

BHP

**Financial results
for the year
ended
30 June 2018
Investor and
analyst briefing
speech**

21 August 2018

Andrew Mackenzie, CEO

Slide 1: Title page

Welcome everyone to our 2018 financial year results.

I am in Melbourne, and Peter Beaven, our Chief Financial Officer, joins us from London.

Slide 2: Disclaimer

As always, please note the disclaimers, both here and at the end of the presentation, and their importance.

Slide 3: Title page

Today we announced a very strong set of results, built on the solid foundations we have set over the past five years.

Slide 4: BHP's investment proposition

At BHP, our focus is simple – to maximise cash flow, maintain capital discipline, and increase value and returns.

We stay accountable to this through a sharp focus on our six key strategic value drivers, a culture of continuous improvement, and our disciplined use of the Capital Allocation Framework.

This has contributed to a strong set of results in 2018, and we will build momentum into 2019 and beyond.

Slide 5: FY18 financial scorecard

Higher volumes and higher prices drove Underlying EBITDA to over US\$24 billion, and net operating cash flows increased to US\$18 billion.

We reduced net debt by over US\$5 billion, invested US\$6.8 billion in our high-return development options, and we announced dividends of US\$6.3 billion.

Before I hand over to Peter to go through our financial performance in detail, let me turn to our priority – safety.

Slide 6: Safety and sustainability

The safety, health and wellbeing of our people is our number one priority.

Tragically, over the 2018 financial year, two of our colleagues died. We will not accept this, so it's vital we learn as much as we can from these tragic incidents. Over the year, leaders across BHP held safety engagements with a record number of employees and contractors. We will build on this to share lessons learned with as many people as possible.

We also had an increase in our Total Recordable Injury Frequency to 4.4 per million hours worked. While the increase was modest, I'm encouraged that our safety initiatives have helped reduce the number of events with the potential to cause a fatality by eight per cent. This is an important leading indicator of future safety performance.

The further deployment of technology provides an opportunity to remove our people from harm's way. For example, since we started using autonomous haul trucks at Jumblebar, significant incidents have fallen more than 80 per cent.

Slide 7: Samarco and Renova Foundation

At Samarco, we remain committed to the recovery of the communities and ecosystems affected by the dam failure. The Renova Foundation has made substantial progress in accordance with the Framework Agreement.

I visited Brazil again in May to spend time with the team in Belo Horizonte. Despite challenges, the speed and scale of progress they have made since my last visit are remarkable, and I'm pleased to report that Renova has received final licences, and commenced reconstruction of the Bento Rodrigues resettlement.

For BHP, the resettlement program is key, and we are very pleased to reach this major milestone as we work to rebuild the communities that were impacted by the Samarco tragedy.

The new Governance Agreement with the prosecutors, signed in June, is a major step forward. It settles the BRL20 billion claim, enhances community participation, and provides a constructive technical framework to work towards settlement of the BRL155 billion claim.

While we still have much to do in Brazil, I am encouraged by the team's hard work and the progress they've made.

I will now hand over to Peter. Welcome, Peter.

Peter Beaven, CFO

Slide 8: Title slide

Thank you, Andrew.

Slide 9: Financial performance

Higher prices and a solid operating performance drove strong results for the 2018 financial year.

Excluding Onshore US (which is treated as a discontinued operation), we generated EBITDA of US\$23 billion, up 20 per cent.

Our margin was 55 per cent, similar to that achieved in 2011 when prices were 70 per cent higher – a clear endorsement of our productivity focus.

And, Underlying attributable profit was almost US\$10 billion, our highest since 2014.

Including Onshore US, we recorded three exceptional items.

- A US\$2.8 billion impairment against the carrying value of Onshore US that we announced last month;
- The US\$1.8 billion charge associated with US tax reform that we booked last half; and
- US\$650 million related to Samarco, largely due to updated estimates for Renova's Programs.

Including these, and the Onshore US results, attributable profit was US\$3.7 billion.

Slide 10: Segment performance

Each of our commodities again made a significant contribution.

Iron Ore generated EBITDA of almost US\$9 billion, at a margin of 61 per cent, as improved productivity and supply chain stability supported lower costs and record volumes.

Copper EBITDA almost doubled, to US\$6.5 billion, at a margin of 54 per cent. With record ore milled, Escondida production is at levels seen in 2006, when grades were 50 per cent higher.

Coal EBITDA increased to over US\$4 billion, as Queensland Coal overcame early challenges at two of its operations to deliver record production.

And finally, Conventional Petroleum contributed more than US\$3 billion, at a margin of 62 per cent. Here, our focused exploration strategy is extending the development pipeline, and supported a year-on-year increase in resources of over 300 million barrels.

Slide 11: Group EBITDA waterfall

The EBITDA waterfall chart, which I present each period, clearly shows the benefit of higher commodity prices.

While we're beginning to see signs of inflation in certain areas – notably, diesel, contractor costs and raw materials – our strong operational performance means we again captured this upside.

Over the year, Group production increased by eight per cent. The release of latent capacity supported record production at nine operations. However, this was partly offset by lower volumes from Conventional Petroleum due to field decline, Olympic Dam due to the planned maintenance campaign, and two of our BMA mines due to geotech issues.

Each of these also had a negative impact on fixed cost dilution, which is a key driver of the increase in controllable cash costs and our overall productivity performance.

Slide 12: Productivity

We have consistently said that productivity gains would be lumpy. And, in 2018, that has been evident.

The planned maintenance at Olympic Dam and unforeseen challenges at BMA both weighed on productivity in the first half. But, with almost US\$400 million of productivity gains delivered in the second half, we largely offset these and carry good momentum into the new financial year.

Over 2018, Escondida contributed more than US\$0.5 billion of productivity gains, with the ramp-up of the third concentrator.

And, Western Australia Iron ore contributed a further US\$0.5 billion, as we achieved record production and further reduced unit costs.

Our productivity target for this year is US\$1 billion, and largely reflects the ongoing release of latent capacity across our Australian Iron Ore and Coal assets.

Despite the strong recent productivity performance and our expectations for FY19, the first half productivity challenges in Coal, and the divestments of Shale and Cerro Colorado, means we won't achieve original productivity guidance over the two years to the end of the 2019 financial year.

As we harness technology, continue to optimise the way we work, and further empower our people, we will continue our productivity journey and drive additional improvements into 2020 and beyond.

Going forward, we will increasingly talk to production and unit costs, which are more directly applicable to EBITDA and cash flows.

Slide 13: Costs efficiencies

Costs at our major assets were broadly in line with guidance.

At WAIO, costs continue to decline. In 2018, they fell a further five per cent in Australian dollar terms. And, despite an increase in strip ratio, we will lower these to below US\$13 per tonne in the medium term.

At Queensland Coal, costs were impacted by geotech issues. While these are now well-managed, ongoing productivity improvements will only partially offset an eight per cent rise in strip ratios and inflationary pressures in 2019.

At Escondida, costs rose as the benefit of a one-off prior period change in estimated inventories unwound. This year, improved labour productivity and optimised maintenance strategies will keep costs below US\$1.15 per pound, despite four cents per pound in labour negotiation settlement costs and grade decline of over 15 per cent.

Lastly, in Conventional Petroleum, costs last year, and this, reflect lower production due to natural field decline.

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On average, unit costs are expected to increase slightly in the 2019 financial year as our ongoing productivity and efficiency measures mitigate the impacts of grade and field decline, higher strip ratios, and emerging inflationary pressures.

Slide 14: Cash generation

These charts need little explanation. They highlight the tremendous cash generating capacity of our assets.

Over the year, net operating cash flow was US\$18.5 billion. And free cash flow was US\$12.5 billion – close to the record set in 2011 at the peak of the last cycle. BHP has generated over US\$25 billion of free cash flow in two years. A fantastic result!

In the 2019 financial year, if spot prices persist, we expect free cash flow of around US\$9 billion, as lower prices (relative to the 2018 average), higher tax instalments, and an increase in capital expenditure offset continued strong operating performance.

Slide 15: Capital allocation

Our capital allocation framework remains institutionalised across every financial decision we make. We use it to transparently guide capital between the balance sheet, investment and returns to shareholders. It is supported by robust processes, and has worked well since its inception.

Over the period:

- We invested US\$6.8 billion;
- We reduced net debt by over US\$5 billion; and
- We paid US\$5.2 billion to shareholders.

Since changing our dividend policy three years ago, on top of the US\$8.4 billion under the payout ratio, we have announced additional dividends of almost US\$4 billion.

Slide 16: Balance sheet

Over the past two years, we reduced net debt by over US\$15 billion, and today we sit at US\$10.9 billion.

Our commitment to a strong balance sheet is unwavering. And, as we've said previously, this translates to net debt of between US\$10 billion and US\$15 billion.

With net debt now in the lower half of this range, and our capital programs funded from operating cash flows, we expect to return the net Onshore US proceeds to shareholders. I know this is of great interest to many of you, but we will confirm how, and when, these will be returned, at the time of deal completion.

Slide 17: Investing for the future

We have a rich suite of quality organic opportunities. However, our commitment to capital discipline means we only invest in the best of these.

In the 2018 financial year, we approved two major projects – the South Flank sustaining mine in Western Australia, and the Spence Growth Option in Chile. At the time of approval, and at consensus prices, these offered average returns of almost 25 per cent.

These projects, along with our three other major projects and four latent capacity projects, are included within our guidance for 2019 and 2020, which remains unchanged at below US\$8 billion per year.

Our relentless focus on capital productivity is seeing us thrive on lower levels of capital. We continue to push to get the most out of every dollar we invest, and are seeing strong results from this focus.

Slide 18: Return on Capital Employed

Over the year, return on capital employed increased to 14 per cent, or 18 per cent excluding Onshore US.

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Here, we again present return on capital by asset. The red lines indicate where each sat when I first presented this 12 months ago.

As you can see, all assets have reported an improvement. Higher prices clearly helped, but so too have our actions.

- Escondida reported a large step up in returns as it benefitted from the ramp-up of Los Colorados and a full year of production following industrial action in 2017.
- Western Australia Iron Ore continued to provide returns of almost 30 per cent, with further production creep and productivity improvements across the supply chain.

We are confident that our detailed asset-level plans will drive continued improvement to around 20 per cent in the 2022 financial year (assuming 2017 financial year prices).

We remain absolutely focused on maximising cash flow, maintaining capital discipline, and increasing value and returns.

In the 2018 financial year, we made great progress against each of these objectives.

- A strong operating performance and ongoing capital discipline supported free cash flow of over US\$12 billion.
- Our balance sheet is more or less where we want it to be.
- Our return on capital continued to improve and is now over 14 per cent.
- And, we have just declared a record final dividend of 63 US cents per share.

We have set the platform for the next wave of value growth and increased cash returns to shareholders.

- The organisation is running well, but we know we can do better. We are adding a further US\$1 billion of productivity in FY19.
- We have lots of value growth options, but must execute on the best of these. We have five major projects and four latent capacity projects underway. All with high returns.
- And, we look forward to returning over US\$10 billion of shale proceeds to shareholders.

So, while we have had a good year, we are confident that there is more to come.

Back to you, Andrew.

Andrew Mackenzie, CEO

Slide 19: Title page

Thank you, Peter.

The intelligence our Marketing team provides is a differentiator, and an important input into our investment decisions. Their detailed insights into the economic outlook and commodity markets are available in today's Prospects blog, which I encourage you all to read.

Slide 20: Market outlook

Global businesses like ours face a volatile mix of geopolitical challenges. That includes the recent shift, by some, towards protectionism.

As I've said before, free trade is vital to the health of the global economy. The free flow of capital, goods, services and ideas across the world is the engine of sustained growth, and underpins the prosperity of companies like BHP, and their host nations.

We are, therefore, somewhat cautious about the short-term outlook as we closely monitor trade and geopolitical developments. Despite this, our long-term view remains positive.

Population growth and higher standards of living across the world will sustain demand for decades to come. We've shaped our Company accordingly.

Slide 21: Our strategy

Over the past five years, we have focused the portfolio on our best and most strategic assets, and leveraged distinctive enablers to prepare our Company for the future.

We strongly believe in a simple, yet diversified, portfolio of tier one assets, and see the benefits of a committed and connected workforce, who can concentrate on the things that matter most without distraction. To always push our safety performance higher, identify and quickly replicate best practice, and harness the power of innovation and technology.

Let me elaborate on the secure foundations we've laid across our portfolio, our culture, and our strategy. Combined with our bold ambitions, they will allow us to seize opportunities for future success.

Slide 22: Simple portfolio

Simplicity is one of *Our Charter* values. The make-up of our portfolio is testament to this.

The recently announced sale of our Onshore US assets brings total divestment proceeds to more than US\$18 billion over six years. These, along with the South32 demerger, have made BHP much simpler, with just 13 operated assets.

These large, long-life assets produce high-quality products, even more valuable in an environmentally-conscious world. They are low cost, and generate strong cash flow through the cycle. They are in stable, low-risk jurisdictions and enjoy security of tenure. And they are in value chains where rent is concentrated close to the mine gate or well-head, where our resources and capabilities are at their most competitive.

Our experience demonstrates that great orebodies get better over time. As this occurs we are able to unlock more optionality within our footprint – options that are low cost, low risk and highly capital efficient.

So, with the possible exception of more copper and conventional oil, we have close to our ideal portfolio. One that is truly unique, with abundant organic opportunities to meet our short, medium and longer term ambitions.

All these development options are filtered through our Capital Allocation Framework, which applies strict oversight to all our investment decisions.

But success is not just about the right assets in the right commodities. It's how you develop and operate them that creates real value.

Slide 23: Distinctive enablers

BHP's identity is steeped in more than 130 years of history. Over this time, we have held ourselves to account through high levels of governance and rigorous processes. As the Company evolved, systems and bureaucracy grew in complexity.

We've tackled this on several fronts – culturally, organisationally and operationally. We have restructured to create global functions and Centres of Excellence, unwound almost a decade of cost inflation through our new operating system, made our work leaner and fit-for-purpose, embraced the business case for greater diversity, and we've engaged and connected our workforce which has unlocked more productivity.

We've come a long way, but we still see great potential to further reduce bureaucracy, unlock the next wave of productivity through technology and automation throughout the value chain, and build a culture that rewards agility and innovation and also retains a commitment to discipline, safety and strong governance. The combination of our simple portfolio and empowered culture really brings our strategy to life!

Slide 24: Our strategy in action

Over the past few years, I have consistently outlined our six strategic focus areas to increase the value and returns of BHP – cost efficiencies, technology, latent capacity, major projects, exploration and Onshore US. Over the year

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we continued to make good progress in each of these. We reduced C1 costs at Western Australia Iron Ore to US\$13 per tonne; implemented technology to advance our drive for automation throughout our value chain; progressed four latent capacity projects, with average returns of around 50 per cent; approved two major projects with average returns of around 25 per cent; encountered hydrocarbons at four exploration wells, including (just last week) at the Bongos prospect in Trinidad and Tobago; and signed agreements to make a clean, all-cash exit from Shale.

These are strong results, but our plans demand much more as we push to lift base value by 40 per cent and, at 2017 prices, return on capital to 20 per cent.

Slide 25: Minerals Australia

In Minerals Australia, through operational excellence and the release of latent capacity we will build on our momentum and expect record production at a number of our assets this year.

At Queensland Coal, we will offset an eight per cent rise in strip ratios through increased productivity and the ramp up of the Caval Ridge Southern Circuit. And at Western Australia Iron Ore, we expect to exit the year at a record annualised rate of 290 million tonnes – 30 per cent more than envisaged with our last major growth project in 2014, as costs have almost halved!

Slide 26: Minerals Americas

In Minerals Americas, we expect Escondida to average 1.2 million tonnes per annum to 2025. Continuous improvements in fleet run time, labour productivity, and concentrator throughput will help offset lower grades. Despite grade decline and increased use of desalinated water, we will keep costs below US\$1.15 per pound in the medium term.

Last week's agreement at Escondida, which has now been signed, along with other recent settlements across our portfolio, such as those at BMA and Spence, now provide a period of 'industrial relations' certainty. We'll use this time to further engage our workforce, enhance our culture, and to accelerate productivity.

At Spence, development of the hypogene resource remains on track and will significantly increase output from last year's record 200,000 tonnes when it comes on line in 2021.

Slide 27: Conventional Petroleum

And finally, to Conventional Petroleum, which remains a great business for our shareholders. It generates strong cash flows and returns.

Over the past 10 years, we have consistently shown we can replace barrels at a competitive cost. And, our quality portfolio of future investment options remains highly competitive for capital.

We have a suite of 30 low-cost brownfield projects with average returns of 40 per cent to offset field decline.

We have two major projects in execution – Greater Western Flank B, to be completed in 2019; and Mad Dog 2 comes online in 2022. Both are attractive at an oil price below US\$50 per barrel.

Our pipeline of eight additional major projects (at various phases of evaluation or development) is highly attractive with average returns of more than 25 per cent.

Our exploration strategy also shows great promise. Each new well brings us closer to understanding the scale and commerciality of recent discoveries.

Across our suite of petroleum opportunities, we will look to accelerate production in order to capture favourable prices.

Slide 28: Delivered our plans in FY18...

Now, let me finish where I began.

Our focus remains on three things – maximise cash flow, maintain capital discipline, and increase value and returns.

Over the past five years, we have laid foundations to support these strategic imperatives. We have reshaped our portfolio and enhanced our future options, institutionalised our Capital Allocation Framework and strengthened the balance sheet, and delivered a step-change in productivity.

The benefits of these foundations are clear in our 2018 financial year results. We delivered volume growth of eight per cent and free cash flow of more than US\$12 billion. We reduced net debt, invested in future growth and announced returns of US\$6.3 billion to shareholders (which includes our highest ever final dividend). And we increased return on capital employed to over 14 per cent, or 18 per cent if you exclude Shale.

Slide 29: ...expect to further deliver in FY19...

We will build momentum into 2019 as we focus on our six value drivers.

Productivity is expected to mitigate inflationary pressures, higher strip ratios and lower grades.

Free cash flow is expected to be around US\$9 billion at current spot prices, which excludes the US\$11 billion expected from the Shale sale.

As we progress the plans I've outlined today, we will develop more organic opportunities under strict capital discipline and improve return on capital employed.

We also expect to return the net amount of the Shale proceeds to shareholders upon completion of the transactions.

Slide 30: ...and have a clear path forward over the medium term

As we look forward, our focus on cash generation, capital discipline and value and returns will not waver.

With a constructive outlook for our commodities, lower costs and higher production, a culture of continuous improvement, a strong balance sheet, and a rich suite of quality organic options, BHP is set up for a great future.

Thank you.