Brian Gilbertson	106 819	424 166
Michael Davis	79 547	315 872
David Munro	79 547	315 872
Miklos Salamon	79 547	315 872
Steve Kesler	308 629	1 401 245

The BHP Billiton Employee Share Ownership Trust held 14 225 249 Ordinary Shares as at 30 June 2001 (2000: 10 695 741). Directors are deemed to be interested in these shares as beneficiaries of the Trust.

**Co-Investment Plan**

On 8 December 2000, the Executive Directors elected to participate in the BHP Billiton Plc Co-Investment Plan to the extent set out below.

Name	Committed Shares	Shares under Matching Award
Brian Gilbertson	92 361	348 311
Michael Davis	22 473	104 285
David Munro	31 794	161 612
Miklos Salamon	22 473	103 784

Following completion of the merger all awards vested on 20 August 2001 when the share price was US\$4.58.

## DIRECTORS' REPORT ON BOARD REMUNERATION CONTINUED

### BHP Billiton Limited

#### BHP Billiton Limited Performance Share Plan (PSP)

Name	Number of shares subject to performance rights held at 30 June 2001(a)	Number of shares subject to performance rights held at 30 June 2000 (a)
Paul Anderson	1 284 660	1 652 080
Ron McNeilly	118 170	-

(a) The number of shares has been adjusted to reflect the bonus issue.

During the year Ron McNeilly was issued with 57 222 Performance Rights after approval by shareholders on 17 October 2000. Each Performance Right constitutes a right to acquire 2.0651 ordinary BHP Billiton Limited shares subject to a performance hurdle relating to total shareholder return described above. The Performance Rights have a zero exercise price. The Performance Rights are first exercisable on 1 July 2003 and expire on 1 November 2010.

Paul Anderson was issued with 1 000 000 Performance Rights after approval by shareholders in the BHP Billiton Limited General Meeting on 26 February 1999. Each Performance Right constitutes

a right to acquire (after adjustment to take account of the spin off of OneSteel Limited in October 2000 and the bonus issue in July 2001), 2.1411 ordinary BHP Billiton Limited shares upon completion of service conditions or fulfilment of performance conditions. The Performance Rights have a zero exercise price. Paul Anderson accrues the entitlement to exercise 100 000 Performance Rights per annum subject to satisfying a service condition and up to 100 000 Performance Rights per annum subject to satisfying performance targets set by the Board on an annual basis.

In addition to the shares subject to Performance Rights above, Paul Anderson had Performance Rights which were exercisable which entitled him to 53 528 BHP Billiton Limited shares at 30 June 2001 (2000: 51 628)

#### BHP Billiton Limited Employee Share Plan

Name	Number of shares subject to options at	
	30 June 2001(a)	30 June 2000(a)
Paul Anderson	2 065 100	2 065 100
Ron McNeilly	516 275	516 275

(a) The number of shares and the exercise prices have been adjusted to reflect the bonus issue

Paul Anderson was issued with 1 000 000 options and Ron McNeilly with 250 000 options under the BHP Billiton Limited Employee Share Plan after approval by shareholders in the BHP Billiton Limited General Meeting on 26 February 1999. The effective exercise price per share for Paul Anderson was A\$7.62 (adjusted as a result of the OneSteel capital reduction) and A\$7.61 for Ron McNeilly (adjusted as a result of the OneSteel

capital reduction). The options are not exercisable before 23 April 2002 and are also subject to performance hurdles. These options expire on 22 April 2009. The performance hurdle relates to BHP Billiton Limited's total shareholder return relative to comparator groups of companies, one being a group of substantial Australian companies and the other a global group. The proportion of options that become exercisable will depend on the ranking measured upon the third anniversary of issue and monthly thereafter.

#### BHP Billiton Limited Executive Share Scheme

Name	Shares partly paid (a)	
	2001	2000
Ron McNeilly	610 000 (b)	610 000 (b)
	200 000 (c)	200 000 (c)

Notes:

(a) Mr McNeilly holds partly paid shares under the Executive Share Scheme.

## DIRECTORS' REPORT ON BOARD REMUNERATION CONTINUED

(b) Beneficially held, paid to A\$0.67 and issued on the following dates:

Number	Date issued	Final call A\$
25,000	5 October 1987	9.98
75,000	24 August 1988	7.74
60,000	7 August 1989	9.18
50,000	6 August 1990	10.31
200,000	3 August 1992	12.91
200,000	6 October 1993	16.01

(c) Beneficially held, paid to A\$0.71, issued on 5 August 1991 at a final call price of A\$12.81 (after adjustment for OneSteel capital reduction).

There have been no changes in the above interests between 30 June 2001 and the date of this report, other than the shares that the BHP Billiton Plc directors became beneficially entitled to on the vesting of the RSS and CIP plans on 20 August 2001.

#### 4 Non-executive Directors emoluments

The following table sets out the fees and other benefits of the Non-Executive Directors who held office during the year ended 30 June 2001:

		Fees US\$	Other benefits US\$	2001 Total US\$	2000 Total US\$
Don Argus	a	235 972	-	235 972	251 000
Ben Alberts	a	58 993	-	58 993	31 375
David Brink	b	60 634	1 279	61 913	53 882
Michael Chaney	a	58 993	-	58 993	62 750
John Conde	a	58 993	-	58 993	62 750
David Crawford	a	58 993	-	58 993	62 750
Cornelius Herkströter	b	76 827	1 279	78 106	80 057
John Jackson	b	77 480	-	77 480	80 693
David Jenkins	a	58 993	-	58 993	20 916
Derek Keys	b	50 540	5 236	55 776	53 644
John Ralph	a	58 993	-	58 993	62 750
Lord Renwick	b	50 540	-	50 540	65 349
Barry Romeril	b	49 015	1 279	50 294	49 529
John Schubert	a	58 993	-	58 993	5 229
		1 013 959	9 073	1 023 032	942 674
Matthys Visser	c	22 220	1 279	23 499	53 644
Total		1 036 179	10 352	1 046 531	996 318

(a) Although the Boards of BHP Billiton Plc and BHP Billiton Limited will remain separate and will be subject to separate legal obligations, they will comprise the same persons to ensure that the BHP Billiton Group is managed as a unified economic entity. For the year ended 30 June 2001 Don Argus, Ben Alberts, Michael Chaney, John Conde, David Crawford, David Jenkins, John Ralph and John Schubert were Non-Executive Directors of BHP Billiton Limited. On implementation of the merger they also became members of the BHP Billiton Plc Board.

(b) For the year ended 30 June 2001 John Jackson, David Brink, Cornelius Herkströter, Derek Keys, Lord Renwick and Barry Romeril were Non-Executive members of the BHP Billiton Plc Board. On implementation of the merger they also became members of the BHP Billiton Limited Board.

(c) Matthys Visser resigned his Non-Executive Directorship with BHP Billiton Plc on 8 December 2000.

As a result of the merger the Board, with the assistance of external experts, will review fees payable to Directors. This review has not yet taken place. The principles that will underpin the review are that:

- Directors will receive one fee only for their services as Directors of BHP Billiton Plc and BHP Billiton Limited
- the aggregate of the fees paid will be contained within the single cap of US\$3 000 000; and
- fees will be conformed so that all Directors will receive the same base fee for service.

Given the multi national make-up of the Board, it is anticipated that fees will be denominated in one common currency (expected to be US dollars) and Directors will take those fees in the currency of their choice.

## DIRECTORS' REPORT ON BOARD REMUNERATION CONTINUED

### Pensions

In 1989, shareholders of BHP Billiton Limited approved the terms of a retirement plan under which Non Executive Directors accrued pension entitlements. Details of the entitlements which had accrued at 30 June 2001 are set out in the table below.

Entitlements are attached to the period of service and are paid on retirement from office (or to nominated beneficiaries in the case of death of a Director while in office). There are no plans to extend this plan beyond the current participants all of whom are listed in the table below.

Name	Completed Years of service at 30 June 2001	Lump Sum Entitlement at 30 June 2001 US\$	Lump Sum Entitlement at 30 June 2000 US\$
Don Argus	6	532 224	406 080
Ben Alberts	2	63 504	36 096
Michael Chaney	6	166 656	180 480
John Conde	6	166 656	180 480
David Crawford	7	177 072	192 512
David Jenkins	1	31 752	-
John Ralph	4	124 992	108 288
John Schubert	1	31 752	-

### 5 Directors' Share Interests

The interests of the Directors who held office at 30 June 2001 in the shares of BHP Billiton Plc and BHP Billiton Limited were:

BHP Billiton shares	As at 30 June 2001 <sup>1</sup>		As at 1 July 2000 <sup>1</sup>	
	Beneficial	Non-beneficial	Beneficial	Non-beneficial
Paul Anderson	<i>683 218</i>	-	<i>369 653</i>	-
Brian Gilbertson	<i>496 813</i>	-	<i>389 994</i>	-
Ron McNeilly - fully paid	<i>1 090 834</i>	-	<i>1 090 834</i>	-
- partly paid	<i>810 000</i>	-	<i>810 000</i>	-
Don Argus	<i>173 495</i>	-	<i>80 564</i>	-
John Jackson	<i>12 500</i>	-	<i>12 500</i>	-
Ben Alberts	<i>10 326</i>	-	<i>2 066</i>	-
David Brink	-	37 000	-	37 000
Michael Chaney	<i>4 338</i>	-	<i>4 338</i>	-
John Conde	<i>42 469</i>	-	<i>12 801</i>	-
David Crawford	<i>13 126</i>	-	<i>8 996</i>	-
Cornelius Herkströter	<i>10 000</i>	-	<i>10 000</i>	-
David Jenkins	<i>10 327</i>	-	<i>2 065</i>	-
Derek Keys	<i>70 000</i>	-	<i>70 000</i>	-
John Ralph	<i>29 190</i>	-	<i>29 190</i>	-
Lord Renwick	<i>6 000</i>	-	<i>6 000</i>	-
	<i>1 000</i>	-	-	-
Barry Romeril	<i>10 000</i>	-	<i>10 000</i>	-
John Schubert	<i>23 675</i>	-	<i>23 675</i>	-

<sup>1</sup> Shares in BHP Billiton Limited are shown in italics. BHP Billiton Limited shares for both periods have been adjusted to reflect the bonus issue made as part of the DLC merger arrangements.

The interests of the Directors in the long-term incentive and other arrangements is given in Section 3 of this Report.

As at the date of this report, Brian Gilbertson has a beneficial interest in 1 153 252 BHP Billiton Plc shares, Don Argus has beneficial interest in 183 495 BHP Billiton Limited shares and

Paul Anderson has a beneficial interest in 950 856 shares in BHP Billiton Limited. There have been no other changes in the interests of other directors between 30 June 2001 and the date of this Report.



## CORPORATE GOVERNANCE

While BHP Billiton Plc and BHP Billiton Limited continue as separate public companies, they operate as though they were a single unified entity under the control of unified Boards and management. This structure means that, going forward, most matters considered by the Directors will need to be considered by the Boards of BHP Billiton Plc and BHP Billiton Limited.

Each of BHP Billiton Plc and BHP Billiton Limited has well developed governance policies and practices which have been regularly reported to shareholders and which were designed to meet best practice in the environment in which they operate. Following completion of the merger, existing governance policies and practices of both companies have been subject to review. The aim of the review is to implement a governance framework across the group that meets the highest standards of governance as well as the regulatory requirements in all of the jurisdictions in which the BHP Billiton Group now operates. The Boards are committed to adopting the better of the existing governance practices between the two companies and will do so even in circumstances where a particular practice is not required to meet prevailing statutory obligation.

The review is well underway. As uniform policies and practices are formulated they will be brought progressively to the Boards of BHP Billiton Plc and BHP Billiton Limited for consideration. In August the Boards considered and approved some new initiatives, including the appointment of new Board Committees and the adoption of a uniform policy to deal with trading in the securities of the companies. Where changes to governance practices have already been implemented by the Boards, these are reported below in addition to information on the practices that were in place for BHP Billiton Plc throughout the past year.

### Compliance statement

The BHP Billiton Group is committed to high standards of corporate governance. Throughout the year to 30 June 2001 BHP Billiton Plc has complied with the provisions set out in Section 1 of the Combined Code on corporate governance ("the Combined Code").

It has been BHP Billiton Plc's practice to ask shareholders to approve its annual financial statements at its general meeting. Under the DLC arrangement, shareholders in BHP Billiton Limited would also be required to vote on the BHP Billiton Plc financial statements. In this first annual report period under the DLC arrangements, this would create a number of difficulties, both regulatory and in relation to the distribution to shareholders of large amounts of material. As a result, no vote will be taken on the BHP Billiton Plc accounts at the 2001 annual general meeting. Instead, the accounts will be laid before the BHP Billiton Plc meeting and the Chairman will take questions thereon. This will result in non-compliance with one provision of the Combined Code in the 2002 financial year. The Directors hope to be able to resolve this issue more satisfactorily going forward.

As an Australian company, BHP Billiton Limited is not required to consider whether it complies with the provisions of the Combined Code. However, BHP Billiton Limited has a comprehensive governance regime that is broadly consistent with the Code. In any event BHP Billiton Limited is examining a move to compliance with the Code on a voluntary basis in the future.

### Application of the principles of the Combined Code

The Combined Code establishes fourteen Principles of Good Governance. These principles are divided into four areas: Directors, Directors' Remuneration, Relations with Shareholders and Accountability and Audit, and are detailed below.

### Directors

#### Board composition following the DLC merger

The Boards of BHP Billiton Plc and of BHP Billiton Limited have seventeen members, three of whom are Executive Directors and 14 Non-Executive Directors. The names of Directors and their biographical details are set out on pages 40 to 43.

Don Argus is a Non-Executive Director and Chairman of both Boards. Paul Anderson is the Chief Executive Officer and Managing Director. All 14 Non-Executive Directors are considered by the Board to be independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgement. In addition to the Chairman, these Directors are Ben Alberts, Lord Renwick of Clifton, David Brink, Michael Chaney, John Conde, David Crawford, Cornelius Herkströter, David Jenkins, John Jackson, Derek Keys, John Schubert, John Ralph, and Barry Romeril. John Jackson, the former senior independent director of Billiton Plc, has been appointed the Deputy Chairman of both companies.

#### Board constitution before the DLC merger

Prior to the DLC merger, the Board of BHP Billiton Plc had up to 12 members during the year, five Executive Directors and seven Non-Executive Directors. Brian Gilbertson chaired the Board and was also the Chief Executive. The Board endorsed the combined role given the stage of development of BHP Billiton Plc, and the presence of a strong and independent element on the Board, and the effective operation of the Executive Committee. All Non-Executive Directors were considered by the Board to be independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgement. These Directors were Lord Renwick of Clifton, David Brink, Cornelius Herkströter, John Jackson, Derek Keys, Barry Romeril and Matthys Visser (who resigned during the year).

Both the current and past Board structures ensure that no individual or group of individuals dominates the Board's decision-making process. The Directors have wide ranging experience and

## CORPORATE GOVERNANCE CONTINUED

all have occupied or currently occupy senior positions in industry and/or government.

The Board, which met three times during the year, provided effective leadership and managed overall control of the BHP Billiton Plc Group's affairs through the schedule of matters reserved for its decision. This included approval of the annual budget and business plan, major capital expenditure, significant acquisitions and disposals, risk management policies and approval of financial statements. Formal agendas, papers and reports were supplied to Directors in advance of Board meetings. The Board also received a monthly summary financial report incorporating consolidated and commodity unit results and forecasts. The Board delegated certain of its responsibilities to Board committees with clearly defined terms of reference. These are discussed below.

Seven meetings of the Board are scheduled for this current year, four of which will be held in Melbourne and three in London. The duration of meetings has now been extended from one to two days.

The agenda for meetings is prepared by the Company Secretary in conjunction with the Chairman and the Chief Executive Officer and Managing Director. Any member of the Board may request the addition of an item to the agenda. Papers and submissions are circulated in either electronic or hard copy form to Directors in advance of the meeting.

Members of the Executive Committee participate in meetings of the Board while other members of management attend meetings from time to time. A report from the Chief Executive Officer and Managing Director to members of the Board will be provided on a monthly basis, whether or not the Board is meeting in that month.

The Board works to a rolling calendar and conducts periodic reviews of the Group's businesses. Open, searching and constructive discussion by Directors is expected and encouraged. The Board recognises that constructive differences of opinion are a positive influence on debate.

The Directors recognise that the merger creates very large businesses and that they will need to accelerate their learning about the new businesses. Each Director is being encouraged to agree a program, designed to run over a period of approximately 12 months, that will expose that Director to the new assets and asset managers.

During the past year, all Directors had access to the advice and services of the Company Secretary, who is responsible for ensuring that Board procedures are followed. Any director could take independent professional advice at the expense of BHP Billiton Plc in the furtherance of their duties.

All Directors are subject to election by shareholders at the first opportunity after their appointment. BHP Billiton Plc's Articles of Association ensure that all Directors stand for re-election at least every three years. Directors are eligible for re-election

by shareholders.

At the Annual General Meeting to be held in October, shareholders will be asked to approve amendments to the Articles of Association of BHP Billiton Plc and the Constitution of BHP Billiton Limited. The amendments are designed to simplify the administration of the Companies and to ensure that, to the extent permitted under English and Australian company law, these constituent documents are identical.

### **Committees of the Board**

The Board of BHP Billiton Plc operated through six standing committees with delegated authority and defined terms of reference. The Committees met periodically throughout the year as the business of each Committee necessitated. The Board intends to operate through equivalent Committees in the future. The agenda for Committee meetings is prepared in conjunction with the Chairman of the relevant Committee and papers and submissions will be distributed to Committee members in advance. The office of the Company Secretary provides secretarial services to each Committee. Each Committee is free to invite members of management or others to attend meetings. Each Committee is also free to take external advice as and when it considers appropriate. The composition, purpose and function of these committees are described below.

### **Audit Committee**

The Audit Committee comprised three Non-Executive Directors: Cornelius Herkströter (Chairman), Derek Keys and Matthys Visser (replaced by Barry Romeril following Mr Visser's resignation on 8 December 2000), and had specific terms of reference dealing with its authority and duties. The Committee overviewed the monitoring of the adequacy of the BHP Billiton Plc Group's internal controls, accounting policies and financial reporting and provided a forum through which the BHP Billiton Plc Group's external auditors and internal audit function reported to the Board. The Committee also reviewed the scope and quality, including the independence and objectivity, of the internal and external audit, and the fees paid to external auditors for both audit and non-audit work. An audit firm may perform non-audit work for the Group but only when its tender is considered superior to that of other specialist firms. The Audit Committee met three times during the year. The external auditors, the Chairman, the Chief Financial Officer, the General Manager Group Finance and the Group Internal Auditor attended meetings, although a part of each meeting was held between the Committee members and external auditors without members of management. The minutes of meetings were circulated to all members of the Board. From July 2001 the Audit Committee for the combined BHP Billiton Group was renamed the Risk Management and Audit Committee and comprises four Non-Executive Directors: Cornelius Herkströter, Barry Romeril,

## CORPORATE GOVERNANCE CONTINUED

Ben Alberts and David Crawford (Chairman). The purpose and function of the committee will not differ materially from the previous year.

#### **Executive Committee**

The Executive Committee, under the Chairmanship of Brian Gilbertson, comprised all the Executive Directors together with Ian Fraser, BHP Billiton Plc's Group Human Resources Director and Marius Kloppers. The Executive Committee dealt with a wide range of matters, including a review of the monthly financial results and forecasts, proposals for capital expenditure, major operational matters, and human resource management, including all key appointments within the BHP Billiton Plc Group, succession planning and development of the BHP Billiton Plc Group's key individuals. The Committee also reviewed acquisitions, disposals and annual business plans before they were submitted to the Board and reviewed the high-level business risks and opportunities facing the BHP Billiton Plc Group and related internal controls. In the year ended 30 June 2001, the Executive Committee met nine times. Minutes of the Committee were circulated to all Board members. From July 2001 the Executive Committee comprised Paul Anderson (Chief Executive Officer and Managing Director), Brian Gilbertson (Executive Director and Deputy Chief Executive Officer), Kirby Adams (President Steel), Philip Aiken (President and Chief Executive Officer Petroleum), John Fast (Chief Legal Counsel), Chip Goodyear (Chief Development Officer and Acting Chief Financial Officer) and Miklos Salamon (President and Chief Executive Officer Minerals).

#### **Financial Risk Management Committee**

The Financial Risk Management Committee comprised three Executive Directors: Brian Gilbertson (Chairman), Mick Davis and David Munro together with the General Managers responsible for corporate finance, Group finance and treasury respectively. The Committee was tasked to set, approve and monitor the execution of the financial risk management policies of the Group within the delegated authorities and approval framework of the Board. The Committee met monthly. Minutes of the Committee were circulated to all Board members. Following the DLC merger, this Committee will function as a management rather than a Board Committee, with different membership.

#### **Health, Safety and Environmental (HSE) Committee**

The HSE Committee, chaired by David Brink, comprised seven members (including Brian Gilbertson). Four of the Committee's members were independent experts who advised the BHP Billiton Plc Group on best international practice in their respective health, safety and environmental fields and monitored compliance with BHP Billiton Group policies. The HSE Committee met twice during the year and minutes of the meetings were circulated to all Board members. In July 2001, David Jenkins joined the Committee and additional independent experts, yet to be finalised, will be

appointed. The purpose and function of the committee will not differ materially from the previous year.

#### **Nominations Committee**

The Nominations Committee comprised three non-executive directors: Cornelius Herkströter (Chairman), Lord Renwick of Clifton and John Jackson. The Committee met as required to select and propose to the Board suitable candidates for appointment as Directors. From July 2001 the Nominations Committee comprised Don Argus (Chairman), David Brink, Lord Renwick of Clifton and John Schubert. The purpose and function of the Committee is to support and advise the Board in fulfilling its responsibilities to shareholders in ensuring that the Board is comprised of individuals who are best able to discharge the responsibilities of Directors having regard to the law and the highest standards of governance, including establishing processes for the identification of suitable candidates for appointment to the Board.

#### **Remuneration Committee**

The Remuneration Committee comprised four non-executive directors: John Jackson (Chairman), Lord Renwick of Clifton, Barry Romeril and Matthys Visser (until his resignation on 8 December 2000). Derek Keys acted as a special adviser without vote. The Committee was responsible for determining the remuneration and benefits of Billiton Plc's Executive Directors. It also reviewed the Group's general policy on executive remuneration. The consideration of the remuneration of Non-Executive Directors was a matter for the Board as a whole and was not considered by this Committee. The Committee met twice during the year. From July 2001 the Remuneration Committee comprised John Conde, John Jackson (Chairman), Derek Keys and John Ralph. The purpose and function of the Committee will not differ materially from the previous year.

#### **Directors' Remuneration**

Details of remuneration paid to the Directors is set out in the Directors' Report on Board Remuneration.

#### **Share Ownership**

In 2000 the BHP Billiton Limited Directors agreed to apply at least 25% of their remuneration to the purchase of BHP Billiton Limited shares until they achieved a shareholding equivalent in value to one year's remuneration and, thereafter, to maintain at least that level of shareholding throughout their tenure.

Following the merger the Board will again consider the issue of share ownership by Directors with a view to ensuring that a consistent policy exists for BHP Billiton Plc and BHP Billiton Limited. Details of the shares held by Directors are set out on page 68 of this Report.

## CORPORATE GOVERNANCE CONTINUED

BHP Billiton Plc and BHP Billiton Limited have a policy that covers dealings in securities that applies to Directors and senior management. The policy has been designed to ensure that BHP Billiton Plc complies with corporate regulation in the United Kingdom and in Australia to ensure that shareholders, customers and the international business community have confidence that the BHP Billiton group will comply with best practice in corporate governance and will handle confidential information with integrity and sensitivity.

### Relations with shareholders

The Boards of BHP Billiton Plc and of BHP Billiton Limited place considerable importance on effective communication with shareholders. All shareholders can gain access to the annual report and accounts and other up-to-date information about the BHP Billiton Group, through the BHP Billiton Group's website on <http://www.bhpbilliton.com>. Briefing meetings are held at appropriate times and in accordance with disclosure obligations. In order to promote a better understanding of the BHP Billiton Group, visits will be arranged from time to time for analysts and shareholders to operating facilities world-wide.

Care is exercised to ensure that any price-sensitive information is released to all shareholders, institutional and private, at the same time in accordance with London, Australia and Johannesburg Stock Exchange requirements. Simultaneous release of this information is made by e-mail to all those on the contact database. Any person(s) wishing to be added to this database should contact Corporate Affairs at [corporate.affairs@bhpbilliton.com](mailto:corporate.affairs@bhpbilliton.com).

The principal communication with private investors is through the provision of the annual report and accounts, the interim statement and the Annual General Meeting, the notice of which is posted at least 20 working days in advance. At the meeting in 2000, the Chairman gave a presentation on BHP Billiton Plc's business. Shareholders were invited to ask questions and express their views about the business at the meeting. A separate resolution was proposed on each substantially separate issue, including the annual report and accounts, and the number of proxy votes received for and against each resolution was announced, after it had been dealt with on a show of hands. (As outlined above, BHP Billiton Plc does not intend to comply with its usual practice of asking shareholders to approve its financial statements this year.) The total number of shares voted by proxy at the 2000 Annual General Meeting (as a proportion of the issued share capital) equated to some 60 per cent. The Chairmen of the Health, Safety and Environmental Committee, the Remuneration Committee, the Nominations Committee, and the Audit Committee, were available to answer questions at the 2000 Annual General Meeting.

### Accountability and audit

#### Financial reporting

The Board is mindful of its responsibility to present a balanced and clear assessment of the BHP Billiton Group's financial position and prospects. This assessment is primarily provided in the Chairman's Report, CEO's Report and Financial Review and in the various Customer Sector Group reports contained in this Report. An explanation of the respective responsibilities of the Directors and the auditors in respect of the preparation of the accounts is set out on page 76. The Directors set out on page 46 the basis of their view that the business is a going concern.

#### Internal control

The Directors are responsible for the system of internal controls and for regularly reviewing its effectiveness. The principal aim of the system of internal controls is the management of business risks that are significant to the fulfilment of the BHP Billiton Group's business objectives with a view of enhancing over time the value of the shareholders' investment and safeguarding the assets. Although no system of internal controls can provide absolute assurance that business risks will be fully mitigated, the internal control systems have been designed to meet the BHP Billiton Group's particular needs and the risks to which it is exposed.

The key procedures that were established by BHP Billiton Plc and which were designed to provide effective internal control are:

#### Assessment of business risk

A system of risk assessment and identification and evaluation of controls is embedded in management processes. Strategic risks and opportunities arising from changes in the BHP Billiton Group's business environment were regularly reviewed by the Executive Committee and discussed by the Board. Risks relating to key functional activities within commodity units and at head office were assessed on a continuous basis. Summary reports were made to the commodity unit and head office Audit Committees (until now only established by BHP Billiton Plc but to be established for the Group as a whole following the merger) as well as to the Group Audit Committee, the Financial Risk Management Committee, and the Health, Safety and Environmental Committee, as appropriate. Key functional activities include exploration, mining, refining, smelting, production of petroleum, manufacture of steel products, information technology, technical development, human resources management, health, safety and environmental management, treasury, marketing and trading, commodity and currency hedging, taxation and finance.

## CORPORATE GOVERNANCE CONTINUED

### Control environment

The Boards set overall policy for the BHP Billiton Group and delegated the authority to implement that policy to its commodity and service units. A well-defined organisational structure with clear operating procedures, lines of responsibility and delegated authority has been established. A senior Executive responsible for one, or more, commodity, business and service units was a member of the Executive Committee. In terms of the BHP Billiton Group approvals framework, there are procedures for appraisal, review and authorisation of investments and capital expenditure.

### Information and communication

The BHP Billiton Plc Group's operating procedures include a comprehensive system for reporting financial and non-financial information to the Directors, including:

- The preparation and review of annual budgets and comprehensive business plans which were approved by the Board.
- A review of the business (by commodity and business unit) at each Board meeting, focusing on any new risks arising (for example, those relating to proposed major investments and key changes in the markets).
- Regular meetings of the Executive Committee and the Financial Risk Management Committee.
- Meetings of the Health, Safety and Environmental (HSE) Committee.

### Control procedures

Detailed operational procedures are developed for each of the key activities that embody key controls. The implications of changes in law and regulations were also taken into account within these procedures. Written procedures are established to safeguard assets and to ensure that financial transactions are properly recorded. Accounting policies and practices are widely disseminated throughout the BHP Billiton Plc Group. Each commodity unit documents detailed control procedures which are specific to its operations.

### Monitoring process

There were clear procedures for monitoring the system of internal controls. The significant components of these were:

- Each half year, the managing director and chief financial officer of each operating unit were required to review internal controls and to return a formal letter of representation to the Group certifying compliance with Group policies and procedures and confirming the effectiveness of internal control systems.
- An internal audit department, reported directly to the Group Audit Committee. All major operations are audited regularly with emphasis on those functional activities of greatest risk.

Internal audit addresses not only financial controls but also certain aspects of operational control. The Group Audit Committee approved the department's work programme and received a comprehensive activity report at each meeting. Regular reviews take place between internal audit management and the senior management of commodity and business units to assess their current control status and to identify and address any areas of concern.

- The Audit Committees of each operating unit reviewed the risk assessments and controls over these risks. The Group Risk Management and Audit Committee received reports and copies of minutes from each of the operating units' Audit Committees.
- The Group Audit Committee, had specific responsibility for assessing the effectiveness of financial internal controls and monitored the process of assessing the internal controls across the Group on behalf of the Board.
- The Health, Safety and Environmental Committee, which reviewed HSE risks and controls Group-wide.
- The Financial Risk Management Committee, set, approved and monitored the execution of the financial risk management policies of the BHP Billiton Plc Group.

The Directors conducted a review of the effectiveness of the BHP Billiton Plc Group's system of internal controls described above for the financial year and up to the date of this report in accordance with the guidance set out in Internal Control: Guidance for Directors on the Combined Code (the Turnbull guidance). The review encompassed financial, operational and compliance controls as well as risk management. The process used included the following elements:

- The Group Audit Committee reviewed the process by which risks are identified and assessed and the effectiveness of controls over these risks are assessed by commodity units and head office.
- The Group Audit Committee reviewed the effectiveness of financial internal control. This involved the review of the regular reporting from the commodity units and head office to their respective audit committees, the formal letters of representation from the managing directors and chief financial officers, considering reports from management, internal audit and the external auditors relating to the system of financial internal control and discussion with management of the actions being taken on problem areas identified.

## CORPORATE GOVERNANCE CONTINUED

- The Health, Safety and Environment Committee reviewed the effectiveness of the internal controls covering those areas of risk. This involved considering the application of HSE policy by commodity units, the consideration of HSE matters at the planning stage of new endeavours and considering reports from management relating to internal controls over HSE risks and the discussion with management regarding the actions being taken on problem areas identified.
- The Financial Risk Management Committee reviewed the effectiveness of the internal controls relating to commodity risk, currency risk, funding risk and interest rate risk. A Treasury policy covering the use of financial instruments to manage these risks is in place.
- The Executive Committee reviewed the effectiveness of strategic, operational and compliance internal controls and risk management. This involved considering reports on key risk areas (concentrating on significant changes in the risk profile) and controls from the commodity units and head office, formulation of actions, policies and procedures to control risks and discussion with the Executive Director responsible for the relevant area, the actions being taken on problem areas identified.
- The Board considered reports from the Audit Committee, the Health, Safety and Environment Committee, Executive Committee, and the Financial Risk Management Committee on these areas during the year and, at the time of approving the annual report and accounts, considered a summary of the assessments of the effectiveness of the key risks and controls identified and received confirmation from the Executive Directors responsible for each area that controls were effective.

Although BHP Billiton Limited was not required to comply with London Stock Exchange listing requirements during the year to 30 June 2001, its risk management and internal control processes are considered broadly consistent with the Turnbull Guidance.

BHP Billiton Limited's strong culture of risk management and internal control is embedded in the business processes at an operational level as part of existing management and governance activities, and has been monitored throughout the year by the Risk Management & Audit department on behalf of the Audit Committee. All significant weaknesses in the system of internal control highlighted as a result of these monitoring activities were reported to the Audit Committee as "Significant Issues".

BHP Billiton Limited recognises that effective monitoring on a continuous basis is an essential component of a sound system of internal control. Monitoring of the effectiveness of its internal controls included the following activities:

- At four of its seven meetings, the Audit Committee considered the quarterly Audit Committee report from the Risk Management & Audit department, which set out the significant risks facing the Group. These risks were shown as "Audit Topics" and had been identified and evaluated using processes consistent with Standards Australia's AS/NZS 4360:1999 Risk Management.
- The effectiveness of the internal controls over these risks has been reviewed by the Risk Management & Audit department, and the results reported to the Audit Committee on an exception basis – only significant weaknesses in internal controls were reported to the Committee, along with progress reports on management actions to address these control weaknesses.
- The Risk Management & Audit department review of internal controls also included reviews of the effectiveness of the embedded processes at the operational level for risk identification, evaluation, monitoring and reporting. To date, no significant control weaknesses have been noted in this area.
- To avoid duplication of effort, excluded from the scope of these reviews are risks arising from mergers and acquisitions (which are subject to separate Board approval processes); commodity, currency and interest rate risks (which are specifically monitored and reported upon via Market Risk Management processes); and risks arising from public reporting processes (which are subject to other specific corporate governance monitoring activities).
- The quarterly Audit Committee reports from the Risk Management & Audit department included business feedback on internal audit performance and progress reports against the annual Audit Plan. From this data, along with trends in the reporting of Significant Issues, the Audit Committee considered the adequacy of monitoring and reporting upon the effectiveness of internal controls.

## CORPORATE GOVERNANCE CONTINUED

- A continuing source of change in BHP Billiton Limited's risk profile is the impact of new investments and projects. For this reason, the Capital Investment Manual specifically includes risk identification, evaluation and risk treatment planning as an integral part of the tollgating and evaluation of new projects. For significant investments requiring Board approval, the risk identification and evaluation results, along with the risk treatment planning, was independently reviewed and made available to management and the Board via the Capital Projects Review Committee.
- The Audit Committee also reviewed the effectiveness of financial internal controls via the Financial Governance Framework, which included consideration of Annual Stewardship Reviews, half yearly Directors' Questionnaire to Management, quarterly Accounting Matters for Consideration and the quarterly Misappropriations Report.

Going forward, the monitoring and reporting processes will be standardised across the BHP Billiton Group. The Group also intends to use the merger as an opportunity to improve risk reporting processes with the aim of increasing the transparency of the key risk exposures and associated internal controls for Directors, senior management and the various Customer Segment Group Risk Management and Audit Committees.

### Business Conduct and The Charter

The BHP Billiton Group has produced a Guide to Business Conduct, which is designed to assist every employee to make the decisions that are required of them in the performance of their responsibilities. It has also established a worldwide help-line as a means by which employees can seek guidance on how to make decisions with which they feel confident and comfortable. The help-line also affords employees an opportunity to express issues of concern.

The approach to business conduct reflects the Charter which itself recognises that lasting success is built on each employee taking responsibility, achieving high performance, delivering on commitments and earning trust. The Charter, which has been endorsed since the merger, states the purpose of the Group as being to create value through the discovery, development and conversion of natural resources, and the provision of innovative customer and market focused solutions. It also formalises the value the Group places on safety and the environment, integrity, high performance, win-win relationships, the courage to lead change and respect for each other.

### Political Contributions

The BHP Billiton Group maintains a position of impartiality with respect to party politics. Accordingly it does not contribute funds to any political party, politician, or candidate for public office. It does, however, contribute to the public debate of policy issues that may affect it in the countries in which it operates.

## STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE PREPARATION OF THE FINANCIAL STATEMENTS

The following statement, which should be read in conjunction with the statement of auditors' responsibilities included in the report of the auditors set out on the following page, is made with a view to distinguishing for shareholders the respective responsibilities of the Directors and the auditors in relation to the financial statements.

The Directors are required by the United Kingdom Companies Act 1985 to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of BHP Billiton Plc and the BHP Billiton Group and of the profit or loss for the period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the BHP Billiton Group will continue in business for the foreseeable future.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of BHP Billiton Plc and which enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the BHP Billiton Group and to prevent and detect fraud and other irregularities.



# AUDITORS' REPORT TO THE MEMBERS OF BHP BILLITON PLC

We have audited the financial statements on pages 79 to 143.

We have also examined the amounts disclosed relating to emoluments, long term incentive scheme interests and pension benefits of the Directors which form the part of the Directors' Report on Board Remuneration on pages 56 to 68.

## Respective responsibilities of Directors and joint auditors

The Directors are responsible for preparing the Annual Report. As described on page 76 this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the United Kingdom Companies Act 1985. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding Directors' remuneration and transactions with the Company is not disclosed.

We review whether the statement on page 69 reflects the Company's compliance with those provisions of the Combined Code specified for our review by the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risks and control procedures.

We read the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

## Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

## Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 30 June 2001 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



## KPMG Audit Plc

Chartered Accountants and registered auditor  
London, 3 September 2001



## PricewaterhouseCoopers

Chartered Accountants and registered auditors  
London, 3 September 2001

