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## Questions and Answers

**BHP Billiton Ltd**

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## Questions and Answers

*These questions were answered at our 2013 Annual General Meeting of BHP Billiton Limited. The answers below provide more detailed responses along with references to supporting material for interested stakeholders. We believe it is beneficial and important to listen to all questions on our performance and we welcome the opportunity to engage transparently on these matters.*

### 1. Climate Change

**BHP Billiton has a long history of fossil fuel extraction, which places it as one of the major corporate contributors to carbon emissions and climate change historically. Estimates of the cost of climate change to the global economy, such as the Stern Review, are in the trillions of dollars. Is BHP Billiton factoring in the cost of climate change impact compensation claims into its business planning? Will BHP Billiton be setting up a fund, similar to the asbestos industry, to ensure it's not bankrupted by its liability for extreme weather events such as droughts, floods, fires and storms?**

Climate change is a complex global challenge and there are many views on it, but we agree with the mainstream science that greenhouse gas emissions from human activities are impacting the climate and that these emissions need to decline. This has been a key priority for the Group for the last 20 years. For over a decade we have reported to shareholders the potential risks to our business from climate change.

BHP Billiton has been monitoring, managing and reporting greenhouse gas emissions since 1996. We first published greenhouse gas data in 1996, covering the period from 1992 to 1995. Since then we have reported on our performance annually in our Sustainability Reports. These reports have been subject to independent assurance since 1998. We remain committed to transparent public reporting of our greenhouse gas emissions.

Internally, between 2007 and 2012, we have invested US\$430 million in greenhouse gas emission and energy efficiency improvements. Since 2007, we have achieved a 16 per cent reduction in greenhouse gas intensity of our production, compared with an internal target of six per cent. We have also been applying an internal price on carbon in our investment decisions for over a decade.

We believe that the diversity of our portfolio, combined with actions to reduce emissions, will ensure the value of our assets is robust under a range of climate scenarios.

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### **What is the quantum value of assets held by BHP Billiton that would be at risk of devaluation should a carbon bubble scenario come to fruition?**

We recognise that climate change, and the various policy and market responses to it, are key strategic risks to our business. For the last decade we have included an internal price on carbon in our investment decisions, and also understand that a price on carbon emissions is an important part of an effective policy response. Markets are also constantly evolving as we have seen with the recent shift in the US from coal to gas, which has been driven by new technology and processes. Accordingly, we have continued to actively manage our portfolio to meet these new challenges and respond to technological advances, as we have done for over a century.

We are aware of the risks ahead of us and have a history of being able to respond to changing circumstances, which we have demonstrated. One recent example is our investment decision where we prioritised gas investment over thermal coal amongst our energy businesses. In addition, the potash option that we recently developed is expected to benefit us in a resource-constrained world. This Company is well-positioned for a future that no one can define in specific terms. We have a unique, diversified portfolio. We test the robustness of this portfolio against a range of climate scenarios. This analysis highlights the value of our diversity in terms of commodities. We believe portfolio diversification brings great strength and resilience to BHP Billiton's asset base and long term value.

### **What has caused the Group's change of position regarding climate change? Could the Board please explain how can we trust your assurance that it's able to manage systemic climate risk when the Board's position on the issue is erratic and at odds with its own stated analysis of climate and carbon markets? Particularly, there isn't an objective representation such as that which could be provided by Ian Dunlop.**

We have always said that a price on carbon is appropriate. Marius Kloppers' comments in September 2010 reflected the Board-endorsed position. We established six emissions reduction policy principles, and our view was that the carbon tax as implemented by the Australian Government didn't fully meet those principles. We haven't changed our position.

We have already started conversations with the new Australian government and are looking at what we can do with the proposed direct action measure to achieve a genuine reduction in carbon emissions without impacting Australia's long-term prosperity. We would argue that CO<sub>2</sub> reductions in Australia should not lead to an increase in CO<sub>2</sub> emissions elsewhere and should allow for Australia to maintain a strong economy. These discussions are very constructive, but they have a long way to run. We have to look at the science of what is appropriate for the atmosphere and what we can achieve while still fostering a strong economy that supports the competitiveness of Australia.

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**In October a group of 70 major international investors addressed a letter to BHP Billiton, and other fossil fuel extractors, calling on the Company to assess and report on the exposure to the carbon bubble, and the possibility that fossil fuel reserves may become stranded assets. Will BHP Billiton adhere to the request from major shareholders to assess and report on the impacts of unburnable carbon on the value of our Company?**

We responded to the letter referenced, which was a standard letter sent to a number of companies. Our response reiterated our commitment to our strategy and what we have previously disclosed in our Sustainability Reports. As we have said before, we have been evaluating climate change impacts for 20 years, and we believe our portfolio is robust under extreme climate change scenarios.

**I would wholeheartedly agree that BHP Billiton has shown great leadership in relation to managing sustainability and climate change, and you are undoubtedly best in class in this area, and I applaud you for the leadership that you've shown in this respect. However, I noted that Malini Mehra wrote an article about the lack of leadership, and the need for more action in your Company, and I found that quite curious. Where and with whom on the Board do the requisite skills to fully address BHP Billiton's systemic business risks relating to climate change sit?**

Malini Mehra is a member of our Forum on Corporate Responsibility. She is not an executive in the Group.

We established the Forum on Corporate Responsibility in 1999. The Forum members are appointed because they are leaders in their fields. Through robust debate between differing views the Forum has been a valuable input to the development of our policy positions and standards. Our objective is to ensure that we always encourage independent assessment and input, listen to the concerns raised by Forum members and ensure that they receive appropriate attention at a Board and senior management level. We value their opinions. We look forward to further discussions within the Forum on Corporate Responsibility on the wide range of important sustainability issues it considers.

The Board has been directly engaged in climate change issues for many years, and debates, assesses and addresses the material risks facing BHP Billiton, including climate change. In particular, the Board's Sustainability and Risk and Audit Committees spend considerable time considering climate change and the actions required to manage its implications. Your Directors approach these issues not only from a BHP Billiton perspective – they also draw on their deep experience of a wide range of Health, Safety, Environment and Community issues, including climate change from their other roles, past and present. For example John Schubert, Chairman of our Sustainability Committee, is the Chairman of the Great Barrier Reef Foundation, and has been for 10 years.

**Is BHP Billiton aware of methane and fugitive emissions and how are you dealing with it?**

We are aware of this issue and actively monitor and where possible reduce these emissions. We take the management of climate change risks – to our operations, our portfolio and to social and economic development – extremely seriously. BHP Billiton firmly believes it has the strategic and robust risk management capability it needs to successfully navigate and overcome the varied risks posed by climate change. As a corporation, our goal is to reduce our greenhouse gas emissions and increase the energy efficiency of our operations.

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BHP Billiton has been monitoring, managing and reporting greenhouse gas emissions since 1996. Our businesses are required to report their fugitive emissions and as with all data, work to continuously improve its accuracy. We comply with all permitting and monitoring regulations related to our emissions sources.

In 2013 our Petroleum business introduced its North America Shale Operating Principles. These principles are the foundation of our Onshore US business. They shape everything BHP Billiton Petroleum does and serve as the business' pledge to local communities. Our fourth Operating Principle is that we will minimise air emissions from our operations, including by conducting our operations in a manner that minimises flaring and venting, using alternative or cleaner-fuel source technologies and having one of the most modern and operationally efficient drilling fleets in the onshore industry. In addition, in the conventional business we have a number of projects underway to reduce greenhouse gas emissions, most significantly in terms of fugitive emissions from our offshore drilling rigs.

### **Why does BHP Billiton not want to invest in renewables such as solar and wind?**

We are a natural resources company. We employ the world's best geologists, the world's best mining engineers, the world's best petroleum engineers. This is evident from *Our Charter*. We believe there are strong returns by focussing our efforts in the mineral and petroleum sectors supported by the world's best petroleum and mining engineers. We do not have the requisite skill set to enter the renewables sector and there are many well established companies better placed to compete in that field.

### **Have the climate specialists on the Board and in the executive read the latest IPCC report, and have there been any adjustments to the latest science that, as shareholders, we need to know about?**

The IPCC's latest report (their fifth) states that the warming of the climate system is clear, and scientists are increasingly certain that most of the warming since the 1950s has been caused by human activity. The IPCC report notes that limiting climate change will require substantial and sustained reduction of greenhouse gas emissions. That has been consistent throughout all the IPCC reports.

Our position on climate change is clear and very well established over many years. BHP Billiton accepts the science of climate change and has done so for nearly two decades. Matters relevant to climate change have received extensive consideration at the BHP Billiton Board, management and organisational level for many years. Our approach to corporate planning and associated internal asset valuation and portfolio management processes ensure that risks such as carbon constraints are identified, assessed and appropriately addressed through investment and divestment decisions. Portfolio diversification is something we actively manage. We believe it brings great strength and resilience to BHP Billiton's asset base and long term value.

## 2. IndoMet Coal, Indonesia

### **Why is the company looking at exposing itself to financial risk associated with the environmental impacts of the IndoMet Coal Project in Kalimantan?**

This is an area that has had a lot of discussion, and which is an important issue for us. We have been consistent with our response over the last few years. We have previously advised that we would be progressing some elements of our Indonesian coal project, and that we would not be sanctioning a major project in Kalimantan during 2013. During 2013 we progressed a small project, which is not yet operational, and which will not produce any coal in 2013. This included some development works around roads and loading facilities, and employee accommodation, and some other preparatory work consistent with a very small mine.

We do not apply different standards in different countries. We apply the same approach with each project in each country - we will only proceed with development in a way that is consistent with *Our Charter*.

## 3. Shareholder Returns

### **Why does BHP Billiton have US\$30 billion in debts and when will we see increased dividends or a share buyback?**

Our priorities for cashflow have remained unchanged for more than a decade. Our gearing ratio increased modestly in the last year, by about three percentage points. We have continued to invest in future growth in high margin return projects and businesses. We're confident about the investments that we have made. They are strong investments for long-term shareholders. Against that backdrop, the net debt to underlying EBITDA is a ratio of 1.0 times, which indicates that the Group's capital structure also remains strong. We retained our solid 'A' credit rating, which is an independent verification of solid balance sheet, ability to pay and good opportunities and potential for the future. It is this robust financial position and our projected free cashflow growth that enabled us to increase our full year dividend by four per cent to US\$1.16 this year. Our dividends increased by compound annual growth rate of 14 per cent in Australian dollars over the last 10 years.

We have maintained our progressive base dividend and have supplemented it with other forms of capital management over the years. We have returned US\$59 billion to shareholders in dividends and buybacks, which is as much as our total peer group combined. As free cashflow grows we will determine the most appropriate way to return that excess capital to shareholders. We will continually review our capital structure to ensure that we continue to adequately balance our capital management strategy and our priorities for cash flow.

### **When will shareholders see more value?**

We focus on operating performance and value creation through disciplined capital allocation. This has allowed us to deliver excellent financial results over many years. Over the past 10 years we have delivered: consistent growth in our high margin businesses; a compound annual growth rate of 5 per cent in our production; an average EBIT margin of 41 per cent; a compound annual growth rate of 14 per cent in our dividend in Australian dollars; and \$59 billion of capital back to our shareholders. Over that same decade, we generated a total shareholder return (TSR) of 358 per cent against an ASX200 TSR of 145 per cent. We have a proven strategy, a

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high quality and diverse asset portfolio, a strong balance sheet and talent at all levels of the organisation. We remain confident in the outlook for your business.

### 4. Franking Credits

**Note 9 discloses that you've got a US\$10 billion pool of franking credits belonging to shareholders, and it's my understanding that the dual listing arrangement is restricting your ability to distribute those franking credits because of difficulty in finding a way that's fair to the Billiton shareholders. So dismantling the dual listed structure would achieve some significant cost savings, a much reduced regulatory burden, and most importantly would facilitate the effective use of the franking credit potential. I wonder if the Board has been considering that, or similar processes, because the franking credits would be sufficient to frank a dividend of about \$8 a share, on my calculation. The Australian Shareholders Association (ASA) believes that the Board has an obligation to reduce those franking credits, whether it's by introducing a dividend reinvestment scheme to allow greater distribution, or through restricting capital expenditure.**

This is an area that has received the attention of our Board over the years. We understand that franking credits are important to many of our shareholders, particularly in the Australian market. However, as a global company with diverse shareholders, our focus includes broader capital management priorities that maximise value for all investors. Against that backdrop, as an organisation we have delivered a long history of strong performance on a number of different metrics. The merger between BHP and Billiton is now 12 years old, and while it is difficult to analyse the individual parts over the passage of time, what is clear is that after the merger, BHP Billiton emerged as a robust company that has outperformed all resource peers and the ASX 200 and the FTSE 100 indices. We have a high quality and diverse asset portfolio, a strong balance sheet and are an organisation that has run very strongly for that period of time. These attributes are all points of differentiation between us and our peers.

In relation to the introduction of a Dividend Reinvestment Plan (DRP), this is an area that is always of interest, particularly to retail shareholders and has therefore been under constant review by your Board. So while we have not offered a DRP for some time we regularly review our capital structure, including whether we should reintroduce a DRP.

### 5. Petroleum

**Your developed reserves of oil and condensate in Australia are down to just four years production, and in the US to five and a half years production, and yet you've cut the exploration and development costs by one and a half billion dollars, per the Annual Report. Does this mean that you've given up on finding more oil and condensate in the US and Australia, and can you provide any comfort to shareholders that your cuts on exploration will not curtail future earnings in the petroleum section?**

We have conducted an extensive review of the quality of the reserves and potential reserves within our four pillars, and possible fifth pillar of potash. In most cases, we believe that we are strongly positioned relative to potential reserves we might discover elsewhere, but we have been clear that we do need to add reserves in the medium to long term in both copper and parts of the petroleum portfolio. Against that backdrop, while we are reducing our overall exploration expenditure, we have increased our focus on those two key areas. Accordingly, we maintain a



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very strong commitment to the future of our petroleum business, both in the conventional sense and in our new US Onshore business.

**You recently announced to the stock exchange that you were withdrawing from the drilling operations of Otto Energy in the Philippines, and the shares of Otto dropped 60 per cent as a result of that announcement. Are you privy to information that had any bearing on you withdrawing your operations from the Philippines?**

We had access to the same data and information. BHP Billiton has been reassessing its global portfolio of assets with the aim of simplification and a sharper strategic focus. We determined as part of this process that our exploration program in the Philippines was not a strategic fit and concluded that we would cease investing in exploration in the Philippines. In no way does this reflect our assessment of the business environment in the Philippines or the potential materiality of the two prospective blocks. We acknowledge all of the time and effort invested in these projects by our partners and all levels of government in the Philippines.

**My question is in relation to BHP Billiton's expansion to hydraulic fracturing, in particular in relation to shale in the US and also in relation to a lawsuit you were involved in where there was a direct correlation between earthquake activity and the storage of fracking fluid. Is BHP Billiton aware of the environmental and health concerns related to hydraulic fracturing, and what are you intending to do?**

The technology used to extract shale oil and gas has existed for over 50 years. The associated environmental issues and exposures are pretty well understood. There is always a learning process, but this is a transparent and regulated sector in an environmentally aware country, with both US Federal and State regulators overseeing the industry. The sector has grown quickly and there has been a dramatic shift in ownership, from entrepreneurs and smaller companies to larger companies. This shift should lead to more capital behind the industry and improved technology, as technical aspects continue to improve supported by larger companies and more global companies.

The issues facing the industry are being managed effectively to the satisfaction of the stakeholders in the communities and the regulators that we're involved in. The track record of the industry over the last several years, with over a million wells developed, speaks for itself.

In the very small number of cases where problems occurred, the industry knows why and has responded promptly. Strategies and technologies have been implemented to ensure they do not occur in the future. We believe that the operating practices that we are following and the technology we are using is safe and continues to improve every day.

## 6. Potash

**Is there going to be some more significant investment in the potash reserves, as the market probably is anticipating? If so, when, how much, and what is the time scale?**

As part of our diversification strategy, we are well positioned in commodities that are critical to the early and middle stages of the economic development cycle. Potash provides us with exposure to a commodity where demand is linked to the growing middle class in emerging economies and their changing food consumption patterns.

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At Jansen, we have identified a high quality potash resource – capable of sustaining production of 10 million tonnes per annum for decades. We are investing US\$2.6 billion to complete the excavation of two shafts and the installation of essential infrastructure. This investment, of around US\$800 million per annum, is approximately 5 per cent of this year's capital and exploration expenditure budget. It will create tangible value for our shareholders by providing us with a substantially de-risked project and the flexibility and scope to time our entrance to meet market demand. We will continue to pursue the development path that maximises value. We are also considering the introduction of partners, consistent with our approach for many of our other major operations. We firmly believe Jansen is a high quality project capable of delivering strong double digit returns, over decades.

### 7. Nickel

**You gave a chart of the brilliant performances of the divisions within BHP Billiton. However, the performances of the nickel assets have not been very good. Would it be a possibility if a suitable offering was made to the Board that the Board can consider hiving off some or all of the nickel assets which have been underperforming? If so, when and how?**

Consistent with our commitment to simplify the portfolio over time, we will continue to selectively pursue asset divestment opportunities. As always, we will continue to do this with a firm focus on value and on maintaining the right balance of diversification in our portfolio. This diversified resource base not only underpins and differentiates our business, but also assists in periods of volatility. Accordingly, it is relevant to note that while our nickel operations have more recently faced a challenging environment of weak prices and a strong Australian dollar, they have been very strong contributors to the portfolio in the past. So as with all of our businesses, our nickel assets will have to continue to earn their position in our portfolio by focusing on the basics – safety, volume and costs – to increase cash flow.

### 8. Roxby Downs, Australia

**What work is going on at Roxby Downs, and what does the future hold for Roxby Downs?**

As most of you know, Roxby Downs is the town closest to our Olympic Dam operation. Most of the people who work in the operation live in Roxby Downs. We still have a large operation there, which is an important part of our portfolio. We continue to work on the potential expansion of Olympic Dam and on improving our unit costs.

### 9. Safety

**You showed a slide showing the decline in injury frequency rates. Have you got some information to show us on benchmarking against your peers? I notice that there has been a gradual decline in the improvement of injury rates, and I have anecdotal comments from a number of people working within the industry and for BHP Billiton that there's a lot of ticking of boxes in relation to management of safety. That, in my opinion, is not the best way of improving the safety performance.**

This is a crucial operating imperative, and the most fundamentally important item in *Our Charter*. We cannot overstate the importance of safety to us. The management team reiterate the importance, every day, of people going home safely after work. We have made good progress, but here is more work to be done.

The recordable injury frequency rate is one of many measures that we consider. This information should not be considered in isolation. Even though the rate of progress is slowing, the severity of the incidents is continuing to decline. This means that the chances of such incidents translating through to something much more serious are lessening. Part of the reason is due to our focus on material risk management and implementing appropriate controls. In addition management continues to focus on the importance of ensuring everyone goes home safely.

### 10. Project Management

**Over recent years, of course, there has been a tremendous investment in new projects. As far as BHP Billiton is concerned, some of them have been very successful in the return on value. Others have been very unsuccessful. What actions are you taking to ensure that the management of projects is properly managed by experienced and well-trained practitioners?**

Our track record on our investment projects is strong. Since 2001 we have completed over 70 major projects adding up to over US\$50 billion in investments. The majority of those projects have been completed on time, on budget and in line with the value calculations that we originally expected. We also benchmark our project execution externally and we have performed well within our sector. However, we see scope for improvement when considering the performance of other sectors and we continue to review our approach to project delivery and how we train project engineers. We do have a slightly more decentralised model, but there is a very strong central oversight, led by our President, HSEC, Marketing & Technology, Mike Henry. That oversight drives high standards and ensures we learn the lessons from the projects where we don't perform at a level we think is satisfactory. Overall, we are starting to close some of the differences in performance between the mining sector – where we do very well – and other sectors.

### 11. Worsley Alumina, Australia

**Where does the Efficiency and Growth (E&G) project at Worsley stand? How does the current estimated final cost relate to the original approval and investment in that project?**

While the Worsley project did face some initial challenges, we have since then effectively budgeted and met that budget quite successfully. The expansion project achieved first

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production in March 2012 and continued to ramp-up throughout the 2013 financial year, achieving record production for the asset.

### 12. Non-Executive Director Fees and Executive Remuneration

#### **Is there going to be another freeze in Non-executive Director fees for 2014?**

Non-executive Director fees have been unchanged since July 2011 and will be at this frozen level at least until July 2014.

#### **I want to question all the new arrangements for Mr Mackenzie. In particular, why does BHP Billiton retain pension payouts, at 25 per cent of base fixed salary?**

We benchmark remuneration around the world, not just in Australia. We did reduce the total structure for Andrew Mackenzie. We also reduced the pension component from 40 per cent to 25 per cent.

The amounts reported in the Group's 2013 Remuneration Report as remuneration are the Company's contributions to pension accounts (UK terminology) or superannuation accounts (Australian terminology) for individual GMC members. All current GMC members are entitled to pension / superannuation contributions under defined contribution plans. No GMC members participate in defined benefit pension plans. The pension / superannuation contributions for all GMC members are 25% of base salary. They are given a choice of funding vehicles: a Defined Contribution Plan, an unfunded Retirement Savings Plan, an International Retirement Plan or a cash payment in lieu.

In a similar manner to base salaries, pension / superannuation contributions are benchmarked to comparable roles in global companies of similar global complexity, size, reach and industry. This includes major companies in different countries throughout the world, including Australia, the UK and the US. Specifically in relation to Australia, we also ensure that pension / superannuation contributions are fully taken into account in the benchmarking of total remuneration.

It is correct that in the Australian market pension contributions (or superannuation contributions) have reduced in recent years as a consequence of the Australian-specific superannuation contribution and taxation rules. However, in other jurisdictions, such as the UK and the US where the same rules do not apply, pension contributions remain a feature of remuneration arrangements, and in some instances at rates well above those you would be familiar with in Australia.

Accordingly, the Remuneration Committee considers that a 25% rate of pension / superannuation contribution is a globally competitive rate, without being excessive. This conclusion was supported by the Committee's independent adviser, Kepler Associates.

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**I have five aspects that I would like to comment on in relation to remuneration:**

- (1) The ASA is opposed to any bonus on long-term schemes where there has been negative TSR.**
- (2) The profits, determining entitlement to a significant proportion of the short-term incentive – are adjusted for foreign exchange movement, commodity prices and exceptional items. Those profits aren't disclosed, but we don't, as shareholders, receive dividends based on such adjusted profits.**
- (3) The ASA's policy is that incentive payments should generally be equal to base salary for superior performance. Overall, the planned 2014 incentives may potentially equate to over seven times base salary and, in 2012/13, cost close to four times base salary, which we believe to be an unacceptably high level.**
- (4) We disagree with the dividend equivalent payment. Shareholders don't get dividends before they buy shares, and we don't see why executives should be entitled to dividends on unvested shares.**
- (5) We believe the remuneration outcomes in respect of the 2013 year are excessive, and aggravated by the discount given to the market price for BHP Billiton shares when allocating the maximum number applicable to a year's incentive.**

**I would like to ask BHP Billiton to consider these aspects of remuneration policy next year.**

Our policy is to align compensation and performance, in areas where management can make a difference. Therefore, we try to focus on those elements of the business where management have control, can apply their energy, can apply their focus and make a difference. A critical requirement is that performance must relate to our performance compared to our peers, because this is a cyclical industry and we want to be able to attract and retain the very best people for our business. These are not people who can, necessarily, go to other businesses that are unrelated or we can recruit from other businesses.

Our job is to ensure that BHP Billiton represents the best value for those shareholders who want to invest, long term, in this sector. It is for this reason we have a relative total shareholder return hurdle.

We as a Board, John Buchanan, as chairman of the Remuneration Committee, and the Remuneration Committee itself, have the discretion to reduce downwards when the outcome of relative TSR is deemed to be inconsistent or misaligned with shareholder value creation. For example, we determined to exercise this discretion and reduced the vested shares for the 2008 Long-Term Incentive Plan (LTIP), because they vested at 100 per cent, down by 35 per cent.

In relation to Short-Term Incentive (STI) adjustments, we remove the impacts of price and foreign exchange in our bonus structure for very similar reasons. This ensures that what management focuses on are those elements and those metrics that they can influence. Our view is that focusing on the elements which management can influence (safety, production volumes and costs) enables an alignment over the long term with the interests of our shareholders.

Movements in prices and foreign exchange can be very volatile and significant, and can overwhelm those elements that management can directly influence. We have taken a very consistent approach over the years. For example, where there are significant profits on the sale

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of assets, which are exceptional items, those are excluded because they are not part of the targets that are set, and to include them would inflate the STI outcome. We are consistent in application whether the adjustment is an upward adjustment or a downward adjustment – such adjustments are not included.

However, where there is a clear link between an exceptional item and management decisions in the STI period, we do take that into account. You will recall in respect of the Fayetteville impairment of a year ago two executives received zero STI, and others on the GMC at the time of that decision received zero STI on the profit after tax component, due to that decision.

We reviewed our long-term incentives recently, to see whether there were better ways to provide those incentives. The conclusion we reached at that time was that a five year performance period and relative TSR performance were most appropriate, have worked well and have allowed us to directly link the performance of the Group over time with the reward to individuals, allowing us to grow the businesses and attract and retain outstanding people in the Group as well.

We do not pay the dividend equivalent payments until the relevant award has vested. There are no dividends paid on unvested awards during the vesting period, dividends are accrued and only paid on shares if the awards vest.

Our remuneration policy is to structure remuneration having regard to the market and to be positioned to be competitive so that we can attract and retain the best talent to run the Group well. Our executives manage large, complex, global businesses, which requires strong leadership, exceptional performance and experience.

**What is in the current incentive plan that ties rewards of executives and directors to the impacts on the ground, particularly over the longer term, recognising that most people who are in the industry work at a site for a period of time, but the communities who live there may do so forever. How is BHP Billiton rewarding behaviours that provide a better outcome for mining-affected communities?**

There is the balance of being able to attract the right people and being able to measure their impact on the business as well. Our long-term incentive plan is a five-year plan. Our executives have a rolling series of five-year rewards, so their perspective is not just a single five-year period, but overlapping rolling periods of five years.

The discretion which sits with the Remuneration Committee means that if we feel there is a disconnect with performance and outcomes, the Committee has the discretion to reduce vesting outcomes. This discretion is an important safeguard which helps to ensure what we believe to be a genuinely long-term approach by management.

In addition, 20 per cent of the short-term incentive is tested over a two-year period for health, safety, environmental and community aspects.

We strive to make sure that we reward management on a consistent basis, that it is long-term more than short-term, and that it is genuine in terms of the value it creates for stakeholders over a longer period.

### 13. David Crawford Independence

**Mr Crawford has been a director for 19 years and he is seeking re-election for another term. There's a perception that non-executives lose their independence from management after such a long period in office. I was wondering if he would like to comment on that.**

We always want a good mix of tenure on the Board. We have three members with over nine years of tenure. We have four with less than three years of tenure, and six in the three to eight year range. Such a mix provides a blend of corporate memory - new thinking and fresh perspectives, combined with history and experience. We spend time on this to ensure that the tenure mix remains appropriate. David's experience is particularly valuable. David brings deep financial expertise to his position as well as significant corporate memory. He has always demonstrated a strong sense of independent mind, thought and action in his approach

David served for many years as the chairman of the Risk and Audit Committee. More recently, we appointed Lindsay Maxsted to that position, and now David is chairman of the Finance Committee. During a period when the financial system was volatile, when the markets were volatile, when commodity markets were cyclical and volatile, it was reassuring to have someone of David's skill and independence at the Board and chairing the Finance Committee. David makes an outstanding contribution to the work of the Board and the committees that he's on. He is respected by the Board and by management, as a steady hand and a neutral and independent thinker, and I want to emphasise that all members of the Board and management are very pleased that David is standing for re-election at this meeting.