BHP Billiton .

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Preliminary Results Presentation.

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Monday, 20 August 2001.

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Mr Paul Anderson.

Mr Charles Goodyear.

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PRESENTER:

Today's session will involve presentations by Paul Anderson, Chief Executive Officer and Managing Director, and also Chip Goodyear, Chief Development Officer and Chief Financial Officer. We've scheduled 90 minutes for today's session, we think the actual presentation will last about 60 minutes. There will be opportunities for questions at the end of the presentation, and according to past practice, we will alternate between the people in the varying locations.

MR ANDERSON: Thank you, Rob. Thank you all for joining us this morning.

This a truly exciting day for us, and for me personally, this being the inaugural results of BHP Billiton, and I'm very pleased that you can be here to join us. As Rob said, Chip and I will be carrying the presentation this morning. Brian Gilbertson is in London, and it's about 1.30 in morning, so we felt that it would be better not to wake him and try to inject him into this session, but we will have him available in the 4 o'clock media session this afternoon. They'll be linked in via satellite, and then he'll be running a session in London later this evening, about 6.30 Melbourne time, and Chip and I will be linked in with that via satellite. So we're trying to cover the two markets as best we can in the different time zones. For those of who you like to know Brian's movements and where he is at any point in time, he will be here in Australia later this week. He'll be arriving Wednesday morning, and you will see him on the ground, and he'll be participating in some analyst presentations and a three week roadshow that will be going on.

I said then it was an exciting event, and I really mean it. I'm truly excited to be here. As you'd probably expect, I've been so immersed in the merger in the last few weeks, few months, meeting new people, reviewing new assets, that I really haven't had a chance to step back from this activity and look at what's been achieved over the past year, and as you look at what BHP and Billiton have done over the last 12 months, it is truly awesome.

For a moment, I'd like to set aside the high point of the year, which is really the merger, and I know you are interested in that and the progress we're making and the momentum that we have going there, but I'd like to take a few moments to look at the performance of the two sides of BHP Billiton, the new family here. Both companies delivered record financial results, and made, in their different ways, very significant progress towards creating shareholder value. BHP's record result was Australian - and I'll talk A$ for BHP, and then we'll shift over to US$ for the rest of the presentation. I'm sorry it's a little confusing, but we have different reporting requirements in different areas.

BHP's record result was a A$2 billion profit, despite the fact that we had a A$1.1 billion charge associated with our withdrawal from the Venezuelan HBI plant, and from the write down of Ok Tedi. Profits were up 27 per cent over last year, and as you probably remember, last year was a record, and in fact when we were here a year ago, people were saying, "Gee, can you ever beat that, or was that a flash in the pan?" And we were up 27 per cent over that. Even more importantly, the results, again, were no flash in the pan, as this slide shows. The key financial ratios demonstrate a very powerful story. EBITDA interest coverage was 9.5 times, up from 6.5 last year, gearing was at 38.3 per cent, down from 42.7 per cent. Return on equity is up to 18.2 per cent, and the return on capital was up again at 11.7 per cent. If you exclude the one-time events relating to Ok Tedi and Venezuela, the return on capital is 16 per cent. These results far exceed the financial objectives that we set in early fiscal 2000, or early I guess it was calendar year 2000 that we actually set those. For Australian shareholders, dividends are now fully franked again.

We didn't make major advances in financial areas alone. Excellent progress was made in reinvigorating the quality of the portfolio. The fix-up clean-up stage was all but complete last year, but we continued to take the hard decisions. I mentioned that we withdrew from the Venezuela HBI plant and took the write off for Ok Tedi. The write off of Ok Tedi's carrying value is probably the firmest indication I can give you as to the progress that we're making on exiting that asset.

Another major event was we spun off OneSteel, which, of itself, was a very significant transaction. We successfully completed the QCT transaction and the subsequent equalisation of equity with Mitsubishi. This was an excellent move, and in a number of respects it shows the type of transactions we're looking forward to in the future, to create value. It gave effect to our strategy to rationalise the industry position of one our key commodities, and critically, through the agreement with Mitsubishi, we were able to do that by selling down part of our equity, without increasing our individual exposure within that industry sector. We captured significant value at every step of the way; through the transaction itself, through the merger synergies, to the significant higher levels of contracted coal that was achieved, and, in addition, we enhanced our relationship with Mitsubishi, and I think the move was welcomed by the Japanese steelmakers. So it was a win-win from any way that you looked at it.

We also did further industry leadership work in met coal pricing. The year before, you probably remember, there was a hue and cry as to why we accepted lower coal prices, and at the time the market conditions set us up for this year's progress that we made. We took lower coal prices a year ago, the industry got stabilised, supply and demand came into balance, and this year we took the initiative to move away from benchmark pricing to individual contracting with the steel producers. The results speak for themselves. Average price increases were between 16 and 22 per cent on top of record volumes.

We also committed very definitively to our growth and value phase. Quite apart from the merger with Billiton, we pushed the button on a number of new growth projects, and they're listed here: Escondida Phase IV, North West Shelf, Train 4, Ohanet development Algeria, San Juan Underground, Tintaya Oxide, Blackwater Mine integration, Laminaria II. The total commitments for these projects is just under A$3 billion, with about two thirds of this being for brownfield projects.

We made pleasing progress in other areas. Typhoon, the deep water oil production field, was completed safely, on schedule and under budget. It's now commissioned and ramping up to nameplate capacity. The project set new standards for rapid development, with the first oil in just over three years from discovery time. The time for the project sanctioned first oil was just 18 months. This is an impressive achievement, particularly in a field of over 2000 feet of water. We will have the ROD field in production in 2003, and we expect to go to full field development on the Zamzama gas field in Pakistan this year, and we're well advanced on our appraisal of the larger Mad Dog and Atlantis discoveries in the Gulf of Mexico. It was a good year for BHP.

It was also a good year for Billiton. In financial performance terms, Billiton had a record year. Excluding exceptional items, operating profit increased 33 per cent to US - and now I'm going to be shifting to $US, as opposed to $A - to $US1.1 billion. The attributable profit increased 22 per cent, to $693 million. Billiton continued its strategy of aggressive growth during the year, with two major transactions. The $US1.2 billion acquisition of Rio Algom gave critical mass to Billiton's base metals business, and an immediate pipeline of impressive copper growth projects, at Antamina and Spence. Integration of Rio Algom was a major project in its own right, and was seamlessly concluded. The $US1.5 billion acquisition of an additional 56 per cent of Worsley consolidated Billiton's global position at the lower end of the alumina cost curve and secured feed-stock, for the high return Mozal, and Hillside expansions. In addition, Billiton established a substantial production base in energy coal, through the acquisition of stakes in CdelC and CZN, providing a strategic third leg for its global multi-sources strategy. Together, these provide a platform for major coal businesses, with significant low-cost expansion potential to supply the European and American markets. These transactions were underpinned by a successful US$850 million capital raising. The joint venture was launched with Cedelco to advance the proprietary BioCOP technology, and construction is under way on the first commercial scale plant at Cedelco's facility.

This year saw almost unparalleled success in the completion of four major growth projects. The benefits which will now flow for BHP Billiton shareholders. The Mozal aluminium smelter in Mozambique started up six months ahead of schedule, US$130 million below budget. We hit full production capacity in December of this year, and we'll see a full year's benefit of that. The Cerro Matoso nickel expansion came on three stream three months early, and 15 per cent, or US$54 million under budget. Mechanical completion was achieved at Antamina, the copper zinc operation, in May, more than two months ahead of schedule, and under budget. Design capacity of 70,000 tonnes per day more is anticipated well in advance of December of this year.

The Worsley expansion was similarly completed ahead of schedule and under budget. Billiton continued to reap the rewards of its cost efficiency productivity programs, excluding the beneficial impact of exchange rates and commodity prices linked to cost movements, unit operating costs were reduced by 2 per cent in real terms. The skills and expertise that Billiton has demonstrated in project execution and cost efficiencies will make a significant contribution to the broader group.

Individually, both companies have a great story; put them together, and it's even better. We set out to create an industry leader and a company that would have the strength of a diversified portfolio of outstanding assets, tremendous financial flexibility, and enhanced opportunities for growth. That was the vision. The vision was given real substance in the results that we announced this morning. Now, let's look at that reality.

This table shows the underlying financial strength of BHP Billiton. On a pre-exceptionals basis this new company created EBITDA of US$5.3 billion. On the same basis, attributable profit was US$2.2 billion, up over 25.6 per cent year on year. In balance sheet terms, gearing was 38 per cent, and pre-exceptional EBITDA interest coverage was 11.1 times. Even with over $1 billion in exceptional items, the EBITDA interest coverage ratio was 8.8 times. The group spent approximately US$6 billion on acquisitions and new projects during the last financial year. The majority of the benefits of this expenditure are still to be realised as production comes fully on stream.

The results drive home three points. This is a group of very impressive cash flow generating assets, it has an impressive list of growth projects and a strong balance sheet from the opportunities. These results, like the asset base we inherit, are only the platform on which we have to build. The building work in the first instance is the merger integration. I want you to know just how much we've achieved on that front as well. I've been astonished by the progress made by the 33 integration teams that began their work within days of the announcement. I'll touch on the specifics later, but the planning and the execution of the integration has been virtually flawless. Our new management teams and structure have been in place since 2 July, so we have maintained the momentum for such a key feature of the results that we've just announced.

Since the merger was announced, we committed to the Mozal 2 expansion, and to the development of Mount Arthur North thermal coal mine. We completed the Dia Met acquisition, finalised the Queensland Coal equalisation agreement, and negotiated the Columbus and North American Metals Distribution transaction, which was announced just this morning. The opportunities available to us are outstanding. We will cover these in more detail in just a moment. Perhaps even more compelling are the opportunities now open to us, precisely because of the merger.

When we announced the merger on 19 March, we were absolutely clear that the value creation was not just a story of synergy cost benefits, it was a story of synergy opportunity creation. Probably the most powerful achievement of the integration team was to initiate new thinking about how we create real value across our businesses. The merger created a unique opportunity to do this. It delivered a distinct new combination of assets with a global footprint across almost every significant resource commodity of consequence across the key mining areas and metal producing regions of the world, and across key customer bases for those products. It gave us the opportunity to think afresh about the business model of the resource companies, and structure ourselves accordingly.

We're in the process, now, of fleshing out a strategic framework. Two months into the process, we're not in a position to give you a full-blown strategic plan. We expect to be able to present much more detail by the end of the third fiscal quarter of this year. However, I would like to give you some insight into the principles that will guide the development of that strategic plan. It will revolve around a focus on returns on invested capital, the capacity to generate value from all of our assets, the creation of a new industry business model, and strong market customer orientation. We intend to leverage and generate value from all of our resources. This goes beyond our physical resources, beyond the traditional dig and deliver model for the industry.

First, our physical resources. We do have to get the absolute top value out of them. We'll be focussed on operational performance, on cost improvements, on getting the highest returns on our assets, and doing everything that you would expect a mining house to do. This is an area where we have a great deal of opportunity, because of the breadth of our operations, and the combined expertise of the two organisations going forward. We are accelerating an operational excellence program, and putting in place an initiative we call the "BHP Billiton Way", which takes the best practices from both organisations, puts them together, and then spreads them out throughout the organisation. We need to recognise the value potential of our people, and will create a dynamic entrepreneurial culture, where managers are empowered to deliver innovative results, and where remuneration is aligned with those results, and with the interests of the shareholders. We intend to unlock the value of our customer relationships, seeking relationships that build on new market opportunities, new services, and ways to create a value jointly over time. Good examples of these are the development of our Marra Mamba iron ore reserves in Western Australia with POSCO, or the approach that I mentioned earlier in our pricing negotiations with the steelmakers over metallurgical coal.

We'll seek to leverage value from our intellectual capital. The merger provided us with a breadth of knowledge about global commodity markets, which enabled us to meet customer needs in ways that we've never met them before.

We have great technology. BHP Billiton has leading edge positions in a number of fields, including the Falcon Exploration Technology, bioleaching of sulphide ores, and copper, nickel and zinc, as well as some key roles that we've played in the development of e-commerce for the industry.

In the areas of finance, we have the ability to unlock value through a more creative approach to owning assets, reducing the capital intensity of our businesses, optimising the efficiency of our balance sheet, and lowering the cost of capital. We've had examples of that in the past, and bringing forward the cash flow stream at Liverpool Bay, and the sale and lease back of rolling stock in Western Australia, and the current refinancing initiative that Chip will talk about today.

With regard to organisational structure, thinking about how we want to create the value in the business, led to the development of the organisation structure, not the other way around. This is a simplified view of the company structure. There are three main components; the corporate centre, a marketing organisation, and the customer sector groups. The corporate centre is responsible corporate governance, new growth areas, financing and portfolio management. Critically, it owns the cash flow from the businesses, and it ensures that capital is deployed efficiently. Already we have in place the key governance disciplines. We have an investment review committee, which has been established to review all its expenditures over US$100 million.

We have an M & A capability in place, as well as guideline criteria. The corporate M&A group will oversee all acquisitions and investitures, while the customer sector groups will play an important role in identifying opportunities. We have a risk portfolio management model to define health, safety, and environmental standards.

The establishment of the marketing organisation will leverage the marketing knowledge which comes from being a global supplier of commodities, and is a radical departure from the typical asset based approach to resource marketing. We believe we can utilise our knowledge of markets and of customers, to identify opportunities across commodity businesses, and make complete customer offerings, develop a new business approach to servicing our customers, and address more effectively the opportunities the company has in emerging markets.

Twin marketing hubs are being established. One is the Hague, and the other is in Singapore. The Hague is already functioning, and Singapore will be fully functioning by the end of November. Marketing executives from the customer service groups will report directly to the customer service presidents, and also be part of the hubs.

Our marketing organisation offers a number of opportunities to create value. The company has played a leading role in changing how coal is bought, through the establishment of globalcoal.com. Our major position in this market, and other commodities, gives us the ability to facilitate logistical arbitrage,substitute products from across different geographical areas, as well as engage in the trade with third party product. This is going to improve the efficiency by which we deliver products, as well as providing for more complex product offerings to our customers.

The co-ordination of all commercial transactions for the group provides a valuable insight into market dynamics, customer demand and the state of the commodities. We'll establish a single risk management system for marketing. For the first time, BHP Billiton will be able to analyse all of its transactions with all of its customers, its exposures to countries, to specific customers, to currencies, and to various markets. This will provide powerful marketing and risk management tool.

Another area of opportunity is logistics. BHP Billiton will be one of the world's largest freight users, shipping in the order of 100 million tonnes per annum. Our logistics capabilities in the Hague will serve as an opportunity to log on to what we've already done in cutting costs and improving delivery efficiency, as well as exploiting optionality in our existing freight network.

We've structured our businesses not around assets and commodities, but around common customers. Customer sector groups, or CSGs, are shown on this chart. By the way, steel will remain an independent entity until it's publicly listed, and it's not really been set up the same as the other customer sector groups.

The minerals CSG has already established asset stewardship, the reporting lines, and office location and management teams. CSGs will have significant autonomy to manage and grow their businesses, within a centralised capital discipline framework. There will be as much focus on markets and customers, as on the efficient management of assets themselves. CSGs will be fully accountable for profit at the EBIT level, and a large part of the remuneration of the CSG President and his team will relate to how they deliver capital efficiency, as measured by shareholder value added.

The CSG president will have responsibility for monitoring performance of their assets, as well as unit production growth and overall cost performance. Given their intimate knowledge of the business sector, they will also have an important role in identifying growth opportunities within their business. Each of the CSGs is currently reviewing its portfolio, and developing a strategy and business plan, and establishing detailed plans to deliver merger benefits and formulate marketing plans. These should be completed by the end of September, which I might remind you is only three months since the merger was consummated.

The cultural integration between BHP and Billiton organisation is proceeding very well. I'm very heartened by the progress, and by the commitment, and the low level of abrasion. The two companies have different, but mainly complimentary, styles. I see this as one of the great strengths of the combination, and a great challenge is to capture the respective strengths without retaining the weaknesses. The BHP Billiton way will play a critical role in this area, as well as building a common language, common processes, a formalised system, ensuring information and best practices across the company. In passing, I should remark that the process of cultural fit goes right to the top, and Brian and I are finding our working relationship very productive and mutually energising. I think we've very comfortably established roles, and we're fulfilling those.

We've talked about the inherent financial strength and flexibility of BHP Billiton. I want to flesh out our strengths with the portfolio, particularly its growth characteristics, before I turn the program over to Chip.

The quality of the breadth portfolio, and the breadth of its diversification across the commodities and countries, are key differentiating features for BHP Billiton. This chart shows EBIT contribution by commodity, as of 30 June. It shows a spread of major commodity businesses, underpinned by world-class assets, particularly by aluminium, coal, energy coal, iron ore, copper, and gas. Overlay this with the geographic diversification of our assets, and destination of our sales, and you have an exceptionally robust cash generator, with an excellent platform for growth, for both internal projects, and industry consolidation opportunities.

We have run the combined BHP Billiton portfolio through the portfolio risk model, which BHP discussed with the market last December. BHP's portfolio had a 25 per cent cash flow risk to cash flow. This drops to about 19 per cent for the combined entity, effectively reducing cash flow at risk by about a quarter.

It's been interesting to observe the market and the outlook for some of the smaller less diversified resources companies in the last week or so. It underscores the great strength of our diversity. We have a powerful combination of exchange traded commodities; aluminium, copper, nickel, and, just as importantly, a broad spread of negotiated non-terminal commodities, such as metallurgical and thermal coal, manganese and iron ore. These are generally negotiated on an annual basis, and sold under contract. Our positions in titanium, minerals and diamonds, while not as large as the other businesses, also give us further diversification, and, of course, a major significance of the diversification between BHP Billiton and other resources companies is that last year over one third of our EBIT was generated by oil and gas. It makes us very unique, as Petroleum is a commodity that operates on a politically-driven cycle. As opposed an economically-driven cycle.

So while we may be less than happy with the current price of copper or nickel, we take some comfort that in the overall portfolio we have a degree of diversification that provides a markedly superior buffer than most companies in the resources industry. In addition, it enables us to have a much stronger, more stable cash flow stream, and to be much more opportunistic during down turns, when assets are priced much more appropriately, and to have a level of dispassion about the longevity of individual assets in the portfolio, where a less diversified player might find that difficult.

It's this diversity that gives BHP Billiton the resilience to continue to create value, even through difficult economic cycles. We've clearly stated that the Petroleum assets are a key part of the portfolio, for a number of reasons, and I've said this from the day I arrived, and I guess I'll repeat it one more time, because people seem to insist on playing with the idea that we would do something other than keep Petroleum in the portfolio. The assets are of a very high quality, they have high margins, they're strongly performing, their cash flow and earnings contribution is quite spectacular, this year it contributed 35 per cent of the total group EBIT on a pre-exceptional basis. Petroleum also provides an additional diversification, as I mentioned; beyond just the economic, there is great strength in terms of risk and growth potential. This shows up on our portfolio modelling work, and our risk modelling work. It has some very strong growth options. The great attraction, from my perspective, is that you have almost infinite expansion capability with Petroleum, without disrupting the industry itself, because the industry is so large. In addition, we flagged our strategic attempt to develop an energy capability, encompassing energy coal, liquids and potentially an expanded LNG presence. So Petroleum is one of our core assets.

One of the important tasks of the integration team was a full review of the combined portfolio, and identifying candidates for divestiture or sell down, the opportunities for high grading or growth opportunities within the portfolio. There were no sacred cows in this, each asset was evaluated using common criteria, and included fundamental competitiveness, assessing the asset and its value cycle, scale and influence of the asset, and its strategic fit in overall portfolio, and the risk profile of the asset. This process has given the executive committee and the board a clear and shared understanding of all the assets in the portfolio. It's also reaffirmed the fundamental quality of the asset base. Some assets were identified as core assets. A small number of assets have been earmarked for divestiture. This process has commenced, is demonstrated by the sell down in Columbus Stainless Steel, and a couple of other minor transactions we've undertaken. Assets earmarked for divestiture will continue to be operated by the CSG, however they'll fall under the control of a work out group, which reports to the minerals executive.

There is a further group of assets that will be under continual review in the portfolio. While these assets achieve our minimum performance criteria, or at least we expect it to do so shortly, we'll continue to review options that we might have to best extract value. This could entail divestment or joint venturing of the asset, such as in the case of North American Metals Distribution business, which was announced this morning. With North American Metals Distribution we established a joint venture with Alcoa, to create the largest metals distribution business in the US, improving the industry structure in the sector, and giving us more options in the future. The net consequence will be a continual process of upgrading, selling and divesting assets, and utilising good assets to trade into other positions. Critically, however, we will not rush into this. It makes little sense in the current marketing environment to have an indiscriminate sell off of assets. This would destroy more value and enhance the performance characteristics of the portfolio. The fundamental strength of the portfolio gives the group the financial flexibility not to be rushed into selling assets, when we think value could be compromised.

I've mentioned, in passing, our growth profile. This goes beyond a simple aggregation of the projects of the former BHP and the former Billiton. The new group will rapidly grow outside of the list of projects we set out when we announced the merger. Having said this, the growth projects and the portfolio today are truly impressive. I believe it's very hard to find a company with a spread of growth options matched with the financial capability and list of funds impacting future growth.

All the growth options of the portfolio at an advanced stage of evaluation have been evaluated to look at optimising development opportunities, the implications for funding and project management and portfolio risk. The following three slides show the impressive inventory of options in the portfolio.

This slide shows the new incremental production captured in fiscal year 2001, and the ultimate production impact from those assets when they are fully on stream. I'm not going to go through the list there, you have that in your package.

This next slide shows the projects sanctioned for capital approval in 2001, as well as two Petroleum projects which were under development during the year. These projects represent incremental production in copper alone, in the order of 260,000 tonnes, and an additional 120,000 tonnes of aluminium, and a substantial increase in our oil and gas production. In the liquids alone there are over 25 million barrels per annum at peak.

The final slide shows the number of projects which are in advanced stages of evaluation, and maybe will progress to capital approval this financial year. A striking feature of the project’s shown is the prevalence of the lower risk brownfield expansions.

This has the obvious implications, in terms of portfolio risk and typically enhanced returns, from utilising and establishing infrastructure.

So, as you can see, I'm excited about the growth potential of the company, I'm excited about the results that we've recently achieved. What I'd like to do now is hand it over to Chip, who will go through some of the financial results in a little bit more detail.

MR GOODYEAR: Thank you Paul. You said I'm going to go through some of the financial results. By the time I'm finished you will think I went through all of the financial results.

Paul talked a lot about the customer focus of the new BHP Billiton, and from financial organisation point of view we began that with this quarter of this year, because we've presented three separate sets of financials, which is what our market asked for. We've presented the group financial numbers for BHP Billiton, that is a combined accounts using merger accounting. We've used US dollar accounting and UK GAAP. And that is the way going forward that we will report. So I will spend most of my time commenting on the DLC numbers. We've also presented BHP Billiton Limited, which is the Australian enterprise. We've used Australian dollars and Australian GAAP for that presentation. And then thirdly we've presented BHP Billiton Plc, which would be the Billiton enterprise, essentially, as its stand alone for the fiscal year 2001.

Paul went through a number of these statistics, and so I'm not going to spend a great deal of time on them. But on my slide here you see two sets of numbers. Essentially the numbers that are in black are the numbers that are as reported essentially with the exceptional items. In the numbers in the orange colour are the pre-exceptional items. Let me spend a few minutes on those pre-exceptional items, because that represents our business moving forward. I'll go through some of the exceptional items, but just for your information here, they include things like Orinoco and Ok Tedi and Columbus and the Queensland Coal gains, and some of the merger costs and provisions there.

In terms of the numbers excluding the exceptionals, as Paul mentioned EBITDA of about US$5.3 billion. That was up about 11 percent from the prior year, our EBIT number was about US$2.5 billion, up 12 percent, attributable profit of US$2.2 billion, up more than 25 percent, and earning per share up about 21 percent.

In terms of the significant features for the year, key items were higher Petroleum prices, higher iron ore prices, and toward the end of the year we had an increase in coal prices. In terms of oil prices, they were up about 23 percent year over year. The iron ore prices benefitted from our price increases last April, that would be April 2000, which were about 5.1 percent. And although coal was down, this is metallurgical coal was down for most of fiscal '01, it did boost up to about 18 percent or so in that last quarter. And thermal coal, or energy coal, was up about US$10 per tonne year over year.

Volumes were also higher, those were mainly volumes in the our mineral business, and I'll talk about those as we go through each of the CSGs. Petroleum volumes were about flat, which was a significant accomplishment, given that Bass Strait itself was actually was a decline of 7 million barrels. And in the steel business, the domestic steel business volumes were down in that area.

We benefitted from the acquisitions, but again I may mention acquisitions and capital expenditures, but many of those projects began at - we only had a partial year for those projects, so you will see the full benefit as the year goes on. We benefitted from lower exchange rates in the Australian dollar and the rand, and then again we had the exceptional items.

Those exceptional items are on your next slide. They're presented here on a pre-tax and pre-minority interest basis. And on an EBIT basis they sum to almost A$1.1 billion. Again you can go through each of those things, I'm not go to do that. But I just may mention again that on the after tax/after minority interest basis the numbers will be different. For instance Ok Tedi, that's the impact on the base metal CSG. But we do have a minority interest there, but on the bottom line that A$430million turned into A$148 million. So as you look through the press release, make sure you capture some of those differences. But here we've captured the write-offs, in addition we've captured the gains such as Queensland and a sell down of the expansion rights at Mozal 2.

I'm going to walk through the EBIT by customer sector group, and I'm going to have to apologise because I'm going to go through that pretty quickly so we can make sure we have a chance for your questions.

I'm going to just spend a second, before do I that, on the last three items. Those are the exploration, technology, new business area, other, and group, because I don't have a separate slide on those.

The exploration area, technology area, and new business basically includes the minerals exploration business of BHP Billiton. It also includes Ekati and those are broken out in the detail in your numbers. Basically those businesses are watched after by Marcus Randolph, who's the chief development officer in the minerals area.

Other includes a variety of items. That is where we have the metals distribution business, the Columbus business is also located there, Richards Bay Minerals is there, shared business services, so it's a variety of items that are captured in other.

And then Group is primarily the corporate centre, the foreign exchange losses, and in this quarter, this year we certainly have the merger costs and provisions at the group level. Those are the items that impact this. This slide again is EBIT by customer sector, excluding the exceptional items.

In the aluminium business we certainly had a good year in that business. We saw the turnover increase despite pretty flat prices in that area. That was driven by volume increase in alumina and a little bit of an increase in aluminium. Worsley was a significant contributor to that in terms of volume, the acquisition of the 56 percent interest in Worsley. Mozal in December reached its full production capacity and contributed approximately US$25 million to the EBIT for the year. In addition, the Hillside cost increase for the year actually was related to a pot relining, so a US$26 million impact on EBIT for that period. Unit cast costs in alumina were down, about 9 percent lower as a result of bringing Worsley into the family. And overall alumina production up 56 percent and aluminium production up 11 percent.

I'm going to make a few comments on the market as I go through these CSGs. In the alumina area, smelter shut downs have equated to about 2 million tonnes per annum out of Brazil and the US. That has put pressure on alumina prices, and those have fallen somewhat. China seems to be the only player in the market at the moment, but they are buying particularly on an immediate basis.

In the aluminium business, despite the decrease in the smelter activity, the prices in aluminium have not risen, and that's a result of demand slow down in the United States. That's also started to have an impact on Europe and Japan, but it is difficult to gauge, given the holidays seasons in those parts of world.

But I would say that where in early 1990s aluminium inventories on the exchanges reached about 2 million tonnes, today they're about 670 million tonnes, and as a result we have not seen the inventory build that has characterised down turns in the past.

In the base metals business, year on year the base metals performance was approximately equal to what it was in the past. Again pre-exceptional. You will notice there that's US$485 million compared to US$478 million last year. The Ok Tedi number, US$430 million, is the different between the pre and post-exceptional numbers, or the major difference. The Rio Algom acquisition was completed in October. Total copper production was up for the year by 20 percent. That's driven by that acquisition. Escondida production was down year over year, and Ok Tedi production was up. The driver to Escondida was a lower grade there.

Another thing that's missing from the year 2001 results was contributions we had from Southwest Copper in fiscal 2000. Despite the fact that it was shut down essentially in the first quarter of fiscal 2000, it still contributed about US$60 million of EBIT in that year, and obviously that has run off. The things that generated that; we've continued to run the rod plant there, and we had an SXEW operation related to that. Paul mentioned the positive information regarding Antamina, the early completion of Antamina, the mechanical completion more than two months ahead of schedule.

In terms of the copper market, I would just comment that certainly we have seen a significant decline in copper prices. Demand in the US has been a major driver to that, it has fallen over that time. The Chinese continue to be buying in the copper market and we see no slow down to that, but certainly the lower copper prices and the economic activity in Europe and Japan are things to focus on.

The lead market seems to be quite strong, and the fundamentals in that business are quite good, and zinc, which is tied to the steel business, is certainly seeing its slow down.

The carbon steel business had an outstanding year. With pre-exceptionals that business produced about US$900 million. The exceptional items were the

Venezuela HBI charge, which for carbon steel segment was $US180 million. The balance shows up in group, because that was the guarantee component. So this is essentially the investment in Orinoco. But we also have the gain there of US$128 million from the Queensland Coal equalisation.

In 2000 I may also mention that we did have the charge there for the Western Australia HBI, which was about US$695 million. I might also mention that in 2000 we did have negative EBIT results from Western Australia that were about US$136 million.

You will see that volume in iron ore increased pretty substantially, and so did coal. Iron ore volumes were quite strong on a hundred percent basis for over 71 million tonnes. The higher volume sales went to the Chinese, Koreans, and Taiwanese in particular. We had record coal shipments of almost 31 million tonnes. The metallurgical coal volumes were driven by the QCT acquisition, but we had an increase in production otherwise if you exclude that. And as I mentioned the price increases that occurred in met coal and iron ore were certainly drivers to the business.

In terms of current conditions, the metallurgical coal business is very strong. We've continued to see prices rise after the settlement. We're seeing lower shipments out of Canada and the United States as the coal there has gone into the energy demand in that market. So that market continues to look quite strong.

Iron ore shipments through the first quarter look to be comparable to last year's shipping rate. We haven't had much visibility beyond that, but keep in mind that about 90 percent of our tonnage is under contract with regard to iron ore.

The manganese market in the US and Japan is slow. That's starting to impact Western Europe. We don't see signs of inventory build, but prices in that market continue to be low.

With regard to the stainless market, that stainless steel material CSG, they had a difficult year in the year 2001 impacted by lower prices, that's nickel and cobalt in that business. Nickel prices down 12 percent and cobalt down 22 percent.

The good news in that business was we continued to manage the costs of Cerro Matoso and the rest of our nickel business. The Cerro Matoso line came on stream three months ahead of schedule and 15 percent under budget, so very positive operating results from that business. But as mentioned, there is certainly volatility in those prices.

In terms of operating activities I will mention this a little bit later, but in the chrome business we have taken eight different furnaces down. That's about 30 percent of production capacity. We've taken charges for that of about US$10 million to deal with those closures.

In terms of current market conditions the immediate outlook for nickel is not strong. That looks like it's going to continue to be weak until there's a recovery in the stainless market. In chrome where stocks appear to be low, prices are low also.

The energy coal business certainly had an exceptional year. That was driven primarily by pricing in that market. You will see the total volume there was essentially flat. We also had very good cost performance that business. Cost savings in the South African mines, we had cost savings of about 13 percent on US dollar terms. Production in the South African mines you will see was lower last year, and the main driver to that was a couple of asset sales, a couple of coal mines that were sold and some restructuring in that area.

Current coal prices, coal prices at the end of the fiscal year were at the US$33 to US$34 range, as I mentioned about US$10 higher than they were a year ago. Current prices are in the US$32.50 to US$33.50 range, which is not bad considering the significant run up they've had over the last 12 months.

The Petroleum business, as Paul mentioned, had a great year. They were up 33 percent on an EBIT basis year over year. And that was despite, as I mentioned, a slight decline in the crude oil production line. As I mentioned Bass Strait's production decreased for the year, due to natural decline of Petroleum, was about 7 million barrels, so production of the other assets, including Laminaria, Griffin Field, and Liverpool Bay made up for that decline in the Bass Strait production. In addition we had the higher exploration expenses in the Gulf of Mexico and Algeria and Latin America, and you will continue to see that as we begin to drill up some of the leases in that area.

In terms of steel, the steel market as you know has certainly had a tough six months or so. This is on a pre-exceptional basis about A$270 million. Included in the 2000 number obviously we have One Steel, which was bought off in November. The volumes there are the core steel business only, so those volumes are comparable year over year. I think the key performance indicators there, the Asian business seems to be quite good, last year we saw a good performance in Malaysia, Thailand and Indonesia, despite some of the things you've heard about those markets. But clearly low international steel prices have impacted our business, and there is certainly a slow down here in the Australian market in building activity.

With regard to the current market, the world steel market is still in a very difficult situation. North Asia continues to be a chronic over producer, the US market is certainly difficult, US Steel last week announced a shut down of a ten mill equivalent, and so it continues to be quite difficult there. In the Australian market we have seen a bit of a pick up with regard to building products, we've seen a little bit of a down turn in the manufacturing area. The export business continues to be okay, and Asia as I mentioned continues to be a bright spot there. So it is a business to watch, but current activity, certainly in this economy, looks to be better than it is on an external basis.

So that's the CSGs. Again I went through that very quickly. In your press release you'll see a description of those activities, and we can answer questions that you have around that.

Paul discussed the balance sheet a little bit, so

I'm not going to spend a lot of time there. For those of you who remember BHP for the last couple of years, you can see a dramatic improvement, particularly in the gearing number which I know has been quite important in this market place.

But I do want to highlight once again how important the coverage ratios are relative to gearing. Bass Strait, you'll notice in our breakdown of that, the supplemental information, produced 50 percent more EBITDA this year than its net asset value. So looking strictly at our book basis really disguises how strong this company is. And with coverage ratios here of EBITDA to interest costs over 11 times on a pre-exceptional basis is certainly a big improvement from where we were, but again that's something we've clearly focused on.

I may also mention in our net debt we do have over US$1.2 billion of cash. So we certainly had a strong cash generation as the year went on. We did pay dividends obviously in July, so don't think we're just sitting around watching the money grow there.

In terms of issues, you know that I usually go through things to think about for the quarter ahead. No change here, just to remind you, you can probably walk through these yourself, but I'll mention a couple.

The diamond acquisition was essentially completed year end, and so we'll begin reporting the equivalent of 80 percent of that mine. Typhoon started, as Paul mentioned. We are planning some maintenance shut downs in nickel probably a little earlier than we would otherwise. Given the low prices in that business it is the time to do that. We obviously can afford to do that given our diversified nature here.

Petroleum prices are going to be driven very much by OPEC. As Paul mentioned there's a political element to the pricing there, and they certainly have held up well.

With regard to Ok Tedi, we did, as you may have seen, take the entire charge for Ok Tedi, book value of Ok Tedi. That, as a result, we will not consolidating, we will not be taking profit from Ok Tedi. We will only report the dividends we actually receive from Ok Tedi.

The ferrochrome business, as I've mentioned, we've taken eight furnaces down in the Samancor business, but the low cost furnace number in a the joint venture with Extrada, and that is our cheapest furnace. That is one that we'd like to see in operation, and certainly was switched on in August. So that low cost production will bring on, but the higher cost furnaces we keep down.

Base metal prices I talked about a little bit, exchange rates. Certainly from June 30 this year the rand continued to depreciate quite markedly, and the A dollar is essentially flat. Recently we've seen the A dollar show a little bit of strength, but that's certainly something to watch.

And the new financing plan. You'll hear, I'm sure, in the market place this week that we are moving forward with a restructuring of our global revolver. The company currently has a variety of relationships with banks, but three of them act like a revolving type facilities, or an acquisition type facility. We'll combine those, and we will actually reduce the exposure the banks have to us in that facility, which I think is consistent with our long term plan.

We'll talk about that at some point in the future, but in terms of goals and objectives for the financial structure of this enterprise, it will be very familiar to you. We'll be focusing on moving our maturity schedule out, decreasing our reliance on the banks in terms of where our funds come from, and other similar type things which are consistent with the way that BHP has gone through its capital structure.

We'll also be looking at global capital markets to help balance that funding out, and that will happen in markets that are appropriate for us, and it will be very much opportunistic in terms of when and where and when we do that.

On the capital investment side, these are very indicative, but Paul discussed our 2001 number which was about US$6.8 billion or so. A lot of that came in the investment expenditure and acquisition area. Obviously we don't see significant activity in that, given our planning cycle here. But you will see that the project expenditure has approximately doubled. Paul went through those expenditures, but I may just say that approximately half of that number, the US$1.8 billion for next year, is Escondida phase 4, Mozal 2, Ohanet, and ROD expansions – the letter two developments in the Petroleum business.

DD&A we expect for this year to be about the same as it was in fiscal 2001 for the group, which was around US$1.7 billion, and the tax rate is approximately 34 percent as you work through your models.

Okay I said I'd get to the second one. That is BHP Billiton Limited. This is BHP stand alone as though the transaction did not occur. There are some things in here that I encourage you to read in the press release. We do take the merger charges here, that's our portion of the A$92 million, and provisions that we take as a result of restructuring due to that. There are a variety of other charges and provisions across our business. You need to make sure you look at that.

In addition in here we have an interesting item that I'll talk about very briefly in a second. As we have tried to align to the Billiton numbers in terms of UK GAAP, we have two items related to restoration and rehabilitation, and the second item is related to pension. Essentially we have, in very summary terms, over accrued rehabilitation and have an over funded pension plan, so those numbers are added back in here. But Paul went through those number, very strong year, you can see the changes in terms of percentage change year to year, and I think your press release can deal with that and we can answer those in question.

But I did just want to say, we take out the charges related to HBI, the Ok Tedi charge, which in Australian terms is A$286million after tax, and add back those two accounting items to align with UK GAAP of A$320million, the EBITDA is approximately A$6.7 billion, EBIT of A$4.5 billion, and almost A$2.8 billion of net profit in those numbers.

This is our breakdown, by the way, that we used to report, and you can see there's a lot of items in there; for instance minerals is picking up the HBI charge last year, this year it has a portion of the Venezuela charge and the Ok Tedi charge, Petroleum obviously up 50 percent or so, steel has charges year over year, as well as the loss last year that came with the sale of the West Coast Steel business. In the group items we have the guarantee payment for the Orinoco and the foreign exchange numbers, and outside equity is where we add back the minority interest of Ok Tedi.

Paul went through the return on capital numbers. I would just say again, excluding the exceptional items, 16.2 percent return on capital and 23.6 percent return on equity.

This is our famous waterfall, and I'm not going to bore you by going through each one on a detailed basis, but let me just say, net of the foreign exchange charges again, in the lower left-hand corner, we begin with last year 2000, we move to 2001, a little over A$2 billion. How did we get there?

Foreign exchange was approximately $A600 million positive, that's a net of the foreign exchange currency hedging losses. Price was a significant contributor, asset sales, that's primarily that Queensland Coal Equalisation, and in new operations that's going to be Primarily the oil field Laminaria. The volume changes, positive in minerals and Asian steel, negative a little bit with Bass Strait and the flat products business. Exploration, as I mentioned, is expenditures related to Gulf of Mexico, Algeria, Latin America, and we wrote off Agua Rica, which is a copper project in Argentina. And then the other items, all those various pluses and minuses that come from HBIs and

Ok Tedis and deferred taxes last year and so on fall into that other category.

We mentioned that we will update you on the HBI performance. Here it is here. Very briefly you can see that volume fell short of our target. In the third quarter we had a cyclone. In the fourth quarter we had a fire that had an impact on those numbers. The campaign length with that was actually quite positive. We did exceed the target with relation to campaign length.

Through put though was also below target, and I'm focusing by the way on the two right-hand columns, you see target and actual for the half. We also had the turn around times were not what we hoped for, but with the cyclones and having several trains come down at the same time, that was certainly a challenge. Currently there are three trains operating there.

I would also comment that financially we actually had a better result than expected. Some of that was due to receipt of some tax refunds, and capital expenditures were lower than we had anticipated they would be.

I put up there the quarter to quarter results, because I think it's important that at least - although many of the statistics for the half didn't meet the target, you can see that essentially the performance items got better in the fourth quarter, despite the fire, than they were in the third quarter. As Paul mentioned, we'll certainly continual to monitor this asset.

Then finally the group, the Plc enterprise. This would be BHP Billiton Plc, so essentially Billiton as it was, but it does include a number of exceptional items, and I will show you in a second. In summary though, attributable profit up 22 percent to almost US$700 million, and cashflow from operations up 35 percent to over US$1.3 billion.

Here we present the numbers excluding exceptionals, which are the numbers that I essentially gave you. Including exceptionals, the exceptional items were Columbus Steel write down, which are in your book, merger costs are included in here, there was a write down of Lake Mines, which was some coal mines in New South Wales, restructuring costs here, and we added back the sale of the expansion rights for Mozal 2, which aligns the interest in Mozal 1 and Mozal 2 with our partners in those businesses.

This is the segment reporting as Billiton previously would report, and I'd just - pretty much again you can look to your book, but if you see the percent change year over year, I think I've covered a number of those things. Strong in the coal business, strong in base metal, good performance in aluminium, but nickel and the steel and ferroalloy businesses were certainly difficult.

This is essentially the presentation as the Plc enterprise has presented in the past. This is their waterfall diagram essentially, where they began the year 2000 with an operating profit of US$843 million, and the 2001 it was a little over US$1,100 million. And you can see that they certainly had the impact from currencies, impact from disposals, but efficiency gains across their business, and that was a function of some of the restructuring they took in a number of their areas, particularly coal.

MR ANDERSON: Thanks Chip. We've probably overwhelmed you with a lot of numbers and a lot of detail, and I apologise. In the future hopefully things will be much simpler, as we won't be bringing two companies together, we will be a single company going forward.

I guess as you step back from this, you know, what do you take away from this large number of numbers and analysis and what have you? I would say that any way you look at the numbers, we had a record year; that was important. And both components of BHP Billiton had record years; that was important.

And probably the most important thing is that the platform we've created for the future is just truly awesome. It has strength and diversity and flexibility, and it will allow us to produce records going forward. This is just the beginning. This is the platform that we're going to build on.

We've had two companies that have come together sort of at a point in time, very fortunately. We've had Billiton which has kind of burst on the international scene, a small company, very entrepreneurial, aggressively establishing a position, but not big enough to really be an industry maker. And you've had BHP who's has gone through some troubled times and spent the last couple of years redefining itself. Both companies have made outstanding progress over the last two years, and during that period established a common view of what was industry was going to be like going forward. And as we put the companies together, I think we have an opportunity here to redefine the industry and truly create an exciting resources entity.

With that we'll turn it over to any kind of questions we might have. I think we'll start here in Melbourne, shift to Sydney, and then maybe take a couple of the telephone.

QUESTION: Paul, I just note that on the assets we see that Ekati and Richards Bay, two excellent assets, sit almost oddly outside - one outside minerals and one really outside any of the customer groups. Can you maybe talk about that, and sort of talk too about the fact that your stainless steel business is dramatically smaller and likely to probably stay that way given the nickel outlook compared to the other businesses. Can you maybe sort of talk about those in the sense that they are not the focus going forward and maybe candidates for sale, and talk a little bit more about the strategy of where you're looking to put your efforts.

Also too you're commented a fair bit about gearing. Can you give us some idea of target gearing going forward for the group.

MR ANDERSON: Okay, well let's start with the assets that you've listed; Richards Bay titanium, and Ekati, and stainless steel materials. As I said, we've got really three categories of assets. We've got the absolute core assets, and I think those are obvious; it's aluminium and Petroleum and you know, carbon steel materials. We have the divestiture category, which are the ones that we know we don't want to be in this business and it's just a question of finding the right time to exit those businesses.

And then we have the third category, and the ones you mentioned really fall into that category. They have a lot of potential, they're strong performers, you know, we're not unhappy with those businesses, but you wouldn't build a whole company around those businesses. And for those we'll be monitoring them and looking at them from the standpoint of, is there a better use for them? It could be that we decide they're of more value to us than anybody else, and we'll continue to operate them. But if an opportunity comes up where we can create some value by swapping them for something else that we really look at you know, strategically, what can we do with these? We aren't going to say, we aren't going to build a business round them, let's sell them. We want to say, how do we get the most out of them? So they're in that kind of watch category. Absolutely no, no impetus on our part to do something immediately with those assets.

Gearing, we intend to sort of re-establish our objectives. If you recall BHP put out a series of financial objectives in early 2000. And we will around the same time 2002 be establishing a new set of financial objectives, Chip's working on those right now.

I would say if you just looked at gearing specifically, the combined group won't be dramatically different from what we thought the objectives should be for BHP. So you know, if you look at the old BHP financial objectives, other than the absolute ones, obviously we'll have more absolute cashflow, but the ratios probably won't be dramatically different.

Other questions?

QUESTION: Just a couple of questions. The first one is I guess to you. You mentioned that between yourself and Brian, that you've established roles, or definite roles between you. Could you outline what those roles are, in terms of how they differ and how they are the same?

And the second question was just in terms of to Chip himself, the insurance model, is that the same model that BHP did on its own assets, and are you able to outline the outcomes of that in terms of operating cashflow and volatility?

MR ANDERSON: Sure, okay. I will answer the - between Brian and I we basically established we jointly work on strategy issues together, and in fact the whole executive committee works on driving the strategy of the company.

But as far as, you know, day-to-day specific things, Brian is responsible for achieving the integration savings of the merger. So, he's basically, you know, as chief operating officer, he's taken on the role of making sure that we actually get the savings that we envisioned going forward. He's clearly driving the CSGs, and you know, how are we putting together the marketing organisation and how are we going to have the various parts relate to each other so that the organisation functions and can create the new product offerings and the new relationships that we expect.

I'm looking more at what's the overall portfolio, the capital discipline of the company. For instance, the public listing of steel, Brian's not involved in that at all, and I'm focused on making sure that we have a successful public listing of the steel entity. And I'm worried more about the corporate level capital allocation discipline processes, as opposed to the day-to-day running of the businesses. Brian's also responsible for the BHP Billiton way, implementing the operation excellence part of the business.

Chip?

MR GOODYEAR: Yep sure. John, it was essentially built on the back bone of the model that you all saw all last December. Billiton had an activity looking at a similar type thing, so we've taken the best of both, but essentially it's the same thing that you would have seen before. And in terms of the results, we certainly have seen what I would say is a quite significant narrowing of the spread of whatever we look at, whether it's cashflow at risk as a ratio, cashflow at risk to cashflow. And in terms of probability items that we look at, which are probability that gearing goes above a certainly level, or probability that are coverages go below a certain level, all of those things we've seen quite a dramatic change in those.

So we talk about diversity quite a bit across markets, production locations and customers, and it certainly shows up in that model. I would expect that some time in, you know, over the next several quarters we'll show that to you again. The group in London has not seen that. When we presented it we only presented it here and in Sydney. And so yeah, I think it would be a valuable tool to assist in visualising for our broader investment universe.

MR ANDERSON: Let's take one more here in Melbourne and then we'll shift to Sydney for a couple.

QUESTION: Paul, you mentioned that you like Petroleum because you can virtually grow that unlimitedly without affecting the market. Are you implying by that that in minerals you would struggle, given your size now, to re-employ all your cash flows and grow that business without affecting the markets there?

MR ANDERSON: Well certainly within specific minerals we've reached the limits of growth, or we will reach the limits of growth. Obviously we have a very strong position in two or three of our minerals, and there's a point at which you really can't go beyond that. I think met coal was probably a good example. When we went together with Mitsubishi to buy QCT, we actually sold down part of our interest so that we held our position in Met Coal, but we didn't increase it, because if we would have unilaterally gone after QCT, we would really have gotten too big a market share out there.

QUESTION: Just looking at the last six months now since the merger, you've had lots of time to reflect on it. Can you sort of just give us some insights maybe to the positives and negatives coming from it you've seen so far, and perhaps mention on the cost savings as well. You said US$270million by '03, do you see more potential than that now?

MR ANDERSON: I guess I don't have an inventory of positives and negatives. I would say that as time goes by I'm getting more positive and seeing more opportunities as we go forward.

As I said, the integration process has moved a lot faster than we excepted it to, so we felt pretty good about that. We had these 33 teams that hit the ground running, we put the organisation in place. I think the most satisfying thing on my - in my mind was that day one you could push the button and pull up the address list for BHP Billiton, and everyone was on it. And I could actually send an e-mail to Mike Salomon or to, you know, Michael Campbell or somebody in the old Billiton team, and we had a - actually communications within the company.

So you know, those are the types of things that have been very good pleasant surprises, and I think that they indicate that we got a very early start. As I said, within two or three days after announcing the merger we actually started putting together the integration team.

As far as achieving the cost reductions, we just went through that at our last Exco meeting, and I think everyone's quite confident that we will achieve those cost reductions, or those synergy targets. I would say that if anything people are optimistic they're going to go beyond them. Some of the savings might come from different areas than we originally intended, but that's what you would expect as you get more detail. You find, gee I thought this was a slam dunk over here that we'd save on electricity, but we had a contract that ran five years, that idea isn't going to work, but hey wait there's another opportunity over here where we're going to save something. So the tone of that discussion and the preliminary results are very positive.

QUESTION: Paul,
a couple of years ago when you came, I think you instituted what I would term some very fundamental changes in BHP. When I go around the operations and I do look at the impact there, the impact has been variable. Some of its been dramatic, some of it needs more change. I'm just wondering with the focus groups that you do have, whether you can reach deeper into those operations and get more fundamental change right through, that's the first point, whether you can make some comments about that.

The second thing in is terms of the developing the culture of BHP Billiton, and some more thoughts that you might have about the developing and the evolving culture of this large entity.

MR ANDERSON: Sure. Well, I think that's a great question. If you recall when I first came I said it would take five years to truly change the culture, that we can make some immediate changes, and we did, you know, we made some very dramatic changes at the beginning. And you know, by the end of a year or so probably you'd say that the office here in Melbourne was a different place. But the further out you got from Melbourne the less impact there was. And that just takes time. And in my mind it takes about a five year period to do it.

Part of the process of getting that cultural change really is the merger with Billiton. You know, this is exactly the type of process I've been through a couple of other times where you can't just bring in 20 people into a company and say, we're going to change the whole culture, you know, of another 40, 50,000 people. You have to literally bring in thousands of people of a different culture and mix the two together. And they act as a catalyst on each other.

And that's what we're really going to accomplish here with the merger with Billiton, and why we've tried to cross-fertilise the organisations, you know, taking someone from the old Billiton group and putting them in a customer service group that's really dominated by all BHP people and vice versa. And I think that the merger will accelerate the process. You're absolutely right, we still have a long ways to go before everybody down to the coal face is thinking differently and acting differently, but I'm quite confident we're going to get there.

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QUESTION: First of all with regard to the oil production outlook for this year, can you give us some indication of how much Bass Strait might be decl ining at, and where of course that Laminaria is coming off as well, so what is the outlook for this year's oil production profile just in general terms?

And secondly, with regard to the shared services being set up in Adelaide, how are you travelling there with regard to your targets expected of a year or so ago, and how does that shared services expenditure fit into your new group organisation, having merged with Billiton?

MR ANDERSON: Sure. I'm going to defer to Chip on the Petroleum question.

MR GOODYEAR: Sure. Tim, we would expect to continue to see some decline at Bass Strait, although I have to say that the last three quarters have been better than we might have - in other words less of a decline than we might have expected. Laminaria is also one that is one we would expect to decline. But the key there is water break through, and we haven't seen it yet. And I have to say every budget we go to they tell me it's going to happen next month, but so far we haven't seen it.

We are seeing the production from Typhoon coming on, so I would say that we would expect to see production continue to decline but marginally down on the year, and probably budget wise on a total all in basis, that's including all products, would be something like 3 percent or so, something like that.

MR ANDERSON: I would point out that our gas production at Bass Strait continues to grow, and our pricing there is getting considerably better. So, you know, over time Bass Strait will become more and more gas field and less of an oil field.

With regard to shared services, I have to admit that we haven't made as much progress as we'd like to in this area. We have Adelaide up and running and we have Houston up and running, but I would say that we haven't seen as many cost reductions coming from it. We've seen of the increase costs from establishing it and moving people around and what have you, but we haven't made as much progress of shutting down the old systems that I'd like to see.

Going forward, what we'll see is that we have to marry those two centres with a centre in Johannesburg, and I think the net effect will be that we will back off some of the shared services in terms of expert systems, if you will. Some of the human resources and what have you. And shared services will focus much more on things like transactions, processing payroll, accounts payable, purchasing, you know, strategic purchasing, those things. So, we will back off a little bit on the shared services, and I think it's definitely the way to go going forward, but it will be less of a focal point than it has been in the past.

QUESTION:

Chip. A question for either of you really. Chip spoke about the chronic over production of steel in Asia and the apparent mismatch there of production to demand. I wonder if you could give us some outlook in the medium term for one, what you think steel volumes might do, and secondly how that might impact particularly in the carbon steel business going forward, the iron ore and cobalt business particularly?

MR ANDERSON: You want me to take that?

MR GOODYEAR: Sure, if you like.

MR ANDERSON: Well, I think that it's safe to say that the Japanese steel makers are probably at some point going to have to reduce their production somewhat. Not dramatically. The numbers I have heard have been a few million tonnes. Obviously there will have to be some cut back there. The interesting thing we're seeing is that we're seeing a very strong demand from China, so you know, right now we're basically producing all the iron ore and all the coking coal that we can, and China is driving the marginal tonne at this point in time. So my hope would be that as Japan pulls back, that China will fill in the slack. But you know, there's clearly going to be some sort of reduction on the Japanese scene that could be up to five percent.

Chip, do you have a different view there?

MR GOODYEAR: No, I don't think so. And I would think that certainly there would appear to us to be an inventory build on the tail end of the steel facilities. But as I commented, the supply side in met coal has changed quite dramatically, and some of it's driven by putting that coal into energy markets in the US, and others some of the rationalisation that's taken place just in the met coal business.

Ire ore, as I mentioned 90 percent of the volumes are contracted. So we shall see yet again. A little bit of a different industry there than some of your exchange trade commodities, so stay tuned on that. But I think it comments - certainly it will be driven by the recoveries in the economies around the world.

MR ANDERSON: Do we have any other call in questions?

QUESTION: Good morning. This

question is for Chip, and it concerns capital liberation. Chip, I would like to take you back to 1999, between August '99 and September 2000, and if I look at the - it was an interesting time for us to look at the company, because you were involved in very little expansionary activity. Mostly you were consolidating the balance sheet. And we observed that about a billion dollars Australian of fixed capital was pulled out of the balance sheet then, during that period, ie if you look a depreciation less Capex. Now with expansionary phase and a lot of reinvestment expenses are going into expansions, we don't see that number anymore. But can you tell me if that was something you still focus very closely on in terms of driving up the returns for the existing asset base?

And then Paul, I'd like to address a question to you, and that concerns this issue of - I think you made reference to it, of pricing of mineral assets, and I think you seemed to use the words more appropriate pricing of mineral assets going forward under the macroeconomic environment that doesn't look at all great. Would this then suggest that there's a new potential core in the group's capital? In other words, would you be expecting to maybe keep some powder dry and keep some potential projects on hold in anticipation of some distressed trading conditions giving rise to opportunities on the acquisitions fund?

MR GOODYEAR: Sure, let me go ahead with the first question. No doubt capital employed is a critical issue in terms of metrics for performance, and I think Paul mention that in terms of one of our critical drivers for the strategic framework for the company. So you should expect us to absolutely do that. And I think capital markets around the world at our size will give us an opportunity to access those markets in a creative way. So, there's no doubt that that's a critical item for us, so you should certainly see us move forward with those initiatives in the future.

MR ANDERSON: And with regard to the second question, you certainly caught my intent, which is that, you know, if we do go into a very difficult time, we will be looking for the opportunity to buy distressed assets, put very simply. So you know, as industry conditions get difficult there are often assets that become available at very good prices.

I think the other part of the point though, is that we don't have to cut back on our current project list to be able to participate in that consolidation. I think we have the flexibility now - we have the flexibility to defer some spending on some projects, we have the flexibility to move around parts of our balance sheet, but I think at the end of the day we'll be able to participate in industry consolidation, or projects, without compromising one or the other, because we have enough flexibility in the current - in the new company. That's going to be Chip's problem.

Let's take one more call in question and then go back to Melbourne.

QUESTION: Yes Paul, I just have a question on copper and nickel. As you mentioned the prices have - BHP is less than happy with the prices, so does BHP plan on any output cuts, or do you foresee any other producer doing so? And what do you think are the supply situations for both metals this year and next year? Thank you.

MR ANDERSON: Well, as Chip pointed out, this is a good time to do any kind of maintenance or any kind of capital improvements or what have you that might interfere with production because the prices are low, so we will certainly be looking at our output and saying, is there something that we should be doing here that would reduce our output? I don't think that we will be looking at, you know, just shutting down an operation, but we will selectively shut down parts of operations to minimise output.

I think the other producers will be thinking along the same terms, but you know, I really can't comment on what they'll be doing specifically. I would think that they'd be crazy not to be using this as an opportunity.

Okay, let's go back to Melbourne if we can, any questions here?

QUESTION: Just the dividend, the buy back programme, you've reinstated that across the whole capital. What's your timeframe on the buy back?

And the second question, just in regard to the Spence project, you've moved to full feasibility study, what's the timing and the likely Capex for that?

MR ANDERSON: Well let me answer the Spence question, and I'll turn it to Chip on the buy back. With regard to Spence, what we're really doing is we're stepping back and we're looking at the phasing of Spence versus Escondida Norte, versus Escondida Phase IV. As you know, they're all in one area and they actually could share a water supply and some infrastructure, so we've basically put the base metals group on the project of saying, how do we optimise the development of those three projects with Escondida IV under full developments right now. And I don't have an answer to that question other than to say, it's going to be phased with the other two projects.

Chip?

MR GOODYEAR: On the buy back programme, we announced that in February. And basically since that was announced we have either been in material discussions around the Billiton situation, or have been in some sort of closed period around the EGM, or some closed period with regard to earnings, which begins essentially two months - for UK purposes two months prior to the announcement of results. So we have continually been in various periods which don't allow us to be active in the market place.

So what we said in the various filings is that the intent would be to move forward with that buy back programme and complete it in September of next year, in September of 2000 (sic), that is the intent. And the intent is also to do on a on-market basis, that we will be going in selectively, and we're driven very much by our cash needs, where are we investing money, what's our capital structure look like, and so on.

So I wouldn't expect what I'd say is a big bang around that. I would expect us to look at our needs, look at where the market place is, and then move forward with that. But within that timeframe is what we've said. And you know, we'll obviously how things progress as we move down the year.

QUESTION: Paul, could you help me understand, I'm not so sure if I understand what is happening, it seems to be a new vector within your business, this issue of getting - you seem to be moving closer to customers. And I look at the world around me and I observe quite a dichotomy in that sort of strategy amongst some of your peers around the world. Some prefer to elect and remain strictly upstream and dig the stuff out of the ground and put it on the ship and that's the last they see of it, and others want to bolt themselves so tightly on to their customers that their customers can't do without them. Are you trying to be somewhere in the middle ground there?

MR ANDERSON: Certainly we want to be in the middle ground. The last things we want is to be wedded to our customers to the point that we're both, you know, mutually dependent to our disadvantage, but on the other hand we feel that the real opportunity's going to be working with our customers.

And a good example again is the Mining Area C ore development with POSCO. Here you clearly have a deposit that has a lot of potential going forward. It's going to require the cooperation of the customer to make this an attractive iron ore that works in their operations. You can't just you know, ship it one day and say, we're shipping this instead of another iron ore. You need them to work with you to make sure that the iron ore works, and by them being an equity participant in it, and by us working with them technically, we can actually take what would otherwise be virtually a worthless deposit and turn it into a very valuable asset going forward.

That's the kind of thing that we see going on as opposed to, you know, going down stream and into manufacturing beyond the mine or something really far down stream.

MR GOODYEAR: And I might just say that the way we - Paul presented it is that the CSG marketing people are part of the hub, but they still report to the president of the unit. So we see some very attractive opportunities in that structure. And the more that we can be a single face to our customers, the better we can have an understanding of where the customers are going across our businesses. And the better we understand that, the better we are able to think about our capital expenditure requirements and when to time projects and when to bring them on, and perhaps when to delay them. And it's very low - it's a very low risk way to do it. We get some good benefits in the structure that we have, and it operates very similar to where does today. But we do create that single focus, single face for the business. So we shall see.

Let me just comment Paul that apparently Telstra are having some problems with the teleconference, and they are recording it, and it will be available to be listened to some time later this afternoon for those on the telephone.

QUESTION: Paul, the performance hurdles that were set up on your options included an international comparator group. Now that group has changed a little bit, I know. Companies like North Limited were in it. But it looks like a pretty good benchmark for BHP and for BHP Billiton. Can you tell us on the shareholder return measure that was used there, how BHP Billiton is performing against that peer group?

MR ANDERSON: You mean the peer group for the options as to --

QUESTION: Yeah, the international comparator group, using that as a benchmark for this group, how are BHP Billiton shareholders doing?

MR ANDERSON: Well we've looked at it for BHP shareholders. We haven't looked at it for the combined entity. Chip, do you recall what the target --

MR GOODYEAR: Sure. It was April of '99 when those options were approved, and we look at it every month. And the number now, this is total shareholder return over the period including appreciation and the dividends, and I think we're at something like the 65 percentile, 65, 70 percentile.

MR ANDERSON: And obviously in any share plans going forward we're going to have to establish a new comparator group and a new weighting and so forth with the combined BHP Billiton.

Okay I think it looks like we are we've worn the group out. We appreciate your patience, we know we've gone through an awful lot of material, but we've created a very extraordinary company here, so it's not an easy thing to go through in ten minutes. Thanks for coming.