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BHP's economic and commodity outlook

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We launched Prospects one year ago to share our distinctive view of the world.

We're pleased our blogs have sparked discussion and debate with our stakeholders.

We've provided our insights and perspectives on economic, social and market trends important to our business, from renewables, electric vehicles to the Indian growth story.

Our Marketing team's detailed understanding and analysis of the forces driving commodity usage help us develop a vision of what the future might look like, and the resources the world will need.

And we're sharing more of this outlook in our economic and commodity update for FY2017.

Six months ago, in advance of our half yearly results for the 2017 financial year, there was a great deal of uncertainty about how the year would unfold.

Trade-suppressing policies were being pursued. Geopolitical risks were evident. Policy formation in some major economies was looking increasingly unpredictable.

While many policy and geopolitical challenges remain, happily the global economy has been resilient to this backdrop, and has performed well.

The result has been a solid price performance by our key commodities.

While uncertainties remain, and prices are expected to remain volatile, we are feeling more confident in our expectation that we have left the cycle trough behind us.

For the year ahead, we assess that the directional risk to prices across our diversified portfolio is roughly balanced. Steel making raw materials are expected to continue performing well. The upside and

downside risks for oil and copper price risks are considered to be roughly equal, with OPEC strategy with respect to CY2018 production likely to be the key swing factor for the oil outlook.

Looking beyond the immediate picture, in the medium-term, we see the need for additional supply to be induced across most of the portfolio.

In many cases, this could lead to higher-cost supply entering the cost curve.

This projected steepening of cost curves could reward disciplined operators with high quality assets.

On the demand side, we continue to see emerging Asia as an opportunity rich region, with China, India and the global impact of China's Belt and Road initiative all expected to provide additional demand for our products.

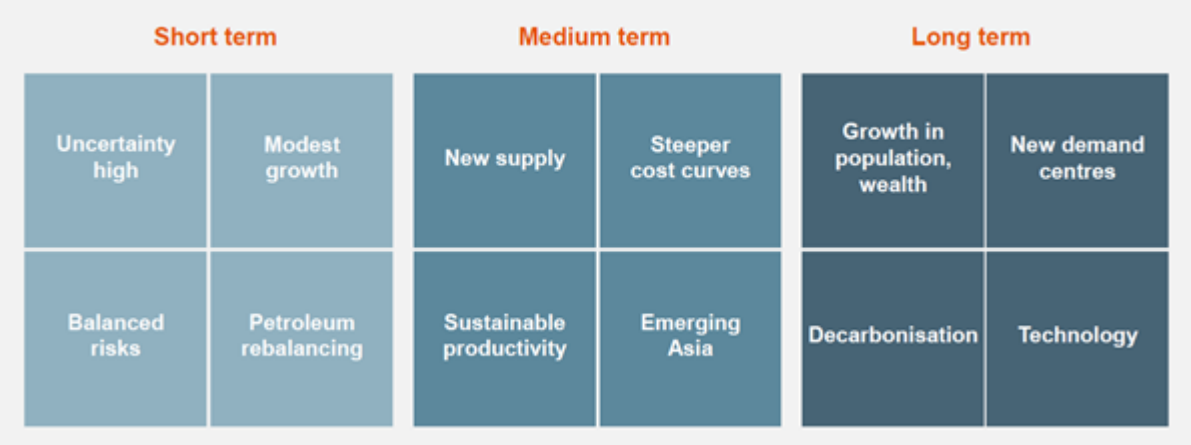
Looking even further ahead, the basic elements of our positive long-term view remain in place.

Population growth and rising living standards are expected to continue to drive demand for energy, metals and fertilisers for decades to come.

New demand centres will emerge where the twin levers of industrialisation and urbanisation are still developing today.

Technology will advance, creating both opportunities and threats, and climate change policy, technology and market responses will evolve.

Against that backdrop, we are confident we have the right assets in the right commodities, with attractive optionality, and with demand diversified by end-use sector and geography.



Global economic growth

World economic growth is likely to be close to the top of the recent range of 3 per cent to 3½ per cent in real terms in the 2017 calendar year, up from a little under 3¼ per cent in calendar 2016. Nominal growth rates have also increased, partly reflecting a welcome exit from the deflationary risks of the recent past.

The recovery of commodity prices has enabled large parts of the emerging world, and resource rich regions in the developed world, to stabilize. An encouraging lift in international trade has occurred in the year to date despite ongoing political uncertainty. This has helped the manufacturing export economies of Europe and North Asia return to healthier growth trajectories. Nonetheless, the importance of continued advocacy for free trade and open markets remains critical.

Financial conditions have tightened modestly, led by higher policy interest rates in the United States. Measures of financial volatility have receded to low levels. The US dollar has softened from six months ago against the currencies of both commodity and manufacturing export nations. The prospective unwinding of unconventional monetary policy in the United States is a key uncertainty.

Chinese economic growth

China's economic growth is expected to slow modestly in the coming years, following a robust performance in FY2017. China is expected to remain the largest incremental contributor to global industrial value-added through the 2020s even as its growth rates mature.

For FY2018 specifically, we expect to see a cooling of growth rates in the housing and automobile markets in combination with a continuation of strength in infrastructure backed by expansionary fiscal policy.

A positive development in the recent half year has been the improvement in Chinese manufactured exports, with the notable exception of its trade in steel.

China's policymakers are anticipated to continue to seek a balance between the pursuit of reform and the maintenance of macroeconomic and financial stability. We expect a continuation of current efforts to address excess capacity; further encouragement for the financial system to focus on supporting the real economy; and additional measures aimed at improving the balance sheet health of over-indebted sectors, including local government.

Over the longer term, our view remains that China's economic growth rate should moderate as the working age population falls and the capital stock matures. China's economic structure is expected to continue to rebalance from industry to services and growth drivers will shift from investment and exports towards consumption.

OECD and Indian economic growth

The medium term outlook for the US economy is uncertain. Progress on growth enhancing infrastructure spending and tax reform have been slow, auto sales appear to have peaked in the current cycle, and monetary conditions are expected to tighten further. Countering that, the nation is close to full employment based on traditional measures.

In Europe and Japan, where the limits of monetary policy effectiveness may have been reached and public sector finances are stretched, any upside on growth in the medium term will have to come from external demand sources.

India's economy is on a healthy growth trajectory. Reform signposts have been positive, underscoring the nation's long run potential. We note in particular its ascent as the number one destination globally for greenfield foreign direct investment; the introduction of a nationwide goods and services tax; and the determined efforts of the central bank to address non-performing loans in the banking system.

Steel

Global steel production growth regained momentum in the 2017 financial year led by a recovery in China and steady growth in emerging regions. Rising demand from key end-use sectors and Supply Side Reform measures in China led to higher capacity utilisation rates and improved profitability for mills.

In line with the expected slowdown in housing and autos, China's steel production growth is expected to moderate in the 2018 financial year. However, the market could remain relatively tight for some time, as the blast furnace fleet will need to continue running at historically high utilisation rates to fill the gap left by the permanent closure of induction furnaces. By way of context, current blast furnace utilisation rates in the mid-80 per cent range are some 5 percentage points above the 80 per cent rate expected to prevail in 2020 under Supply Side Reform. Looming production cuts due to the imposition of unprecedented environmental restrictions over the winter heating season offer some further potential upside.

We believe that China will ultimately double its accumulated stock of steel in use, which is currently about 6 tonnes per capita. That stock is about half of the current US level and less than half the German, South Korean and Japanese levels. However, the exact path to this end point for China has become less certain due to increasing protection and aggressive capacity removal actions. Among the range of possibilities we consider, our base case remains that Chinese steel production is yet to peak. The most likely timing of the peak is the middle of next decade. The growth rate we assume is close to 1 per cent.

Notably, the annualised steel production run-rate in China hit 891Mt in June 2017, while the half-year to June came in at 846Mt. Both figures are comfortably above the historical annual high of 823Mt achieved back in 2014.

While protectionism continues to loom large, the recovery in the rest of the world is likely to continue in FY2018 after a multi-year stagnation. World steel production ex China was up 5 per cent year-to-date YoY as of June 2017, at 839Mt. India saw growth of 6 per cent year-to-date YoY, with import substitution a major factor. Japan, South Korea and Taiwan collectively expanded 3per cent year-to-date YoY. All other regions except the nations of the former Soviet Union enjoyed positive growth, with South America, the Middle East and Africa all recording double digit percentage gains year-to-date YoY.

Freight

The dry bulk freight market remains over supplied. However, accelerated scrapping of Capesize ships, and a dearth of new orders, presage a time when freight rates may begin to edge higher. Regulatory changes relating to ballast water management and the sulfur content of fuels, which we support, will challenge shipowners to raise their productivity further to stay competitive. Balancing that, an overhang of shipbuilding capacity, and observed productivity gains, are expected to keep the cost of new vessels suppressed for a considerable period of time.

In FY2017, we ran the dry bulk industry's first ever e-auctions, and continued our strategic tilt towards direct engagement with ship-owners on safety, productivity and cost. We will continue to lead the industry towards higher safety standards, both through our own commercial activities and through our participation in the Dry Bulk Forum and Rightship. For more on our vision for the future state of freight, which we see as Safer, Leaner and Greener, click here.

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Input cost trends

Industry wide cost inflation in US dollar terms has increased somewhat on the back of 'uncontrollables' such as higher raw and basic materials prices and exchange rate movements. Underlying cost drivers such as natural rubber, diesel, sulphuric acid and steel and steel products have increased; while ammonia nitrate prices are falling. The heavy machinery sector has exited recession due to a wave of replacement demand in China and elsewhere. Pockets of cost inflation have emerged in some segments of the onshore petroleum business in the US. In particular, sand and pressure pumping equipment have been in short supply. Even so, all-in costs are still modest by historical standards; and deepwater capital costs remain close to all-time lows. Labour markets remain far from tight in our major producing regions, with wage growth subdued in both Chile and Australia.

The balance for our own external costs in FY2017 was that controllable operating expenditure on both goods and services declined by a material amount from FY2016. A rigorous approach to bottom-up cost driver modelling and advanced analytics, leveraging synergies across our commercial businesses, are expected to drive increasing cost competitiveness as industry wide cost curves steepen in the medium term.

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Copper

Copper prices improved markedly in the second half of the 2017 financial year. The market rallied in late calendar year 2016, and the momentum continued early in the current calendar year due to disruptions at several large copper mines. In addition, Chinese end-use demand has been growing at a healthy rate, with housing starts, power infrastructure, machinery and consumer durables all expanding at double-digit percentage rates as of June 2017.

Stock levels have trended lower since March, with investor open-interest moving higher in response. It is notable though that scrap supply has been highly elastic of late. Without this response, prices would certainly have been higher earlier in the year. Recent announcements on scrap import curbs in China, which target low-grade material, will ultimately be positive for primary supply.

Treatment costs and refining charges (TCRCs) for copper concentrates trended lower over the course of FY2017. The Metal Bulletin TCRC index has ranged from a little above $100/t to around $74/t over FY2017. It has oscillated around US$80/t through most of the second half, with the low for the year experienced during the height of the supply disruptions near the end of the March quarter. Shanghai Grade A cathode premia have moved higher over the course of 2017, with the usual degree of pronounced seasonal volatility. Premia have ranged from highs in the region of US$80/t to a low of around US$40/t following the Lunar New Year. Premia are currently around the upper end of the annual range, and are almost double than those seen at the same time a year ago.

Turning to the outlook, we expect the copper market to be roughly balanced through to the end of the decade, with solid demand growth met by existing and committed supply. A key uncertainty is the balance between primary mine supply and scrap that will meet the solid growth in demand that we project in the next few years.

A structural deficit is expected to open in the early 2020s, at which point we see some sustained upside for prices. Grade decline, increased input costs, water constraints and a scarcity of high-quality future development opportunities are expected to require higher prices to attract sufficient investment to balance the market.

Developments in China will be vital. Major themes include the regulatory environment for scrap imports, the scale of investments in scrap processing capability, lifecycles of copper intensive capital stock, and technical standards for aluminium usage in mid-voltage grid applications, in addition to what we see as its likely structurally lower demand for cathode imports going forward.

Iron ore

Iron prices have been volatile over the last six months, ranging from a low of US$54/dmt on the 62 per cent index in June 2017 to a high of US$95/dmt in February 2017. Ores at the higher end of the grade spectrum have been actively sought by steel mills looking to boost productivity to take advantage of attractive margins. In contrast to the first half of the financial year, coke minimization has been less of an issue for mills, which has enabled the lump premia to recover from negligible levels to above US$0.20. Pig iron production in contestable iron ore markets has increased 3.2 per cent year-to-date YoY in June 2017, to 958Mt.

Higher prices have encouraged some price sensitive suppliers to re-enter the seaborne market, notably from India. Utilisation rates at Chinese domestic mines have also increased. The run rate averaged 207Mtpa in the six months ending June 2017, up 6.2 per cent YoY. In addition to market based drivers, safety and environmental inspections will continue to influence Chinese domestic iron ore production from time to time. In aggregate, the seaborne majors came in at the lower end of production guidance. While port stocks have continued to build, both in the 56-60 per cent and 60-63 per cent buckets, the importance of this metric for assessing future price direction has been reduced somewhat by changes in the operating environment.

Based on our view that the steel market in China will remain tight, thus supporting mill margins, we expect ores at the higher end of the grade spectrum to perform well for at least the remainder of the calendar year, adjusted for seasonality. Spreads to ore at the lower end of the grade spectrum are likely to stay relatively wide. These circumstances would suit the grades of fines and lump product of WAIO, which remains a world-class, high margin operation. That is amplified by our ability to consistently secure value for our Newman, MAC, Jimblebar and Yandi products.

> **“Based on our view that the steel market in China will remain tight, thus supporting mill margins, we expect ores at the higher end of the grade spectrum to perform well for at least the remainder of the calendar year.”**

We remain of the view that the long run price will be set by a higher-cost producer in either Australia or Brazil.

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Metallurgical coal

Metallurgical coal prices have again been heavily influenced by supply disruptions. In calendar year 2016, Supply Side Reform in China and wet weather in China and Queensland drove prices. This year, Cyclone Debbie's impact on key logistics corridors in Queensland was the major force. In contrast to calendar year 2016 though, swing supply from North America has appeared, and China's work day policy has been superseded by a more nuanced approach. On the demand side, annualised pig iron production has increased 3.2 per cent year-to-date YoY in June 2017, to 1,100Mt.

Prices[1] over the last six months have ranged from a low of US$140/t on the PLV index in June 2017 to a high of US$304/t in April 2017. MV64 has ranged from US$129/t to US$253/t; PCI has ranged from US$101/t to US$185/t; and SSCC has ranged from US$88/t to US$130/t. Around three-fifths of our tonnes are related to the PLV index. We conducted our first ever index linked transactions with a major Japanese customer during the year. We have been pleased to see strong growth in the met coal derivatives market, with scaled turnover rising at a faster relative pace than iron ore futures did at the same stage of development.

Similar to iron ore, rising utilisation rates in Chinese blast furnaces, responding to the higher margins created by Supply Side Reform of the steel industry amidst healthy demand, has underpinned demand for met coals at the higher end of the quality spectrum. Additionally, with the potential for voluntary supply restraint by major Chinese met coal producers, ongoing supply issues for PMV, Chinese port inventories remaining low, high land borne logistics costs in China, and the potential for an accelerated rate of capacity closures in calendar year 2018, it is possible that met coal prices can sustain above long run marginal cost for some time.

Energy coal

Energy coal prices have benefited from robust demand from China, steady demand from other North Asian markets and supply disruptions in key export jurisdictions. Coal power generation in China increased 8.5 per cent YoY in the second half of FY2017, with strong cooling and industrial demand co-occurring with a slowdown in hydro generation. Chinese imports have expanded by 20 per cent YoY to meet this demand, with domestic mines constrained. Weather, industrial relations and infrastructure issues have simultaneously held back seaborne supply from Australia, Indonesia and South Africa.

While prices have not yet approached the ~US$110/t highs seen at the peak of Chinese Supply Side Reform disruptions in H1 FY2017, the gcNewc 6000kcal index responded to the conditions described above by gaining almost US$10/t in July and early August, thereby moving above US$90/t.

China's policy decisions remain the key source of uncertainty for the seaborne energy coal market. The Chinese government has achieved 74 per cent of the coal capacity cuts planned for CY2017 as of the end of June, as part of the ongoing coal supply side reforms. Safety inspections are now the main tool used to curb or close production, replacing last year's working day policy.

1. The abbreviations used in the metallurgical coal section are as follows - PLV: Premium Low-Volatile, PMV: Premium Mid-Volatile, MV64: Mid-Volatile 64, PCI: Pulverised Coal Injection, SSCC: Semi-soft Coking Coal.

The Chinese government has also urged domestic coal miners to execute more long term contracts with end-users to stabilise prices within the preferred range ($US62-70 5500kcal CFR or RMB 500-570/t locally). Mergers between large state-owned power generators and coal miners have also been mooted. In June 2017, China also banned coal imports at Tier II ports or berths. The customs clearance process has also been tightened leading to vessel delays. Regulations of heavy trucking are also being tightened and stringently enforced. This is leading to a squeeze on rail capacity and a further lift in non-mining costs.

Crude oil

Crude oil prices trended higher overall in the 2017 financial year. Prompt Brent futures prices ranged from a low of US$41.80/bbl in August 2016 to a high of US$57.10/bbl in January 2017. The front-month Brent-WTI spread ranged from a low of a little under 50¢ to a high of around US$3 over the same period. Price volatility has been driven by sentiment shifts around OPEC strategy and compliance, the US onshore supply response and the level of visible inventories in the OECD.

Global demand growth slowed in the 2017 financial year but it still remained well above the historical trend with transport demand continuing to be a significant contributor to growth. Vehicle miles travelled[2] - "miles driven" - in the US was 1.8 per cent higher in FY2017 than in the prior year. Highway freight tonnage in China expanded by 9.9 per cent year-to-date YoY as of June 2017.

At the close of the 2017 financial year, bearish sentiment had weighed prices down below what we think near term fundamentals supported. The subsequent lift in Brent back above $US50/bbl was thus expected. We expect that prices should be able to sustain this level, on average, in the coming half year as global inventories continue to draw and some key producers continue to withhold production.

OPEC strategy remains a dynamic source of uncertainty in the finely balanced calculus for CY2018. The outcome of discussions regarding the March 2018 expiry of the current curtailment agreement is the focal point. An extension could see the global market in rough balance in CY2018. No extension could see a clear surplus opening up. A deepening of cuts, which is the least likely scenario from today's vantage point, could see a deficit open.

> **"OPEC strategy remains a dynamic source of uncertainty in the finely balanced calculus for CY2018."**

We see OPEC strategy being ultimately informed by social stability considerations that we proxy through the health of their budgets and other financial indicators. The management of members presently exempt from the present deal and Saudi Arabia's Vision 2030 reform program, including the proposed Aramco IPO, are additional moving parts.

In the US, rig growth has slowed recently and this is likely to continue in the near term, with some temporary capacity constraints emerging (see input cost commentary). Nevertheless, we still expect US production to hit record levels by the end of calendar year 2017, with around 1 MMbbl/d expected to be added to production over calendar year 2018.

In the long term, we continue to see compelling market fundamentals, underpinned by rising transport and industrial demand in the developing world in addition to a steepening cost curve underpinned by natural field decline.

2. The +1.8 per cent growth rate is based on 'average vehicle miles driven per day'. Absolute vehicle miles travelled grew slightly less, +1.5 per cent, as 2016 was a Leap year.

We expect oil demand to grow by approximately 1per cent per year over the next decade despite significant demand reductions due to efficiency gains in the light-duty vehicle fleet. Our long run view on electric vehicles (EVs), which are at the green end of the spectrum, are available here. EVs are expected to become a material source of demand displacement only after 2025.

On the supply side of the market, with natural field decline of between 3 per cent and 4 per cent per year added to the demand growth referenced above, by 2030 we see the need for new production equivalent to at least one-third of total global production today. Post 2021, we expect to see US tight oil production starting to plateau, at which point in time, its role in setting global oil prices would begin to diminish. That observation, and the relative lack of exploration success in the conventional sphere in recent years, points to known but more costly supply to be induced to fill the long run gap to demand. That chain of logic infers that current price ranges will not be able to sustain much past 2020, when our counter-cyclical investments in offshore capacity, such as Mad Dog 2, will be preparing to come to market.

> **"Post 2021, we expect to see US tight oil production starting to plateau, at which point in time, its role in setting global oil prices would begin to diminish."**

The **US natural gas price** strengthened in the 2017 financial year despite another mild winter, which pushed storage levels to a peak of more than 20 percent above the five year average. Lower production year over year has since helped reduce the surplus to the five year average to +7 per cent by the end of financial year 2017.

US gas demand grew marginally in financial year 2017 as demand from the LNG and industrial sectors more than offset a contraction in gas fired power generation, which fell back from the record levels of the prior year. US producers also continued to benefit from ongoing growth in exports to Mexico.

Turning to our outlook, we are positive for the remainder of calendar year 2017, as we anticipate that fundamentals will continue to tighten. Beyond that, the commissioning of additional North-East infrastructure, higher associated gas production and Haynesville drilling are expected to result in unprecedented supply growth in calendar year 2018, which points to clear downside risks for price. Robust demand growth should, however, limit the rise in storage levels.

We continue to observe that producer hedging has been relatively short term. We accordingly expect an increase in forward sales activity as the end of calendar year 2017 approaches. Attractive near term futures prices may induce further incremental supply.

Longer term, strong demand growth and natural field decline is expected to incentivise investment in new supply. Consistent with industry findings across major Lower 48 gas plays, we continue to see improvements in recovery rates as technology enables completion designs to be optimized to the specific geology of each play. We believe that the resource learning curve is most pronounced in the core fringes. It is here that the most incremental benefit exists from improving recovery rates. These advances add to the availability of lower-cost supply and shave some of the gradient from an already flat cost curve. So while we expect to see moderate upside for prices in the 2020s, the degree of sustainable price uplift is likely to be constrained by the basic abundance of the resource.

The **Japan-Korea Marker (JKM) price for LNG** strengthened during the North Asian winter, which coincided with supply disruptions at some major projects. Prices has since eased, with strong cooling demand in North Asia offset by previously disrupted supply resuming and the commissioning of new projects.

Despite the strong LNG demand growth that we expect, current and committed LNG capacity is likely to supply the market fully until the middle of next decade. CY2018 is expected to be a microcosm of that

broader view. Beyond FY2025 new supply will be required in a global gas market harmonised around the Henry Hub benchmark.

Potash

Prices have been broadly stable since mid-CY2016, with netbacks to Vancouver in the range US$190-250/t depending on market and product type. Suppliers have successfully implemented higher prices in Brazil, up from US$220-230/t CFR in July 2016 to US$260-270/t CFR in July 2017. China agreed a price of US$230/t CFR with Uralkali in mid-July for H2 CY2017 shipments. This is US$11/t higher than the previous contract.

Import buying has been strong in the last six months, with many markets tracking well ahead of the CY2016 pace. In particular, Brazil reported MOP imports of 4.47 Mt in H1 CY2017, up 15 per cent YoY, while the US recorded a 34 per cent YoY growth rate. Despite contracts with China expiring in December, 3.8 Mt of MOP arrived Jan-May (up 26 per cent YoY). CY2017 is on course to be a record year.

Strong demand has enabled incumbent producers to lift supply in the first half of this calendar year. Greenfield capacity has also started to enter the market and further additions are scheduled out to 2021. This means the existing problem of over-capacity will likely get worse before it gets better. Potash demand can be volatile, but we forecast trend demand growth of 2 Mt per year through the 2020s.

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This presentation contains forward-looking statements, including statements regarding: trends in commodity prices and currency exchange rates; demand for commodities; plans, strategies and objectives of management; closure or divestment of certain operations or facilities (including associated costs); anticipated production or construction commencement dates; capital costs and scheduling; operating costs and shortages of materials and skilled employees; anticipated productive lives of projects, mines and facilities; provisions and contingent liabilities; tax and regulatory developments. Forward-looking statements can be identified by the use of terminology such as 'intend', 'aim', 'project', 'anticipate', 'estimate', 'plan', 'believe', 'expect', 'may', 'should', 'will', 'continue', 'annualised' or similar words. These statements discuss future expectations concerning the results of operations or financial condition, or provide other forward-looking statements. These forward-looking statements are not guarantees or predictions of future performance, and involve known and unknown risks, uncertainties and other factors, many of which are beyond our control, and which may cause actual results to differ materially from those expressed in the statements contained in this presentation. Readers are cautioned not to put undue reliance on forward-looking statements. For example, future revenues from our operations, projects or mines described in this presentation will be based, in part, upon the market price of the minerals, metals or petroleum produced, which may vary significantly from current levels. These variations, if materially adverse, may affect the timing or the feasibility of the development of a particular project, the expansion of certain facilities or mines, or the continuation of existing operations. Other factors that may affect the actual construction or production commencement dates, costs or production output and anticipated lives of operations, mines or facilities include our ability to profitably produce and transport the minerals, petroleum and/or metals extracted to applicable markets; the impact of foreign currency exchange rates on the market prices of the minerals, petroleum or metals we produce; activities of government authorities in some of the countries where we are exploring or developing these projects, facilities or mines, including increases in taxes, changes in environmental and other regulations and political uncertainty; labour unrest; and other factors identified in the risk factors discussed in BHP's filings with the US Securities and Exchange Commission (the "SEC") (including in Annual Reports on Form 20-F) which are available on the SEC's website at www.sec.gov. Except as required by applicable regulations or by law, the Group does not undertake any obligation to publicly update or review any forward-looking statements, whether as a result of new information or future events. Past performance cannot be relied on as a guide to future performance.

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Unless specified otherwise: variance analysis relates to the relative performance of BHP and/or its operations during the 2017 financial year compared with the 2016 financial year; data is presented on a continuing operations basis from the 2014 financial year onwards; copper equivalent production based on 2017 financial year average realised prices; references to Underlying EBITDA margin exclude third party trading activities; data from subsidiaries are shown on a 100 per cent basis and data from equity accounted investments and other operations is presented, with the exception of net operating assets, reflecting BHP's share; medium term refers to our five year plan. Queensland Coal (QCoal) comprises the BHP Billiton Mitsubishi Alliance (BMA) asset, jointly operated with Mitsubishi, and the BHP Billiton Mitsui Coal (BMC) asset, operated by BHP. Numbers presented may not add up precisely to the totals provided due to rounding. All footnote content contained on slide 32.

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