

BHP

**Financial results
for the half year
ended 31
December 2017
Investor and
analyst briefing
speech**

20 February 2018

Andrew Mackenzie, CEO

Slide 1: Title page

Welcome everyone to our 2018 interim results.

I am in London, and Peter Beaven, our Chief Financial Officer, is in Melbourne.

Slide 2: Disclaimer

Please note the disclaimer and its importance to this presentation.

Slide 3: Title page

Over the past six months, we have lowered debt, increased return on capital and distributed more cash to shareholders.

Slide 4: Key messages

There is still much that we can and will do to increase cash flow, capital discipline, value and returns.

Our agenda for safety and productivity will release latent capacity across the portfolio, grow volumes this year by six per cent and get the most out of our investment dollars, so we thrive at low levels of capital.

If spot prices persist, free cash flow is on track to exceed US\$12 billion for the 2018 financial year.

Slide 5: Interim FY18 scorecard

In the December 2017 half year, higher commodity prices and a solid operating performance secured increases in Underlying EDITDA to over US\$11 billion and return on capital employed to 13 per cent.

Through disciplined investment in high-return, low-risk opportunities, we delivered free cash flow of almost US\$5 billion, reduced net debt and increased returns to shareholders through dividends of US\$3 billion, almost US\$1 billion over the minimum 50 per cent payout ratio.

Slide 6: Safety and sustainability

The health and safety of our employees and contractors, and of our communities, are core to all we do.

While Total Recordable Injury Frequency, or TRIF, this period fell to 4.1 per million hours worked, tragically, two of our colleagues died. One, at Goonyella Riverside in August. And another, in the Permian, in November.

These fatalities have had a profound and permanent impact on families, friends, colleagues and everyone at BHP.

We are more committed than ever to learn from these events, to make sure all our people go home safe, every day. And to bring this about by how we design, plan and execute work, and how we make sure that effective controls for all fatal risks are firmly in place.

Our field leadership program, where leaders spend more time in field on safety, has now recorded over half a million interactions in the first half. This creates the culture to eliminate fatalities and reduce injury rates.

We are also determined to use technology for a step-change in safety and productivity.

At Samarco, BHP's commitment to do the right thing for the people and environment affected by the dam failure is strong.

The Renova Foundation's compensation and environmental programs are making good progress. However, regulatory and licencing challenges have delayed resettlement of the most impacted communities.

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The State Prosecutors have joined the discussions with the Federal Prosecutors' Office to settle the major outstanding civil claims. This is a positive development.

Restart is also important. However, as we have always said, it has to make economic sense and have effective approvals in place.

I will now hand over to Peter.

Welcome, Peter.

Peter Beaven, CFO

Slide 7: Title slide

Thank you, Andrew.

Slide 8: Financial performance

Higher commodity prices and a solid operating performance supported our results over the last half.

We generated EBITDA of over US\$11 billion, up 14 per cent and with a margin of 53 per cent.

Our Underlying profit of US\$4.1 billion was 25 per cent higher.

Our attributable profit of US\$2 billion includes two exceptional items:

- US\$210 million related to Samarco;
- And, a US\$1.8 billion charge as a result of the recent US tax reform, although the reduction in the income tax rate will clearly have a positive impact in the years ahead.

Slide 9: Segment performance

Each of our commodities made a significant contribution to our operating results.

Iron Ore generated EBITDA of US\$4.3 billion with high margins. While unit costs were impacted by the Mt Whaleback fire and port maintenance, these will come down as improved supply chain performance underpins expected record volumes in the second half.

Higher oil and gas prices supported Petroleum EBITDA of US\$2 billion. Our Conventional business continues to generate strong margins, and higher than expected recoveries in our shale fields are pushing volumes to the upper end of guidance.

In Queensland Coal, we had record production at four mines, but geotech issues at Blackwater and Broadmeadow meant that production fell. We've increased this year's cost guidance to US\$66 per tonne due to these issues, although we remain confident of reaching our medium-term target of \$54 (per tonne) as we continue to drive productivity and release latent capacity at Caval Ridge.

Finally in Copper, Escondida's Los Colorados concentrator has now ramped up to full capacity. And Spence is currently beating its name plate capacity of 200,000 tonnes per annum. As a result, total copper production was up 17 per cent and EBITDA nearly doubled.

Slide 10: Group EBITDA waterfall

The EBITDA waterfall chart highlights the gains from higher commodity prices which more than offset the productivity challenges faced during the period.

While underlying productivity momentum remains strong, this period it was masked by several one-off events.

Slide 11: Productivity

We have consistently said that productivity gains will be lumpy and this is increasingly true now that the low hanging fruit has been picked.

The negative productivity of US\$500 million this period was largely attributable to Olympic Dam and BMA.

- At Olympic Dam, we've just completed a planned smelter maintenance campaign. This is key to the asset's integrity, which is the foundation for our future expansion plans.
- At BMA, the geotech issues at Broadmeadow and Blackwater proved more significant than first anticipated.

In other parts of the business, things are going well.

- Escondida positively contributed more than US\$200 million of productivity, with the ramp-up of the third concentrator.
- And, Western Australia Iron Ore delivered over US\$100 million of gains as we reached a record annualised production run rate of 284 million tonnes in the December quarter.

As we move into the second half, Olympic Dam operations have restarted, the geotech issues at Blackwater have largely been resolved, we will continue to creep production at WAIO, and our three concentrator strategy at Escondida is seeing record material processed.

With this momentum, we are confident with our guidance of US\$2 billion of further productivity gains by the end of the 2019 financial year, notwithstanding rising inflationary pressures.

Slide 12: Operating cash flow

Operating cash flow was US\$7.3 billion.

Underlying cash flow increased by US\$2 billion. As you can see on the graph on the right, this robust operating performance was offset by higher tax and other payments, including the US\$1.3 billion balancing cash tax payment related to the jump in profit last financial year.

Slide 13: Free cash flow

We generated free cash flow of US\$4.9 billion. A solid result, albeit down on the strong performance in the prior period due to the higher tax payments and capex, in line with our expectations.

If current spot prices persist, we could generate free cash flow of more than US\$7 billion in the second half.

To do this, we'll need to produce more and at lower cost than in the first half. This will no doubt have its challenges, but given our current performance we think we can achieve this.

Slide 14: Capital allocation

Our capital allocation framework continues to be firmly embedded in every investment choice we make.

During the half:

- We invested US\$1 billion in asset integrity;
- We preserved our balance sheet strength;
- And, under the 50 per cent dividend payout ratio, we paid out US\$1.8 billion.

With the US\$3.6 billion excess cash:

- We invested US\$2 billion in our high-returning development projects;
- We returned US\$500 million to our shareholders as additional dividends;
- And, we paid down debt.

Slide 15: Balance sheet

Our net debt was US\$20 billion a year ago and now we are at US\$15.4 billion, a significant reduction.

This half, net debt reduced by US\$900 million.

- With US\$4.9 billion of free cash flow generated, US\$2.3 billion went to shareholders, and US\$900 million went to non-controlling interests, predominantly Escondida.
- In addition, there was a US\$700 million non-cash, mark-to-market movement as the US dollar weakened. This was offset by the increase in value of the hedges included within 'Other Financial Assets' in the balance sheet.

Our commitment to a strong balance sheet through the cycle is unwavering. As we have previously said, in the medium term this translates to a net debt level between US\$10 and US\$15 billion.

In keeping with our capital allocation framework, and with some of our commodities trading above our long-term forecasts, we will look to take net debt to the lower half of this target range in the near term.

Slide 16: Investing for the future

We also continue to make significant progress in capital productivity.

And our commitment to capital discipline means that we only invest in the best of our broad suite of quality projects.

Our guidance for capital and exploration expenditure is unchanged, with a total spend of US\$6.9 billion this financial year.

- US\$2 billion of this will go into maintenance, which includes around US\$900 million of deferred stripping.
- US\$1.9 billion will go towards capital efficient latent capacity and improvement projects. This includes infill well drilling in Conventional petroleum and sustaining capex in Queensland Coal and Western Australia Iron Ore.
- We'll invest US\$1 billion in major projects, including Mad Dog 2 and the Spence Growth Option.
- US\$1.1 billion will go to Onshore US where we continue to carefully assess our capex program rig by rig and completion by completion, to secure the best value for shareholders ahead of the planned exit.
- And finally, US\$900 million to Exploration.

In the 2019 and 2020 financial years, annual capital and exploration expenditure is expected to remain below US\$8 billion. This includes the South Flank iron ore project for which we will seek Board sanction in the middle of this calendar year. The capital cost for South Flank is now expected to be around US\$45 per tonne. This reflects the stronger Australian dollar, and updated estimates as feasibility studies have progressed. This spend will fit within existing guidance for sustaining capex in iron ore of US\$4 per tonne.

Slide 17: Shareholder returns

In addition to investing in high return development options, we have been steadily increasing the share of free cash flow distributed to shareholders. As a result, shareholders are receiving a higher proportion of the cash generated by our business, as illustrated here. Notably, this has been achieved at a time when we have also significantly reduced debt.

As always, all future capital decisions will be determined by our capital allocation framework. The optimal balance between shareholder returns, investments and the balance sheet will naturally evolve through the cycle, but we think the balance is about right at this point in time.

Slide 18: Return on Capital Employed

Once again, we present return on capital by asset.

Over the first half, ROCE was almost 13 per cent. Higher prices helped to offset one-off events, and we are confident that our detailed asset level plans will drive continued improvements.

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- Escondida reported a step-up in returns. With the ramp-up of the Los Colorados concentrator and no major capital investment required, you can expect further increases.
- Western Australia Iron Ore once again generated returns of over 25 per cent. And in the medium term, continued capacity creep coupled with unit costs below US\$13 (per tonne) will support stronger returns.
- Smelter maintenance clearly weighed on returns at Olympic Dam this year. With the operations ramping up to full production, and with access to higher grade ore in the Southern Mine Area, the increase in copper production will continue to lift returns.
- In the Onshore US, our focus is on maximising the value of this acreage as we move forward with our exit plans.

Slide 19: Onshore US

We announced in August that we classified our Onshore assets as non-core. We are pleased with the progress that we are making and remain on track to complete the exit within the two-year timeframe we have previously mentioned.

On the trade sale, extensive work has been performed on each field to prepare for sale. The Fayetteville dataroom is now open and the datarooms for the remaining fields will be opened in coming weeks. Assuming two to three months for due diligence, we expect bids will be received mid-year. Negotiation and completion of transactions would follow and we expect this could take place in the second half of this calendar year.

In parallel, we are evaluating the demerger and IPO options.

There has been encouraging interest from potential buyers, the environment for sale is supportive and we remain confident our exit process will deliver value.

So, in conclusion, we remain absolutely focused on maximising cash flow, maintaining capital discipline and improving value and returns. I am confident that we will continue to make strong progress in each of these areas in the second half of this year and well into the future.

Back to you, Andrew.

Andrew Mackenzie, CEO

Slide 20: Title page

Thank you, Peter.

Our insights on economic and commodity markets are available in the Prospects blog (released today on our website).

Slide 21: Market outlook

Despite recent volatility, we are still optimistic about the short-term outlook. Global growth is healthy and sentiment remains positive.

Our long-term view is also unchanged. Population growth, higher living standards and a recommitment to free trade will increase demand for our commodities.

With our simplified portfolio, with the removal of close to a decade of cost inflation and with lower debt, we are well placed for this future.

Our commodities are geologically difficult to find and extract. This concentrates rent close to the mine gate or well head, where our capabilities are at their most competitive.

Our large-scale assets:

- Produce high-quality products, which are even more valuable in an environment-focussed world; and

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- And are low cost, and hence benefit from steeper cost curves.

Slide 22: Our strategy

Our portfolio's blend of quality, scale and geographical concentration is a key differentiator.

It provides a strong, long-lived foundation for high-value continuous improvement and growth.

We lead and develop our people and culture to create the distinctive capabilities, which accelerate us towards those goals.

Slide 23: Our strategy in action

Over recent years, I have described our strategy to increase the value of BHP in six parts.

- First: relentless pursuit of safety and productivity, with US\$12 billion of annualised gains, and much more to come.
- Second: small, low-risk, high-return investments to release latent capacity.
- Third: development of our strong pipeline of major projects (in line with our capital allocation framework).
- Fourth: counter-cyclical investment in exploration, which has delivered results.
- Fifth: a drive for industry leadership in technologies, which unlock more resources through high return investments, reduce costs even further, and keep our people safe and healthy.
- Sixth: the realisation of maximum value for the exit from our Onshore US acreage.

Slide 24: Minerals Australia

We have made considerable progress in all six areas.

In our Australian minerals assets, our Maintenance Centre of Excellence has used leading-edge data and analytical techniques to drive significant savings in unit costs.

Despite some one-off setbacks in this half (that Peter covered), we expect to add a further reduction in unit costs of 10 per cent across our Australian minerals operations over the medium term, to the 50 per cent reduction secured over the past five years.

In Iron Ore, we expect costs below US\$13 per tonne, chiefly through efficiency gains at the port. Our Jimblebar truck fleet is now fully autonomous. Technology has improved scheduling and throughput of the rail system.

We now have approval to increase production to 290 million tonnes per annum, which we expect to reach by the end of next financial year.

In Coal, as planned, the Caval Ridge Southern Circuit project will come online early in the 2019 financial year.

After completion of its maintenance campaign in the last half, Olympic Dam will unlock its potential as it moves further into the Southern Mine Area.

Slide 25: Minerals Americas

Escondida's Los Colorados Extension project reached full capacity in December, and its three concentrators achieved record throughput of 365,000 tonnes per day last month. We plan to go beyond this. Our investment in desalinated water has put Escondida on track to average 1.2 million tonnes per annum over the next decade, with minimal further capital.

At Spence, we approved development of the two billion tonne hypogene resource in August, which adds almost 200,000 tonnes of copper concentrate production.

We want to create more options to grow in copper outside our current footprint, mainly through greenfield exploration, and we have just been awarded several leases in Ecuador.

Slide 26: Conventional Petroleum

We have a program of work in the US and Mexican Gulf of Mexico, and the Caribbean, to grow our Conventional business.

In the near term, our rich pipeline of brownfield projects will partly offset natural decline of existing fields. These projects offer an average return of over 50 per cent.

The North West Shelf Greater Western Flank B and Mad Dog Phase 2 projects are on track, and we have similar opportunities beyond these. For example, a new tieback to Atlantis.

Because our Gulf of Mexico exploration prospects are near existing infrastructure, if successful, like our exciting discovery earlier this year at Wilding-2, capital costs and production lead time will be on the low side.

Slide 27: We are delivering against our plans in FY18...

Over the past six months, our long-term plans delivered solid results.

We generated free cash flow of close to US\$5 billion, increased return on capital to 13 per cent and declared dividends of almost US\$3 billion.

These are strong foundations from which to deliver our plans for the 2018 financial year – copper-equivalent volume growth of six per cent, free cash flow at spot prices of more than US\$12 billion, and further debt reduction and shareholder returns.

Slide 28: ...and will continue to deliver over the medium term

There is still much we can and will do.

We are committed to maximise cash flow, maintain investment discipline and substantially increase shareholder value.

We have everything in place to drive significant further improvements in safety, productivity, return on capital and ultimately returns to shareholders.

Thank you.