

I realise it is 8 o'clock, and I appreciate you getting up this morning to come and hear me, but I thought I would give you a little bit of advice that would allow you to go and sit on the beach for the rest of the day!

Thinking about this industry and how you make money, particularly from the investment side, after looking at the way the equity side of our markets have traded in the last few years, the right answer is to go short the industry about a month before the Merrill conference, and go long the industry right about now! This year, certainly the first part of that seems to have held true.

What I want to talk about today is not our standard investor presentation. Instead, I want to talk about an important component of how we think about our business. That is around the sustainability of some of the developing economies. I understand yesterday you had a fair amount of commentary about the short term, and there is no doubt that that is an important element of the things you have to think about. But we cannot run our business on a short term basis. The lead times of our projects - from exploration through to the initial production - is probably 10 years or more, and that is on a greenfield site. Even on a brownfield opportunity, you are at least two or three years away, so worrying about what happens today in the market, or if somebody said 'Gee, demand was slow this week', and all of a sudden you lose a significant part of the equity value, we cannot run our business that way.

Slide 1: Despite recent falls, prices remain at historically high levels

The first slide is not one you are meant to read. It is just meant to say that across copper which is on the upper left side, nickel on the upper right side, oil and iron ore, here we are in a marketplace where you are seeing significant prices, continuing significant inventory challenges in a number of products, and you are also seeing pretty strong demand in a number of markets, yet people are worried about what next week or next month is going to bring. As I said, we cannot run our business on that basis.

When you take a look at the value of any enterprise like ours, the annual cashflow, while significant and important, is only a tiny fraction of the value of the enterprise. So one month, one week, one day, is not the key driver to the long term value of an enterprise like BHP Billiton.

Slide 2: GDP – 2000 through 2050

Moving on, a chart that is much more important to us is one like this. This is a chart of the GDP estimates from 2000-2050. It is a chart that was put together by one of Merrill Lynch's competitors. It is a story that for our industry is much more important in the way that we think about how we put money to work. You do not need to look at any of the numbers, or the particular aspects of it, but it shows a projection that over the next 50 years, the absolute level of GDP in China and India will grow significantly. This projection shows China exceeding the United States.

The economies of Japan and Germany will not be able to compete with the economic development you are going to see in those parts of the world.

The chart that is even more interesting is the next one, and that is GDP per capita.

Slide 3: GDP per Capita – 2000 through 2050

I will move on from talking about absolute GDP to talk about how individual income and individual GDP moves in terms of resource consumption. While you see the United States, Japan and Germany still having a significant GDP per capita, the growth that comes in the Chinas, the Brazils and the Indias in percentage terms is much more significant.

What we do with that information is think about what increasing GDP per capita means in terms of consumption of resources.

Slide 4: Intensity of Use - Oil

The chart in front of you is called 'Intensity of Use'. Many of you have seen this. This is for oil. What is plotted on the y-axis is the number of barrels of oil used per capita. On the x-axis, the GDP per capita in real terms. Not surprisingly, as wealth or GDP per capita grows and per capita production grows, the amount of consumption of energy also rises, but it is most intense and the growth is greatest, at the early stages of economic development. The blue blocks show the countries of Germany and Japan, and that is an historical fact; as real GDP per capita grew, the consumption of oil grew. The green is the United States. The absolute level is much more significant, but again, you see in the early years of economic development the slope of that line was much steeper than you see in the later years.

In fact, when you get to about \$3,000 to \$8,000 per capita GDP in real terms, you pretty much flatten out. That is why, when we see the OECD countries, you are not seeing a

great deal of growth in consumption. The reason is that they are in that flat period. They have already reached a level where that intensity of use has pretty much flattened out.

Slide 5: Intensity of Use - Copper

The same thing in copper – a proxy for metals usage. The countries we are showing here, the United States, Germany and Japan, again show early on very intense increases in use as per capita of GDP grew, and then it flattens out in these domestic economies. The economies of Taiwan and South Korea, that slope continues because they are producing export products for the world. We would tend to believe that China is going to be much more like a domestic economy.

You can see in the lower part on the left hand side of this chart where China is today in terms of copper consumption per capita. Its GDP in real terms is little over \$1,000 per capita. They are very much on the same trend that you see for the other economies.

Slide 6: China – resource intensive growth

The key drivers to resource consumption are two things. One is industrialisation and the other is urbanisation. On the left side of this chart, we show industrialisation, industrial production as a percentage of GDP in China. In 1990, that number was 39%. In 2004, that number is 56%. The industrial production percentage of GDP growth is very strongly driven by the industrial activity that is taking place in China. That is very different to what you see in the OECD today where the service sector is often the main driver to GDP growth. When you see industrial production rise, that is a function of the activity in the economy that is consuming raw materials. You are seeing the consumption of iron ore and steel and aluminium, nickel and so on raise that industrial production.

On the right side is urbanisation. There is a correlation between per capita GDP and urbanisation. In the last 10 years, urbanisation rates in China have gone from about 29% to 38%. That is about 125 million people who have moved from a rural environment to an urban environment. With that comes higher productivity, and with higher productivity comes higher GDP. With higher GDP, as I illustrated, comes a demand for refrigerators, cars, air conditioners, and so on, and those products use metals.

The blue dots show the pattern that has happened to other economies in the past. When we think about China and what is happening in China, there is nothing that is unique that we have not seen before. Those things have happened in economies in the past and

the trends of China are very similar to what we have seen in other situations of economic development around the world.

Slide 7: Sales into China are increasing

The next chart shows what has happened to our business in China. On the far left side, you see the year 2002. We sold a little less than \$400 million of product over that 12 month period into China. The rest of the bars are half year periods. You see a pretty tremendous growth, the last half year ending December 2004 was about \$1.6 billion, and so on an annual basis, you have seen a number that is almost a ten times increase in sales in essentially three years. The growth has come across a variety of products in what we call our “Customer Sector Groups”. This is a function of the factors that I have mentioned to you before. First of all, that increasing demand of industrial production and urbanisation is driving the demand for our products, but it also comes from the fact that China simply is not rich in the raw materials that are necessary to support infrastructure development. As a result, there is significant import of those products, and this is being reflected in the numbers here.

Slide 8: Industrialisation and sustained economic growth

This chart talks about the past, and where other examples of economic growth and development have taken place. We are showing Germany, Japan, the United States and the world. There are various stages in the past where these economies have gone through multi-decade increases in GDP growth. This is a 10-year real GDP growth statistic that you see here.

The most obvious one that stands out is Japan, where over some 20-30 year period, they sustained growth rates approaching 10%. That economy, during that period of time, transformed in a huge way. It was one that demonstrated all the things that I mentioned in terms of industrial production and urbanisation.

However, it is not the only one. Germany was quite significant. The data on the US as you go to the beginning of the century is obviously challenged by the fact that statistics were not quite as well kept, but showing over significant periods of time, again, we are looking at the 10-year moving average. This is not just the one year average. This is much more intense when you think about it as a 10-year average.

Slide 9: Demand for raw materials – the 1950s and 60s

What does that mean in terms of raw material consumption? This chart shows a variety of products: copper, iron ore and nickel; what the consumption is, in the decade long periods we have talked about. As we saw GDP growth continue to move up, we saw the consumption of iron ore in the decades of the 1950s and 1960s continuing to grow, again, over that period; iron ore and nickel are the same.

However, as those economies started to mature, and infrastructure was developed and built, then the demand for those commodities inevitably would fall off. When you get to 1970s, you found that GDP growth had got to the point where you reached some \$8-10,000 in real terms. Intensity levels flattened out, and the demand for the commodity as a result fell off.

On the bottom of the slide, you see the growth in the commodity relative to GDP. Again, early in the life of economic development, consumption relative to GDP growth was quite strong, and it trails off as those economies develop and begin to mature.

Slide 10: China: 6 key sustainable macro drivers

In China, we see six key factors in that economy. If we start on the upper left hand side in terms of **structural transformation**, about 85% of the previously state-owned enterprises in China are now either wholly or partially privatised. Over the last 10 years or so, they have shed some 30 million jobs in that marketplace. About half of the GDP in China today is private sector GDP, and the markets set prices for essentially all products in China today, as opposed to being state-controlled pricing.

About 20% of the capital expenditure in China is funded by banks. The remaining 80% is funded internally. This is not a situation where the economic development that has taken place is being simply run by a lack of discipline in the banking community.

I have talked already about **urbanisation**. The number from 29-38% represents 125 million people over the last 10 years. The expectation over the next 20 years is that something like 10 million a year will be moving from a rural environment to an urban environment. Again, that is not a trend that is unique, and it is not unique simply to China. As I mentioned before, however, as you move into an urban environment, you increase the productivity of the individuals, that increases their per capita GDP which creates their capability to buy refrigerators and air conditioners.

I will come to the rural economy in just a minute, but it has an impact on the rural economy as well.

Manufacturing evolution: China is no longer a place that just distributes low cost products to the rest of the world. China now exports more high tech equipment to the United States than Japan does. China's shipbuilding industry has tripled in the last several years, and is now about 16% of the world's shipbuilding business. There are many other examples, and we certainly see in our business that the technological capability and the academic capability of the people in China and the institutions in China is incredible. The number of engineers they graduate simply dwarfs what we see in the rest of the world. They are very well educated, and the cost to access that technology is very small relative to what we see in the west.

In terms of **rural reform**, the individuals in the rural economy have an income level that is about one-third of the urban environment. There is a great desire to make that transformation to an urban environment for individuals. However, there are other reforms taking place in the rural environment. Some of those involve agricultural taxes which have been reduced or eliminated, making that a more sustainable place for people to stay, but in addition, people are moving to the urban environments, but continuing to return home during holidays and so on, and they bring stories back of what is happening in the urban environment, and they send money back home. You are seeing that reform continue to have an impact, and also at the same time, creating additional catalysts to move people to an urban environment.

The area of **wealth**: there are about 50-60 million people who would be classified as middle class in China. They have a household savings total value that is about \$1.4 trillion. There has been a significant increase in domestic tourism. There may also be an increase in international tourism. You have seen the retail sales numbers in China showing a significant increase in consumer consumption in China. That is an important objective of the government.

Finally in the **housing market**, most people in an urban environment in China actually own their home, or their own residence. Most of that is government sponsored housing that was constructed some time ago, that were sold at discount rates over the last 10 years. There is a significant growth, obviously, in commercial development in housing and apartments and so on, and that is being fuelled by this high domestic savings rate that is in the order of 40% as well as an increasing availability of mortgages. The mortgage market

grew about 40% in 2003. People are seeing an opportunity to move to a better life than what they have today, and that consumption of housing, which means that people are upscaling from where they are today, and moving from that rural environment to the urban environment is continuing to drive the construction of new housing.

With that, obviously, comes all the infrastructure that is related to people moving to that urban environment: roads, rail roads, telecommunications and so on.

Slide 9: But it's not just China....

But it is not just about China. China is an easy one to talk about. We are obviously a significant seller of products across a large range of commodities in China. We have tentacles into the different markets. We sell iron ore, coking coal, manganese, nickel, aluminium, ferrochrome, oil and gas, and soon to be LNG. Those tentacles give us a pretty good visibility, and that is why it is relatively easy to talk about China.

This chart does not just illustrate the China story. If you take a look on the right side, you can see the projections over the next 10 and 20 years as what growth rates might look like. We see that over the last 25 years, China has grown at about an 8% rate, projecting about a 7.5% rate over the next 10 or 15 years, but India is not far behind.

If you take a look at India over the next five years, something like 6%, and seeing that continue after 2015. If you aggregate that across the world as a whole, that looks like a growth rate across global economies of about 3%. That compares to a rate of about 2.4% over the last 25 years. But the economic activity that is taking place in that part of the world is having a big impact on the global economy. Although you have seen China grow for 25 years, it came off such a low base that it was very difficult to see it when you compared it to the rest of the world. In fact, as you get more material, that is clearly having an impact in what we do. These economies are simply too big to ignore, particularly in our business.

How does BHP Billiton look at this? We believe China is an exciting place. We believe India will be perhaps the next wave, and obviously other developed economies around the world will fall in in some way. The visibility that economies have, and that people in economies have, to a better way of life is unlike anything we have seen in the past. The availability to get to that better life is also quite different to what we have seen in the past.

We would find it very difficult to put the genie back in the bottle or tell people that they no longer have the opportunity to get a refrigerator, air conditioner, whatever. However, what we are not saying is, 'let's go buy high cost properties, let's go out and invest in

unattractive projects that need high prices to make sense'. Despite the fact that we think it is going to be an exciting time over the next several decades, we are still going to have bumps and bruises along the way. Even in exciting periods from the end of World War II to 1970, you had some pretty significant price drops along the way. For a company that recognises that, you can use this to your advantage.

Slide 12: Deep inventory of growth projects

How do you do that? What you see in our pipeline shown here are projects that are in what we call our "feasibility stage" or in development. Behind this are a whole series of pre-feasibility projects and concept projects. What we try to do is assess where we expect markets to go, based on the knowledge that exists within our activities there, and then execute options to take advantage of that as we see those markets develop. These projects, if you test them against your cost curves in our industry, you will find that for the most part, they are in the very lowest part of the cost curve. Again, it is not a case of saying 'Hey, let's go buy any old piece of trash, and hope that copper stays at \$2', because it won't. What we actually do is to communicate to you and the rest of the industry that we have opportunities to grow and expand our business, and if you think copper is going to stay at \$2, you are kidding yourself, because you don't need \$2 copper in order to create an active and attractive economic environment.

I am not going to go through this in any great detail, but the key is creating options that allow us to exercise those options for good, low cost projects, when the time is ready for the market to absorb those opportunities.

Slide 13: Conclusions

In conclusion, the short term activities that take place in the market that you can witness on a visible basis are very interesting, but that is not how we make decisions, certainly in this company and I think the same would be true of many of the significant companies in the industry. This is not a business that we expect to be in for three months; it is a business we expect to be in for many years and many decades. The key is long term growth rates and resource intensity which drives the decision-making in the business.

Developing economies are growing faster than the OECD. That is an historical fact, and it is a fact we continue to see being demonstrated in China and in India today. The key drivers are industrialisation and urbanisation. That is what consumes steel, copper, aluminium and energy.

Another important point is that industrial activities in metal consumption and energy go hand in hand. When you drive down the freeways in China, in Shanghai or Beijing, and you look at the apartment buildings, and outside every window you see an air conditioner, that's great, because that consumes steel and aluminium and copper. You only buy an air conditioner every five or six years, but you turn it on every day. Those activities of industrialisation and urbanisation will drive both minerals and energy.

If you take a look at comparisons to the past, this is not unique, this is something we have seen before. Again, the demand in China we believe is positive, but at the same time, it is going to have its bumps and bruises along the way. No economy grows in a straight line for a decade. China and India, and the ones that follow behind, will be no different than that. The key to any business like ours that has a multi-decade perspective is large, low cost, long reserve life activities that lead to low cost operations; sharing efficiencies, in our case, over 100 assets around the world; making sure that we execute our projects on time and on budget; and then create options that we can exercise from time to time as we see those markets develop and we see economic opportunities that create long term value.

With that, I will open up for questions.

Question: Chip, there is a school of thought that says that China is just an integrated part of the US supply chain, and ultimately if we have any kind of faltering in US consumer demand, then the whole thing will go bust. What is your view on the Chinese consumer? Are we going to have enough domestic demand appearing to make up for any softening in the US?

Chip Goodyear: I mentioned earlier in the intensity of use slide that we would see China being much more like a US than a Taiwan or South Korea. Our estimate would be that something like 94-95% of GDP is actually consumed domestically. You have seen the growth rates of consumer spending in China, and the government, as I have mentioned, is very interested in making sure that that continues. I mentioned the savings rate of 40%. That is obviously a huge number compared to anything that we would be used to, and trying to put that money to work in consumption is very consistent.

Again, we feel that you are seeing that it is an economy that in our view is underpinned by domestic activity. I would say that the two most exciting and entrepreneurial environments I have seen in my life were Houston in the 1970s, when the oil price went from \$2 to \$11, and Shanghai today. You walk down the street in Shanghai, people are happy,

they have smiles on their faces, they are excited about what is going on, and if you ask them what next year is going to be like, don't expect an objective view. If you ask what next year is going to be like, they are always optimistic about that. If you say, 'well, next year, you may have these problems', they say that the next year or the year after that will be good. They have had 25 years of 8% growth. Can you imagine sitting there 15 years ago and seeing where you are today.

The optimism is very high, the consumption has been growing very strongly. If you talk to people on the ground, you would see it as being a good environment.

It is interesting when you talk to people in China. We talk about consumption or GDP in the US - it is not going to be 3.5% this year, it is going to be 3%, or so on, and people get worried. You don't get that over there. In fact, when you are going at 80 mph and you then go 60 mph, you say you have slowed down, but it is still pretty fast. When you go from 9.5% growth to 9%, you may slow down, but you are still going pretty fast.

Question: Chip, perhaps you could talk a little about commodities. You have talked a great deal about consumption. What are the commodities you see on a 3-5 year view that are definite wannabes for your business. I know you look much longer term than that for asset development, but you have obviously made a bid for WMC Resources. Do you have a view of the commodities they produce and how that fits into your business? Also, how bulk fits into this, and with the steel side, we have seen a very strong period for iron ore and coking coal in particular, steel prices rolling off. What does that mean in the next three years?

Chip Goodyear: Let me give the ones that I think are pretty impressive. Nickel will be pretty strong. It takes time to develop any new project, but nickel in particular is one that takes a significant lead time. The Ravensthorpe project that we approved last year, was about 10 years in development. When I say 'development', it means trying to ensure the technology to extract nickel from the ore, from the resource, was well-understood. Every nickel property requires a different set of science to it, technology to it. That is an issue. It is not a business that creeps very much. You cannot just creep production and get another 4% or 5% every year.

There are no really big projects that are underway. Ours is one, and Inco has two of them. Those will be limiting factors in the business for the next several years.

Stainless steel demand: the Chinese architects, engineers and designers love stainless steel. As a result, that demand has continued to be quite strong. I showed that chart, and it is going to take some time to get out of that.

On the bulk side, iron ore looks to continue to be quite good for the next several years, but you have seen the industry very rapidly try to respond to a shortage of iron ore. It is certainly the case that the next several years will continue to be tight, but you are also seeing significant capacity expansion, so you can bring that down to a more reasonable expectation of price in terms of that product.

But, it is important to note that we are in a cycle here. The cost of developing new projects is growing significantly. Steel prices have risen a great deal. The cost of labour, cost of equipment and so on, is going up, but the economic break-even price necessary to bring on new production is certainly going up. While many of us relied on historical infrastructure in that business, that is not going to be the case any longer. You need to do new-build in some way.

The cost to actually bring on new production is indeed rising. That benefits historical producers, but it also puts a lot of pressure on companies to try to continue to grow.

Coking coal will also be in fairly significant short supply. The resource of coking coal is limited. There are only a few places in the world that have access to marketplaces that you can see being able to meet the demand in the next five years or so. That market looks to continue to be fairly strong, but again, you will see more rational pricing as time goes on. That will be over the next several years, but that market continues to look pretty good.

Probably the markets that will be more challenged will be some of the processing markets. Manganese alloy which had a big run up last year has certainly come off. The ability to bring on new production or to restart the plant is certainly there. Where you have shorter lead times, the ability for the industry to react will be there.

You asked about the oil markets. The oil markets will be very interesting. There is no doubt – I showed you that chart on China. Everybody complains that the oil industry has underestimated price and therefore is not putting money to work to try to meet that demand. The facts are that it takes everybody by surprise. Over the last 20 years, we have seen the oil price move up and down as we saw GDP in the western world grow or shrink. We have developed models of oil and gas pricing based on that.

Then suddenly you see a market come on in a material way. It has a huge impact. China is now the second largest importer of oil in the world. Nobody would have thought that five years ago. We have seen that consumption and that intensity grow, and that will impact long term energy price and oil will be a beneficiary of that.

Also the Middle East. It is just a harder place to do business, and that is where some 60% of supplies are. That will continue to be a challenge. That does not mean that you need \$50 oil or \$60 oil. Again, like other markets, you have not seen the supply response yet, because the lead times are very long. You will see oil moderate somewhat, but in the short term those supply figures are still there.

I am not sure, if you have any other specific commodities in mind? **[Question: Copper?]** The copper bottleneck now is in the smelters. Mine production is alright, but there was no investment in smelting activity in the very lean years. They were perhaps even cash negative in some businesses. As a result, when demand was rising – and it has been rising significantly – the smelters can have maintenance problems, and therefore shutdowns, and they have not built new capacity. That process is working itself out, and probably will over the next nine to 12 months or so. Then you will see a more reasonable market as you would expect.

Again, demand for copper continues to be quite good. I showed you a chart with inventory levels. Again, that is a smelter issue more than mining issue.

Question: Last fall, when I was in Beijing and Shanghai, it was visibly clear that some of the big construction projects had slowed. Activity was not going 24 hours a day. Yet, when we got on a plane and flew into the interior a couple of hours away, it seemed as if the construction activity was booming faster than I had ever seen it.

A two-part question. What do you see going on in China? Most pundits who go there visit the big cities. Is it different in the countryside? Secondly, what is the infrastructure like to handle the need to both import and export, mainly in China, but is it creating problems globally?

Chip Goodyear: In terms of activities in the rural regions relative to the urban regions, or the interior regions. The government's policy is to try to continue to move people out of the rural environment into the urban environment, but they do not want everybody ending up on the east coast. The next region for development, which is

underway, is what they call the interior, which I would say is an area of 400 kilometres from the coast and then inland. It is not the far west.

Just as you indicated, if you go out there, you can find development that you would not believe could have happened in that environment. If you think it is just Shanghai and Beijing, you are kidding yourself. We see it very much in the interior environment also. The leaders in those areas very much want to build those urban environments up, and that is consistent with central government. You can get on multi-lane highways that look like anything you have seen in the western world, even in interior places and cities you have never heard of. That is very consistent with the policy and I would not see that as a big surprise.

The GDP number that came out in the first quarter was greater than people thought at 9.5%. There were some worrying trends there. Property was up 22% growth, and some of the industries they were trying to control also expanded probably more than they expected. It depends where that takes place. Simply looking at a one number would not give you the whole picture.

In terms of infrastructure causing an issue. It depends who your customers are in China. If you are small, the government is very much trying to go after the opportunistic spot sellers of products. In the iron ore business, that is going to be the Indian producers for the most part.

If you take a look at the price received by the supplier, the Australian producers get the lowest landed price, the Brazilians are next, and the Indians are the highest. The government sees that as putting a lot of pressure on pricing overall. What they are doing through import restrictions and otherwise, and infrastructure restrictions, is to give preference to the large companies that they believe are sustainable in the long run.

You will see different reports of infrastructure limitations based on the companies that are involved in the supply chain.

Around the world, I would say the biggest issues right now are probably around port activity in Australia. There are a number of coal terminals in Queensland. We own our own facility there, and, at a guess, there are probably five or six ships waiting to load at any one time.

The adjacent facility in the same port of Dalrymple Bay, has about 50 or 60 ships waiting to load, and may be a three week wait to load to the ship. If you think about the

ability to move products, it is not the ships as much as it is the port activities and the rail systems that supply those ports. That is probably the biggest issue that is around the world, and that has had an effect.

Question: Could you share your thoughts with us on the power situation in China? And the implications of that for the outlook for thermal coal and also uranium?

Chip Goodyear: Everybody knows that power in China is like power in the rest of the world, and it is an issue. Whether it is the US or Europe, it is certainly an issue and China is no different in that.

But I would say in a broad sense, China's approach to energy is much more rational than you see in the western world. When I go there, because we are in the coal business and the LNG business, we have conversations about their demand, and they will say that they will use gas - pipeline gas that comes from the west/east pipeline, they use coal because that is an important and cheap source of power and is available to them, and they will move into nuclear. They have a programme to do exactly that.

When I went to the World Energy Congress which was a much more global view of energy, there is no rational energy policy that you can see in almost any other part of the world. One of the issues of that is that, at least in China, they do not put it to a vote, and they can make a rational decision about what they think is the right thing to do, and can implement. Yet, in the rest of the world, it is a question of greenhouse gases, it is a question of access to the resource, and a question of nuclear issues around uranium.

In China, in particular, they are very actively building the power plants to meet the need. They believe they will solve that problem in 2006, and at that point in time you will have adequate power. My personal view is I am not sure that is right, because those intensity curves that we looked at, I am not sure they have estimated it correctly in terms of how rapidly that energy demand will grow in the early stages of GDP growth. I think they may find that a little bit of a challenge, but in any case they are working very hard on it.

I would say that the issues around energy and coal are infrastructure. The coal is in one place, the power plants are in another. Being able to move product through a challenged infrastructure system has an impact on that particular marketplace. It offers the opportunity to import coal into China, which we do from time to time, given to the power plants on the coast. Over time, however, I would expect that stuff to work itself out in some way. It is more of a short term issue, but I am not sure it is a 2006 issue.

Question: What is your perspective on the evolution of property rates, and rates of contract launch in respect to base line metal development there?

Chip Goodyear: That is probably more specific than I can answer. One of the things that is always a challenge is to make sure that you do not necessarily lose your own perception of what is a contract and what are rights and so on of a western perspective applied in China. Talk about how contracts are constructed and how they are put together, and if you go in with a western view of legal systems and how things work, you are going to come away probably disappointed with the end product that you have. You have to have experience on how to structure contracts to provide incentives for both parties.

We did a 25-year contract, but the price is renegotiated every year, and there are incentives in the contract for that product. That works, but you need to create those incentives.

BHP Billiton's first product in China was in 1891 for 14 tonnes of lead. It takes a long time to understand the process. You can create a system in a structure that makes sense for you, but you need to appreciate how business is done there.

Question: With the China story being so strong and so obvious to everybody, how do you see capex discipline going forward? It must be tempting to scale up capex aggressively in order to meet the demands out of China and India. I am talking about the balance between paying a dividend and scaling up capex. Could you address that issue, both when it comes to the industry in general and BHP Billiton?

Chip Goodyear: I will look at it in a couple of ways. The large diversified companies in the industry are certainly finding ways to try to meet that demand. If we look at our industry infrastructure, we would much rather be the supplier to that customer than not supply the customer and allow someone else to start a new mine or a greenfield activity which then stayed in the marketplace for 20 years.

Iron ore is a good example where you have seen Rio Tinto, CVRD and ourselves grow very rapidly and announce projects to try to meet that demand. That will increase capital costs along the way, but we also see it as being a good decision for a business that we see as continuing long term.

You have to be sure you don't go crazy, however. As I mentioned to you, we don't look at today's price for nickel, copper, iron ore or anything else, and just use that for the next 30 years. I don't think anybody who is interested in the industry enough who sees

these cycles come and go, does that. But, we do recognise there is an obligation to meet customer demand and that it is going to take capital to do that. I think it is good business because we are maximising long term NPV as opposed to thinking about simply the short term.

It is different as you get down into companies that are in a smaller part of the segment of the marketplace in some way. If you are in one product, you have all the money in the wrong part of the cycle. When prices fly up, there is a temptation not to give it back to shareholders. The temptation is to build projects and then that oversupplies the market, you get to a low price, no money, and the next cycle comes and you are back into the same thing again. That leads to inefficiencies, but that is something you need to be aware of.

The next is the entrepreneurs. They will come around and say 'copper is going to be \$2 forever, and gee, just give me some money to build this project'. They are not making money by the production of the product; they are making money by the promotion of the deal. That is certainly up there, but, our standing practice to that is that the lead times are long, the environmental issues are more significant, communities are more sensitive, people are less available, this industry has just not attracted people over the last generation. Labour is very short, and you are not going to let a guy who has just come out of college, design you a \$1.5 million facility. In any case, those things will extend the period of time in which the industry can react to that, so it is different at different levels.

We do very much the same at BHP Billiton. In other words, we are going to put money to work in businesses that we see are sustainable to meet customer demand, but obviously we are not basing our decisions on the kind of market prices you see today.