AN INVESTMENT EQUATION

Ladies and Gentlemen,

It will be perfectly obvious to all of you that any speaker at a conference like this tries to find some way for you — his audience — to remember what he says — something that will distinguish his company from all the others that feature in the fine presentations by eloquent speakers.

Thinking about this, I had an insight — this conference is one at which only Australasian companies are presenting. Everyone who will speak to you represents an Australian company. Now BHP Billiton too **is** an Australian company, proud to have its global headquarters in Melbourne, and very pleased with its listing as BHP Billiton Limited on the Australian Stock Exchange. But — and this is what distinguishes us — we have a matching UK personality. BHP Billiton was in fact created as a dual-listed structure, with a LSE-listed company called BHP Billiton Plc bonded to the Australian one. And so, among all the speakers here, we alone offer you the alternative of investing via an Australian company or via a UK FTSE 100 company.

Thinking about that further, I realise that even the dual listings — UK and Australian — do NOT fully capture the nature of BHP Billiton. We are in fact one of the world's most INTERNATIONAL companies, with more than a hundred operations in 20 different countries across the globe. So, here is the phrase that I would like you all to memorise today, so that you might remember BHP Billiton tomorrow :

SUPERB GLOBAL VEHICLE

But perhaps that phrase is not quite enough to capture your imagination. So, here is another, which may appeal to you in this time of great turmoil in the world's financial markets :

SUCH GOOD VALUE

Now, Ladies and Gentlemen, has anyone here noticed what those 2 phrases have in common ? For those that haven't, please note the first letters. Let me make it clear by writing them down —

S + G = V

THIS is the investment equation for BHP Billiton that I would like you to remember today. It contains the central challenge that I have set for the BHPB Executive Team. Here is how it works :

The **S** stands for **STABILITY**, the **G** stands for **GROWTH** and the **V** for **VALUE**.

That phrase,

STABILITY + GROWTH = VALUE

neatly encapsulates the BHP Billiton strategy. The central tenet of our business model is that our diversified portfolio of high quality assets provides more **Stable** cash flows and greater capacity for **Growth,** than the traditional resource cyclicals (and indeed greater than many other industrial icons). Our results for this past year, ended June 2002, have provided striking support for this thesis. Despite some of the toughest economic conditions in many years, with consequent impact on commodity markets, our earnings before interest, tax, depreciation and amortisation ("EBITDA") was rock steady at around US$1.2 billion in each of the 4 quarters since the company was formed. We now await the results for the 5th quarter, the first of the 2003 financial year, which will give another opportunity to test the consistency of our business model.

Even more striking than the EBITDA figures was the underlying stability of our operating cash flow, after paying all interest and taxes. Cash flow actually rose by 2%, to US$3.9 billion, despite those generally lower commodity prices.

Our strong financials were reflected in other measures : EBITDA interest cover rose from 8.5 times in 2001 to 11 times in the 2002 reporting year. Gearing (net debt to net debt plus equity) declined from over 38% to 35% ; and net debt at 30 June 2002 was US$ 6.8 billion, a reduction of nearly US$500 million over the year.

These robust cash flows left us well placed to proceed methodically with the new growth projects that we flagged at the time of the merger. It is a major strength of our business that we are able to take longer-term decisions on the timing of our projects. Traditionally within the sector, companies have rushes to expand at times of high commodity prices. By the time the production stage is reached, the cycle has often turned, and the increased production drives prices still lower. The diversity of our business ensures we have the stability upon which to build our growth.

The merger that created BHP Billiton 15 months ago was, in many ways, the culmination of a process of consolidation in the metals and mining industry that had been underway for a decade. The extent of that consolidation has been remarkable. In 1990, the top 5 metals and mining companies accounted for less than 25% of the total equity value of the US$ 150 billion metals and mining industry. The then-largest company, BHP, had a market capitalisation of around US$ 9 billion. Today, the top 5 companies account for around 50% of the resource equity value of US$ 235 billion, effectively a doubling for the top 5 over the decade. BHP Billiton is today the largest company, 4 times bigger than BHP in 1990, and nearly as large as the top five aggregated in that earlier year. This slide illustrates well the emergence of the current market leaders, and the large gap that is forming between them and the rest.

Thanks to that consolidation, the resource industry is today a much more robust industry than it was 10 years ago. The 4 industry leaders, all US$ 18 billion plus companies, own the best assets — real physical assets that generate real cash flows — and are committed to delivering shareholder value.

BHP Billiton stands at the evolutionary pinnacle of that consolidation process. The merger created not only the industry leader, but one unlike any other than our industry has seen. It has the potential, almost uniquely, to aspire to the **S**table cash flows and to the strong **G**rowth that make up my **S + G = V** equation.

Our ability to deliver the Stability and Growth of our investment equation rests on 6 VALUE DRIVERS, 6 key features which distinguish us from our competitors. Let me remind you of each of these :

VALUE DRIVER I — STABILITY FROM OUTSTANDING ASSETS

The assets that comprise BHP Billiton are, individually, some of the best anywhere in the industry.

Over three-quarters of our operating asset EBIT comes from assets in the first quartile of cash operating margins.

Included amongst our operations are Escondida, the great copper mine in Chile; the Worsley alumina refinery in Western Australia ; the Hillside and Mozal aluminium smelters in Southern Africa ; the Pilbara iron ore and BMA metallurgical coal mines in Australia ; and the thermal coal mines of Ingwe in South Africa. These are all real assets with real cash flows that set standards of quality, low cost, and long life for their respective commodity industries. Even some of our higher-cost operations have remarkably attractive characteristics : For example, although the Ekati diamond mine's geographic location (just 200km south of the Arctic circle) makes it a costly operation, the excellent quality of its diamonds gives us one of the highest profit margins in the industry. It is not just our minerals businesses that are the envy of our competitors — our Petroleum assets are similarly blessed, providing us with one of the industry's highest levels of profit per barrel, and highest returns on capital. Such quality at the level of the individual assts gives us substantial protection from the worst ravages of cyclical downturns, producing free cash flow even at commodity prices that would see our competitors struggling.

But the value and potential of this set of assets can only be realised if they are well operated. Excellence at the asset level is thus the foundation of our business, and a key component of this is control of costs.

BHP Billiton has a good record of cost control, and we seek to build on this. Our Operating Excellence programme, which combines Six Sigma and Knowledge Networks methodologies, seeks to identify “best practice” either within the Group or externally, and then to implement and standardise such best practice throughout all our operations globally. Early initiatives in various areas have yielded good results, as those of you who have read our results will have seen. We delivered in our first year US$ 220 million of merger synergies, out of the US$ 270 million that we promised by 2003. In April of this year we committed publicly to further cost reductions totalling US$500 million in aggregate over the 3 financial years 2003 to 2005. This will be in addition to the US$ 270 million of merger synergies.

VALUE DRIVER II — STABILITY FROM THE PORTFOLIO EFFECT

Our individual assets contribute the cash, but it is the portfolio effect that provides stability. Everyone in this room knows that DIVERSIFICATION helps to reduce the risk of a portfolio. BHP Billiton has outstanding diversification — by geography, by commodity, by market and even by shareholder base.

The risk reduction inherent in this diversification was recognised by some almost immediately after the merger announcement. Standard & Poors rated BHP Billiton’s credit at A (with positive watch), up from the BHP stand-alone rating of A minus (Billiton having previously been unrated). We are currently one of only 5 investment grade credits in the region on review for a possible upgrade by Moodys.

The success of our recent €750 million Eurobond illustrates the market’s recognition of BHP Biliton’s credit strength. Whilst numerous companies have had to postpone or pull their bond issues in recent weeks, we defied turbulent markets to launch, on Tuesday, our inaugural Eurobond. So successful was the roadshow that we actually increased the size of the offer, whilst achieving pricing at the tight end of expectations. As you’ll see from the quotes here, the European debt capital markets welcomed the chance to buy into the BHP Billiton story.

The benefit of risk reduction can also be quantified using our Cash Flow at Risk (CF@R) Model. Applying that model pre-merger, the ratio of CF@R to Cash Flow was

25% for BHP, 26% for Billiton. Post merger, the ratio for the new Group dropped immediately to 19%, thanks to the co-variances between the various elements that contribute to Group cash flows. The significance of this for shareholders is illustrated in this slide. It shows that the Group is likely to generate pre tax cash flows around a mean of US$ 5 billion each year. In 2002, for example, the Group made US$ 4.4 billion at the pre tax cash flow level, which supports the premise that even in bad years, thanks to our diversification, pre tax cash flow is unlikely to fall to less than US$ 4 billion (at the 95% confidence level, i.e. in only 1 year out of 20).

Here comes what is perhaps the most striking slide that I will show today. In this, we have applied prices dating back to 1987 to our current production profile, and calculated what our cash flows would have been in those circumstances. The results, I think you will agree, show remarkable stability over that long period, varying from around US$ 950 million to US$ 1,300 million PER QUARTER — further evidence of the stability of our business.

VALUE DRIVER III — STABILITY AND GROWTH FROM CUSTOMER-CENTRIC MARKETING

Even great assets in a great portfolio have value only if they meet the customers' needs. In the resources industry, marketing has traditionally been done on a fragmented basis, often using intermediaries in the marketing chain. To set us apart from this traditional practice, and indeed from our peers, we have implemented a "customer-centric" marketing approach, which we believe to be unique in the global resources sector.

Rather than manage our marketing effort on a project-by-project or site-by-site basis, we approach our product and service offering on a global basis. In meeting our customers' requirements, we source products from different geographical regions and indeed from third parties, providing a more complete product offering and better service. The sale of third party product provides us with some of our highest return on capital business, a fact often overlooked by some market commentators who often focus solely on the margins achieved in our third party trading.

Our twin "hubs" in The Hague and Singapore spearhead our marketing efforts, augmented by customer solutions teams in all our major markets across the globe. Whilst the marketing teams are broadly aligned with the Customer Sector Groups, the use of common systems, philosophies and operating platforms facilitates cross-sector product offerings.

We recognise the changing nature of a number of our markets, and the associated change in the requirements of our customers. In response, we have aligned our product structuring and risk management skills in order not only to meet the physical product needs of our customers, but also to help them manage their related market and financial exposures. By combining these skills with, for example, our equity positions in oil, gas and coal, we are able to tailor fuel packages for our energy generation customers to better manage increasingly deregulated electricity markets.

We see evidence of customers welcoming this new, flexible, approach to marketing. For example, we recently entered into a long term contract to provide multi-sourced coal to a major customer. We commit to deliver, on a just-in-time basis, at a set price, coal in sufficient quantity and (importantly) quality, to meet the customers' needs. It is up to us where we source that coal; sounds simple, but for this industry, it is something of a revolution ! Meeting the changing needs of our customers with appropriate new solutions will continue to be the focus of our marketing activities. The potential to grow this area of our business, and to add value, is significant.

<u>VALUE DRIVER IV - GROWTH FROM DEEP INVENTORY OF PROJECTS</u>

Our next VALUE DRIVER is growth from our deep inventory of projects.

Many of you will be familiar with this slide. One of the birthrights of BHP Billiton was a remarkable "pipeline" of growth projects, potentially involving capital expenditure of US$10 billion over a 5 year period. Sanctioned projects (which are illustrated on the slide with a bold ring around the bubble), add up to around US$5 billion.

During the past financial year, we approved investments totalling US$ 2.9 billion in 12 new projects, ranging from the Mad Dog and Atlantis oil and gas developments in the Gulf of Mexico, to the Mount Arthur North energy coal project in New South Wales; from the development of Mining Area C in our Western Australia iron ore business, to the aluminium smelters expansions at Hillside and Mozal in Southern Africa. As this slide suggests, a breakdown of the project pipeline by CSG shows a good balance. Thus, potential capex on Petroleum projects, at 35% - 40% of the total pipeline, is similar to its current contribution to BHP Billiton's earnings.

Of course, investment in itself does not always add value; if projects are to be value enhancing, they must be implemented professionally – preferably ahead of schedule and under budget – and, of course, the original capital investment decision must be sound.

We have a good track record on project implementation with large scale, successful projects such as Mozal, Typhoon in the Gulf of Mexico and Antamina in Peru providing much confidence in our ability to consistently deliver projects on time and budget. Progress on all our projects is monitored monthly and at our results presentation recently we provided a review, on a project by project basis. Regarding the investment decision – the starting point of success – we have institutionalised rigorous capital approval processes. Each investment decision involving more than US$ 100 million requires an Independent Peer Review (i.e. independent of the project promoters); it requires sign off by the Investment Review Committee; and crucially it uses a price forecast that is centrally- (not promoter-) determined. Ultimately such projects also require the formal approval of both the Executive Committee and the Board. Our internal reviews have led us to walk away, on more than one occasion, from projects previously judged promising, well before they had completed our full evaluation process.

VALUE DRIVER V – GROWTH FROM PETROLEUM

I come now to Petroleum. This is the Value Driver which provides the "break-out" from the peer group into which we have traditionally been cast. Petroleum is what makes us unique and what should keep us unique, for any traditional competitor trying to enter would be hard pressed to replicate our quality. Through sound judgement (and some good fortune), the Group has assembled a collection of outstanding oil and gas assets, a portfolio which I know any of the super-majors would be pleased to count amongst their own. These range from mature, cash generating operations in the Bass Strait and North West Shelf, through to the major new investment opportunities in the deep waters of the Gulf of Mexico and – thanks to recent discoveries – in shallow waters off the coast of Trinidad. We also have certain advantages over the super-majors in developing niche opportunities in countries such as Algeria and Pakistan. The quality of our portfolio is reflected in the PFC (The Petroleum Finance Company) survey ranking BHP Billiton's profit per barrel in the top three in the industry for the last three years. Petroleum is one of the key success stories of the financial year just ended – with finding costs of just US$1.59 per barrel of oil equivalent, and a capitalisation ratio on exploration costs of 47.4%; this is top tier performance.

Since our year-end, we have had more positive news from Petroleum, with the North West Shelf Venture being chosen as the preferred LNG supplier to Phase 1 of the Guangdong LNG Terminal and Trunkline Project. This was particularly pleasing for us, as BHP Billiton was the JV's representative, working closely with the Western Australian and Federal Governments of Australia towards this successful outcome.

Our oil and gas assets provide an important element of diversification in the overall Group portfolio; they also offer significant growth opportunities, which might be more easily achieved and sustained than in the Minerals CSG's. Our traditional competitors, already large in particular commodity areas (as indeed are some of our own CSG's) will increasingly find M&A growth hindered by competition legislation. Although our CSG's today can still grow through acquisition, competition laws must ultimately impose a ceiling. But for us, Petroleum removes that ceiling for, as this chart shows, BHP Billiton is still a small, albeit very attractive, fish in the Petroleum ocean.

<u>VALUE DRIVER VI – GROWTH THROUGH INNOVATION</u>

Most of what I have said so far has to do with the skilful management of our <u>existing</u> assets and opportunities base. But in a competitive market place, long-term success requires more. If we are to outperform our rivals, if future generations are to remain enthusiastic investors in BHP Billiton, then management should today be seeking opportunities outside of the existing asset base. Indeed, the merger that created BHP

Billiton arose from exactly such lateral thinking, delivering a transaction that redefined the metals and mining industry as it then was.

I do not propose to explore this potential further today, other than to note that the world seems to have entered a period of falling asset prices. For a company like BHP Billiton, with strong and stable cash flows, these circumstances are more likely to deliver new acquisition opportunities than "boom times". So far, we have not found any good targets, but you can be sure that our Mergers & Acquisitions team will continue looking.

CONCLUSION – OUR EQUATION FOR INVESTORS

I have come to the end of my presentation. BHP Billiton is a company with strong, stable cash flows and excellent growth opportunities. My colleagues and I are committed to turning a very good organisation into an excellent one – to realise our ambition of becoming one of the world's premier companies. If we can consistently deliver on our promise of stable cash flows and good growth, we believe we can unlock the value that resides within this business. I hope that you agree, and that you will therefore remember our investment equation :

S + G = V

Ends