

## NEWS RELEASE



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**Date** 21 November 2018  
**Release Number** 26/18

### **Capital allocation briefing**

BHP will be holding an investor and analyst briefing today in Melbourne on BHP's Capital Allocation Framework.

The purpose of the briefing is to provide greater detail in relation to BHP's capital allocation processes, and greater transparency on BHP's approach to capital allocation and investment decisions.

The presentation is available on BHP's website at: [https://www.bhp.com/-/media/documents/media/reports-and-presentations/2018/181121\\_CapitalAllocationBriefing.pdf](https://www.bhp.com/-/media/documents/media/reports-and-presentations/2018/181121_CapitalAllocationBriefing.pdf)

The webcast of the briefing will be available at: <https://edge.media-server.com/m6/p/nxkxg8iw>

Further information on BHP can be found at: **bhp.com**

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# BHP

## Capital allocation briefing

Peter Beaven

21 November 2018



Port Hedland

# Disclaimer

## Forward-looking statements

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 including, but not limited to, '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](http://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.

## Non-IFRS and other financial information

BHP results are reported under International Financial Reporting Standards (IFRS). This presentation may also include certain non-IFRS (also referred to as alternate performance measures) and other measures including Underlying attributable profit, Underlying EBITDA (all references to EBITDA refer to Underlying EBITDA), Underlying EBIT, Adjusted effective tax rate, Controllable cash costs, Free cash flow, Gearing ratio, Net debt, Net operating assets, Operating assets free cash flow, Principal factors that affect Underlying EBITDA, Underlying basic earnings/(loss) per share, Underlying EBITDA margin and Underlying return on capital employed (ROCE) (all references to return on capital employed refer to Underlying return on capital employed), Underlying return on invested capital (ROIC). These measures are used internally by management to assess the performance of our business and segments, make decisions on the allocation of our resources and assess operational management. Non-IFRS and other measures have not been subject to audit or review and should not be considered as an indication of or alternative to an IFRS measure of profitability, financial performance or liquidity.

## Presentation of data

Unless specified otherwise: operations includes operated assets and non-operated assets; total operations refers to the combination of continuing and discontinued operations; continuing operations refers to data presented excluding the impacts of South32 from the 2014 financial year onwards, and Onshore US from the 2017 financial year onwards; 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 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.

## No offer of securities

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## Reliance on third party information

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## BHP and its subsidiaries

In this presentation, the terms 'BHP', 'Group', 'BHP Group', 'we', 'us', 'our' and 'ourselves' are used to refer to BHP Group Limited, BHP Group Plc and, except where the context otherwise requires, their respective subsidiaries set out in note 13 'Related undertaking of the Group' in section 5.2 of BHP's 2018 Annual Report. Notwithstanding that this presentation may include production, financial and other information from non-operated assets, non-operated assets are not included in the BHP Group and, as a result, statements regarding our operations, assets and values apply only to our operated assets unless otherwise stated.



# Key messages

Capital allocation is a key enabler of our purpose to grow long-term shareholder value and returns

## Lessons learned

The mining industry is capital intensive but investments have at times been poor  
We have improved our capital allocation approach to support better decisions

## Capital allocation

Our Capital Allocation Framework provides a transparent hierarchy, accountability and discipline  
Centralised capital prioritisation drives purer competition for capital and reduces bias

## Managing cyclicity

Flexibility from a stronger balance sheet and payout ratio dividend policy  
Use of price ranges and portfolio scenarios to ensure resilience

## Balancing risk / reward

Accepting and managing risk is inherent to value creation  
Focus on a range of risk and return measures to evaluate opportunities

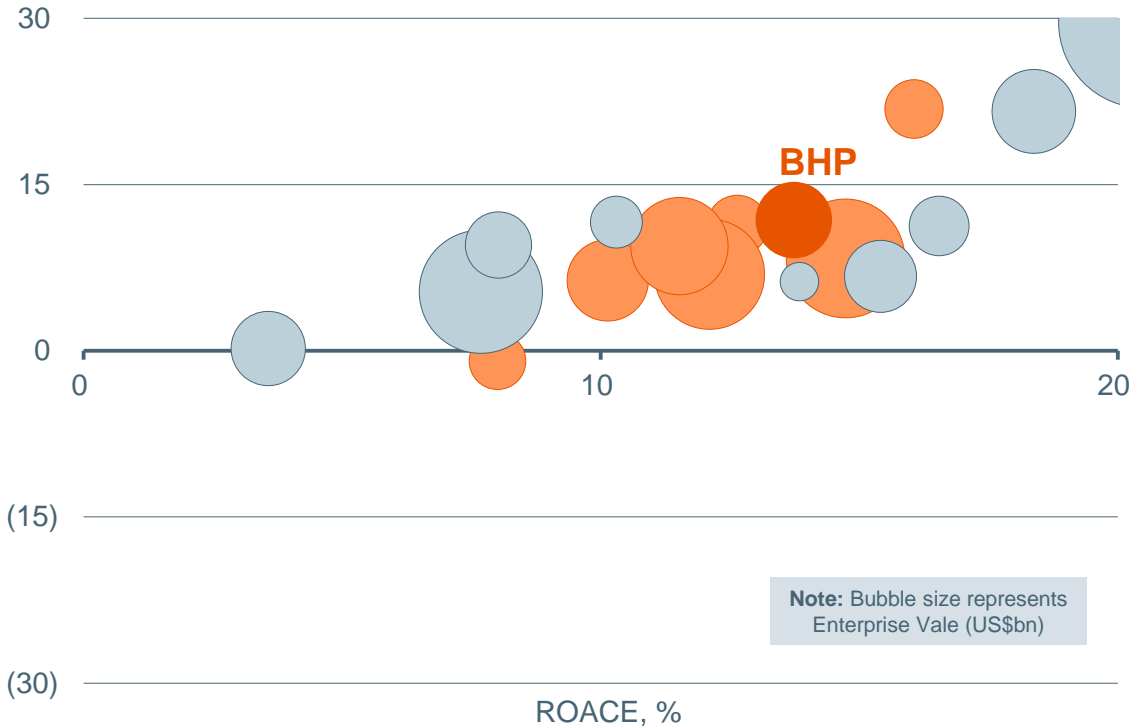
## Value and returns

Improvements are significant, sustainable and are driving improved value and returns  
All investments tested against additional cash returns to shareholders

# The importance of capital allocation

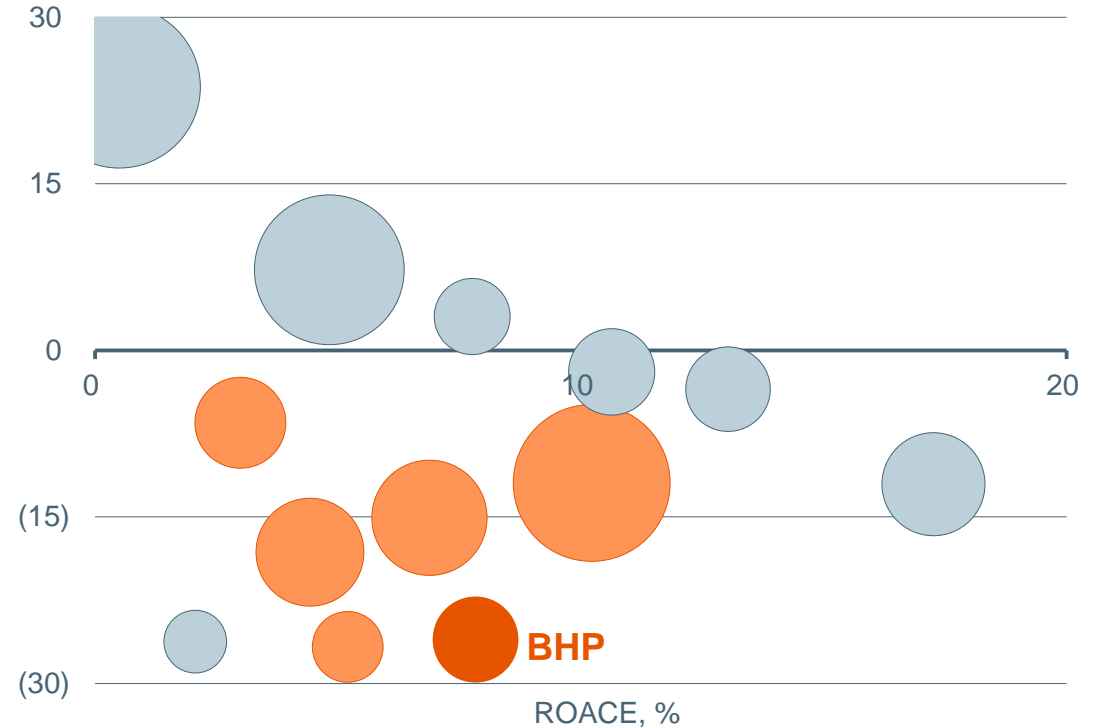
Over the long term, capital allocation is a key driver and differentiator of company performance

Value vs Returns – CY97-CY18<sup>1,2,3</sup>  
(TSR CAGR, %)



● Miners, oil and gas majors   ● Other companies

Value vs Returns – CY15<sup>1,2,3</sup>  
(TSR, %)



● Miners, oil and gas majors   ● Other companies

Source: Bloomberg.

1. Miners, oil and gas majors include: Anglo American; BP; Chevron; ExxonMobil; Glencore; Rio Tinto; Shell; Vale.

2. Other companies include: Apple; AT&T; BASF; General Electric; HP; IBM; Samsung; Siemens; Volkswagen.

3. ROACE: Return on average capital employed; TSR: Total shareholder returns.

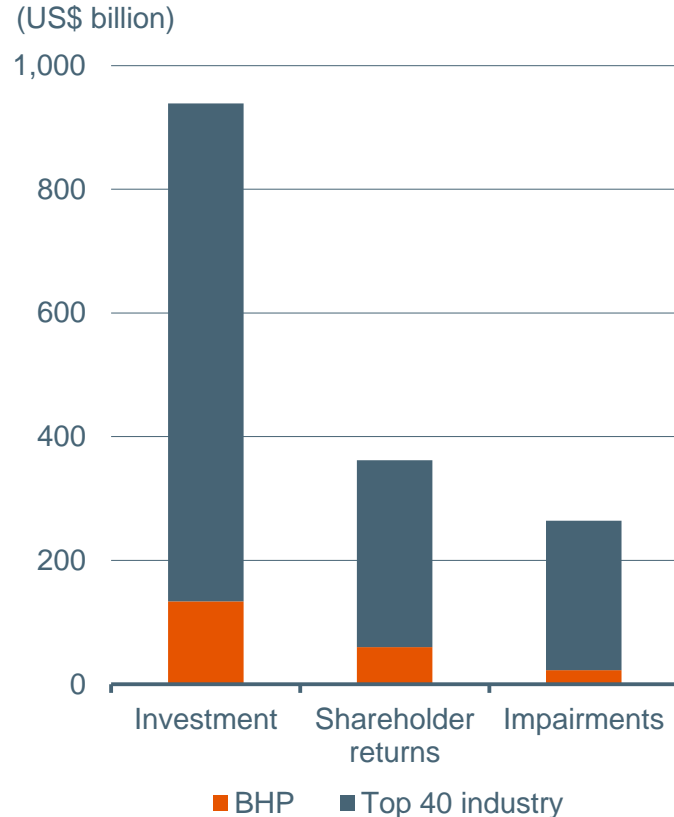
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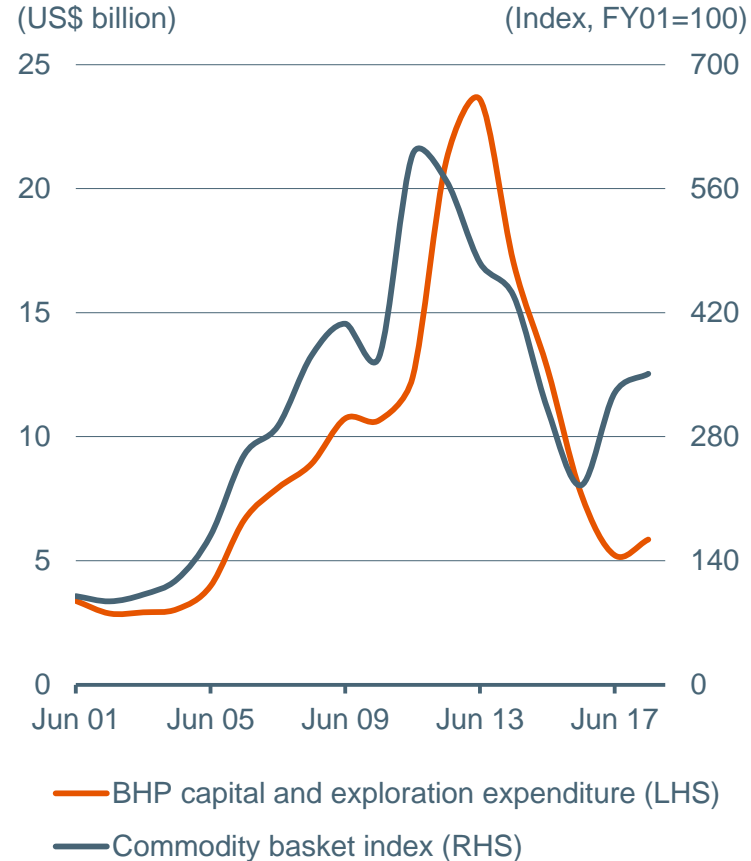
# Where did the industry go wrong?

Pro-cyclical investing has destroyed value and eroded returns

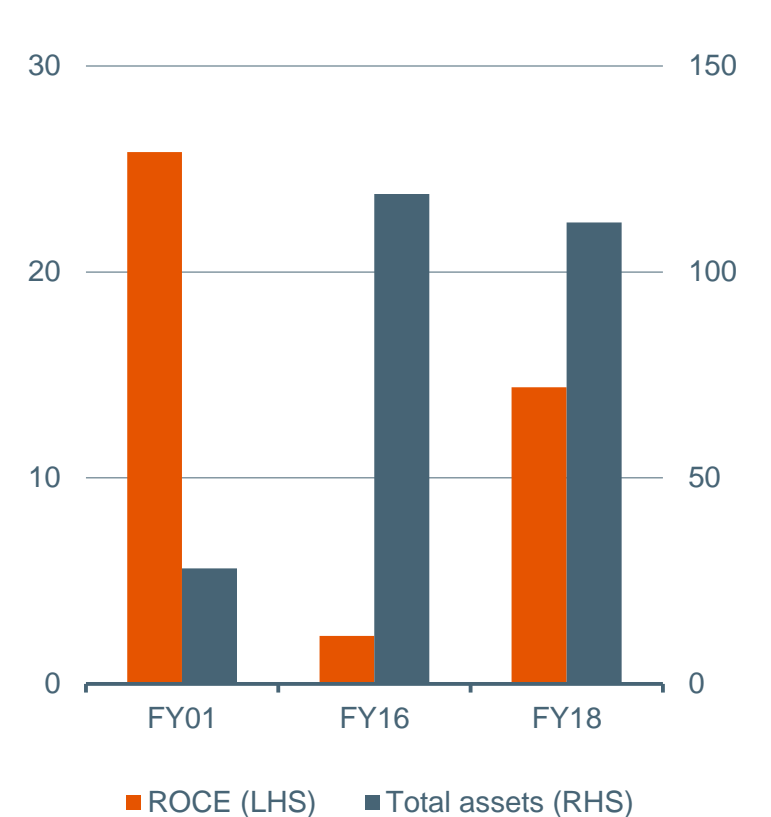
**Top 40 industry<sup>1</sup> and BHP cumulative metrics (CY08 – CY17)**  
(US\$ billion)



**Capital and exploration expenditure and commodity basket index<sup>2</sup>**  
(US\$ billion) (Index, FY01=100)



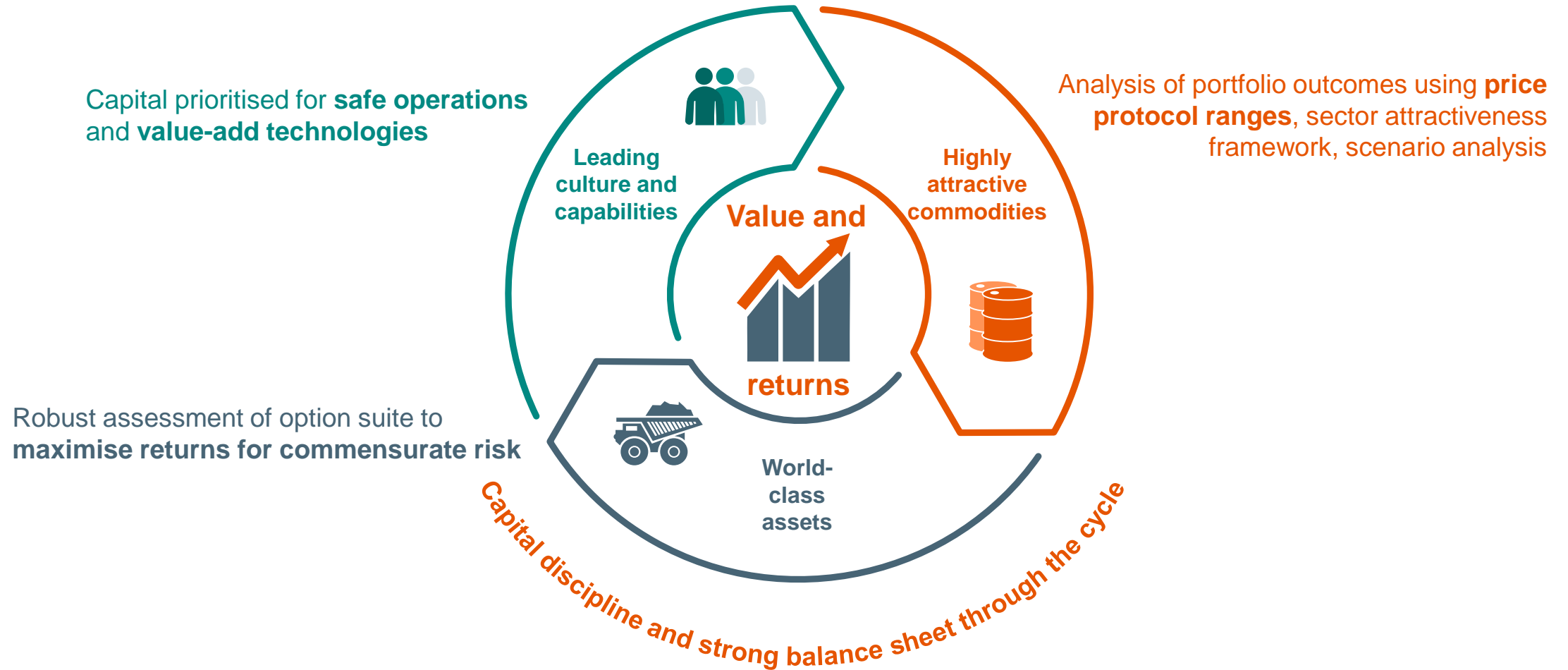
**BHP ROCE and total assets**  
(%) (US\$ billion)



1. Source: PwC Mine 2018 report and BHP analysis. Top 40 analysis represents global mining industry as represented by the top 40 mining companies by market capitalisation.  
2. Commodity basket index: comprises oil, copper, iron ore and metallurgical coal.

# Our strategic framework

Strategy is integral to capital allocation





# Improving capital allocation

Enhanced capital allocation processes to better manage cyclical and improve capital productivity

## Strategy

Strategy provides long-term context to today's capital allocation decisions

- Informs capital allocation to enable evolution from today's optimal portfolio to the optimal portfolio in the future
- Long-term scenarios to test portfolio resilience and identify new opportunities as demand patterns evolve
- Option-based approach with rigorous capital competition supports competitive advantage in range of future states

## Capital Allocation Framework

Transparent capital hierarchy promotes accountability and discipline

- Reduced debt by ~US\$15 billion over last two years and established target net debt range of US\$10 to US\$15 billion
- Minimum 50% payout ratio policy ties dividends to company performance
- Improved capital discipline with all investments tested against additional returns to shareholders

## Evaluation

Greater appreciation of risk as well as reward in all investment decisions

- Quantitative and qualitative risk assessments with a broad range of return metrics
- Range-based forecasts, stress testing and sensitivity analysis to manage volatility
- Capital prioritisation fully considers 'optimise without capital' alternative and opportunity cost

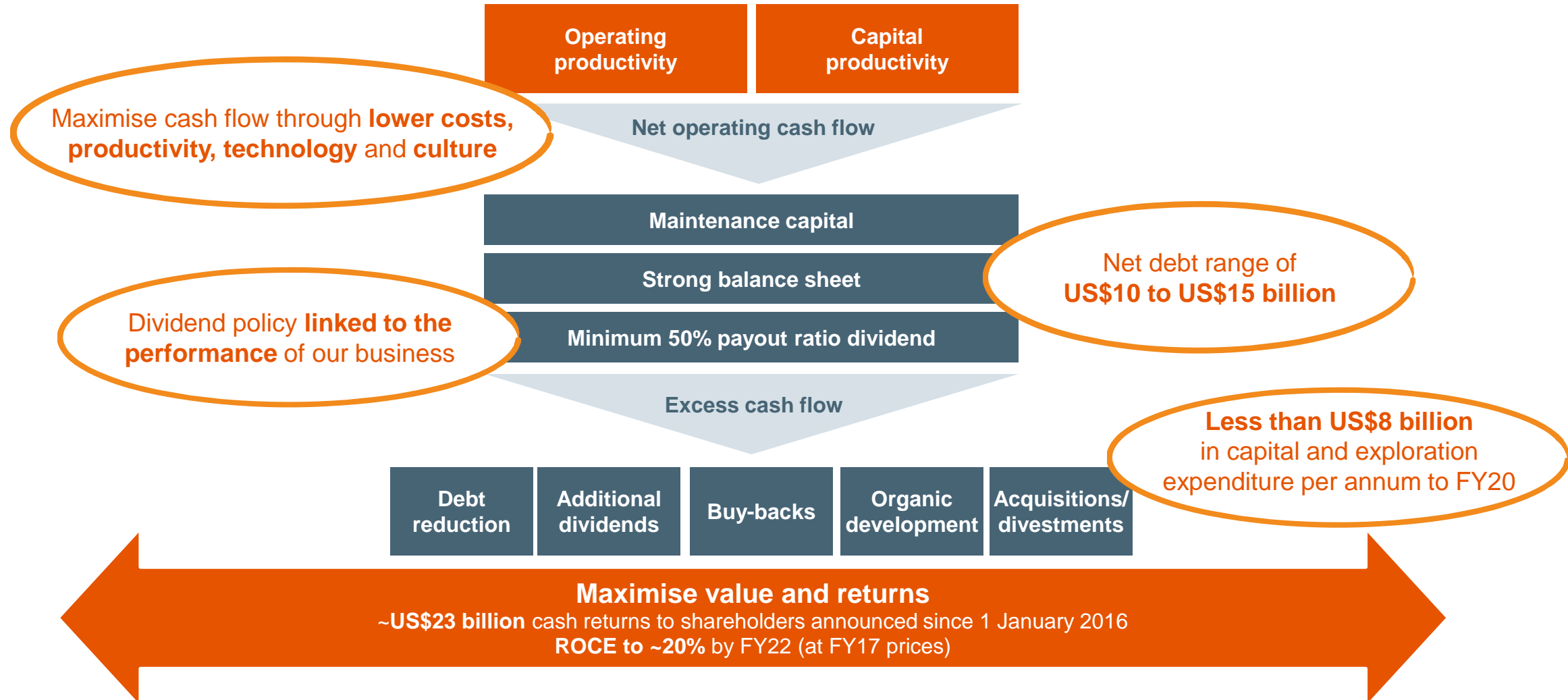
## Organisation structure

Centralised capital prioritisation encourages greater competition for capital

- Separation of sponsor and analysis to remove unconscious bias
- Earlier Board reviews incorporated into project tollgating process
- Post investment lessons critically examined and embedded

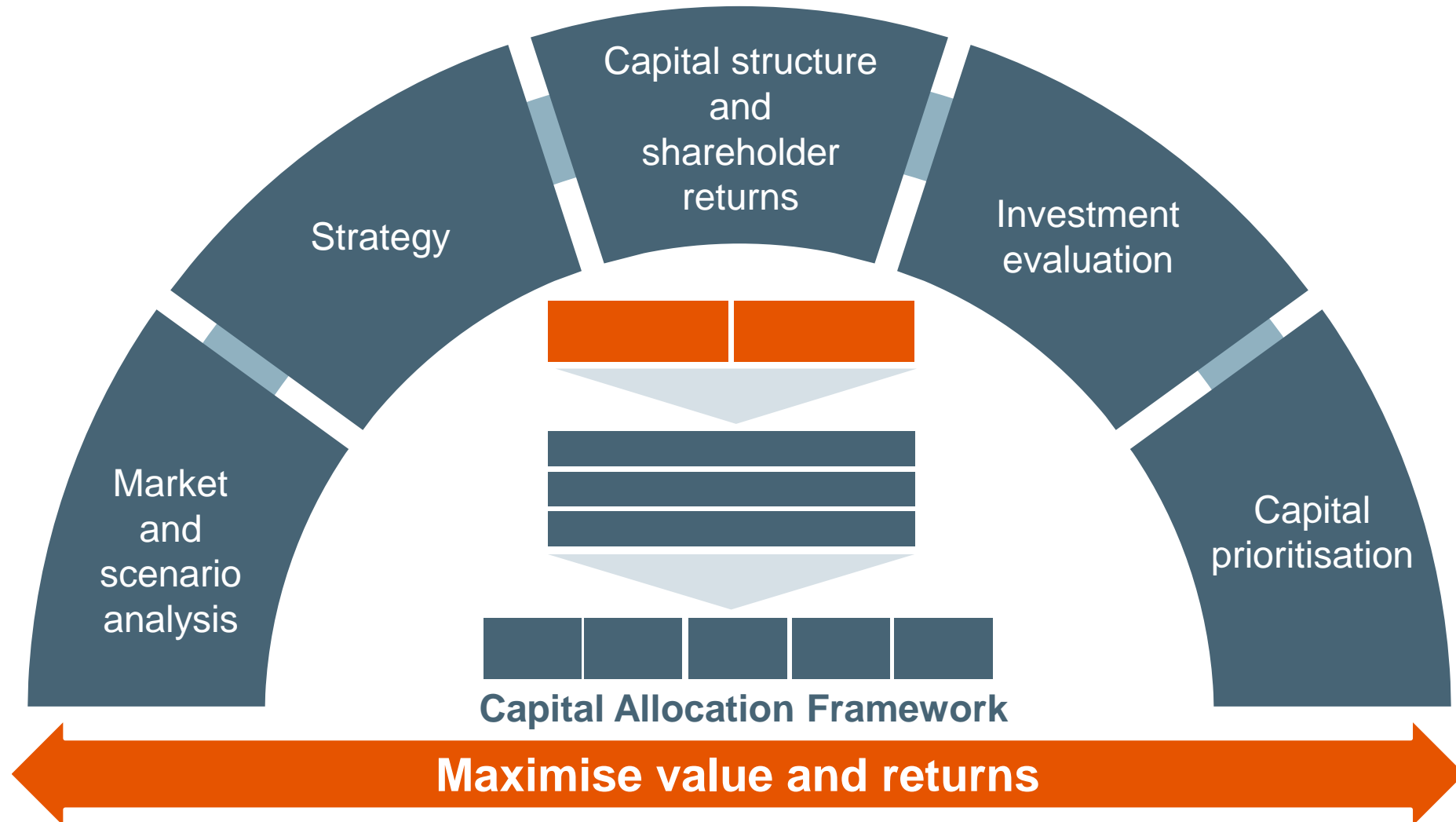
# Our framework promotes discipline in all capital decisions

## Transparent capital allocation hierarchy



# Holistic and objective end-to-end capital allocation process

More integrated approach to capital allocation across assets, finance and commercial functions



# Increased rigour in our evaluation approach

Scenario and range analysis underpins robust assessment of investment decisions

## Shareholder considerations

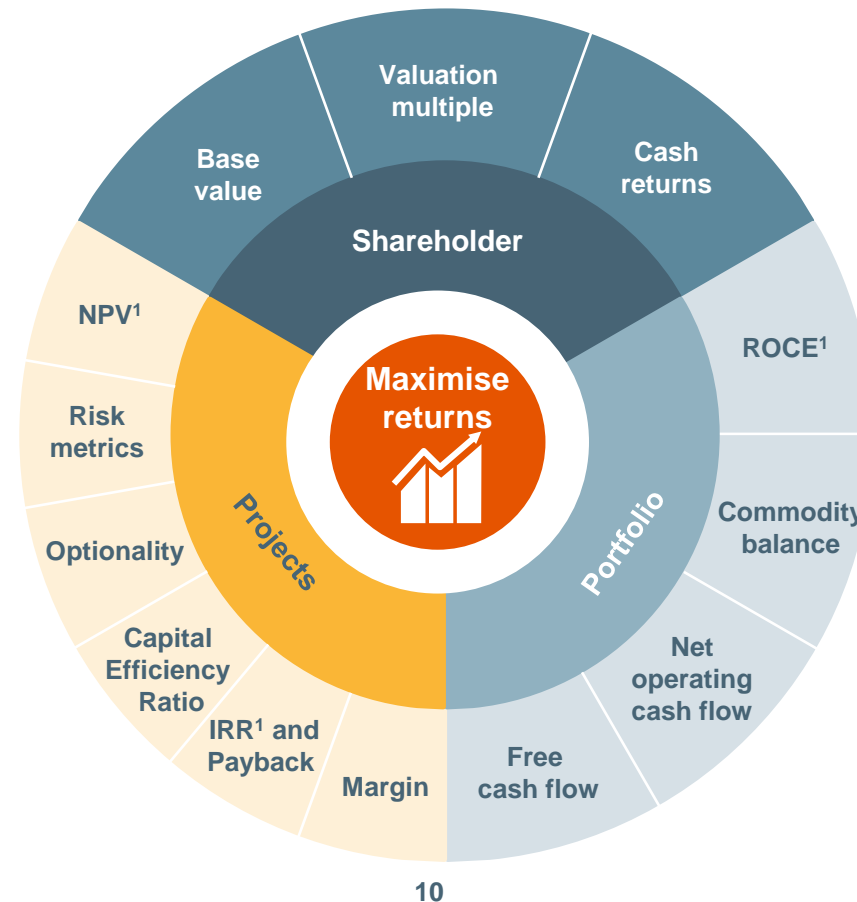
- Share price
- Additional dividend amounts
- Share buy-backs
- Licence to invest

## Project considerations

- Risk considerations
- Industry cost-curve position
- Embedded optionality
- Exit / deferral options

## Portfolio considerations

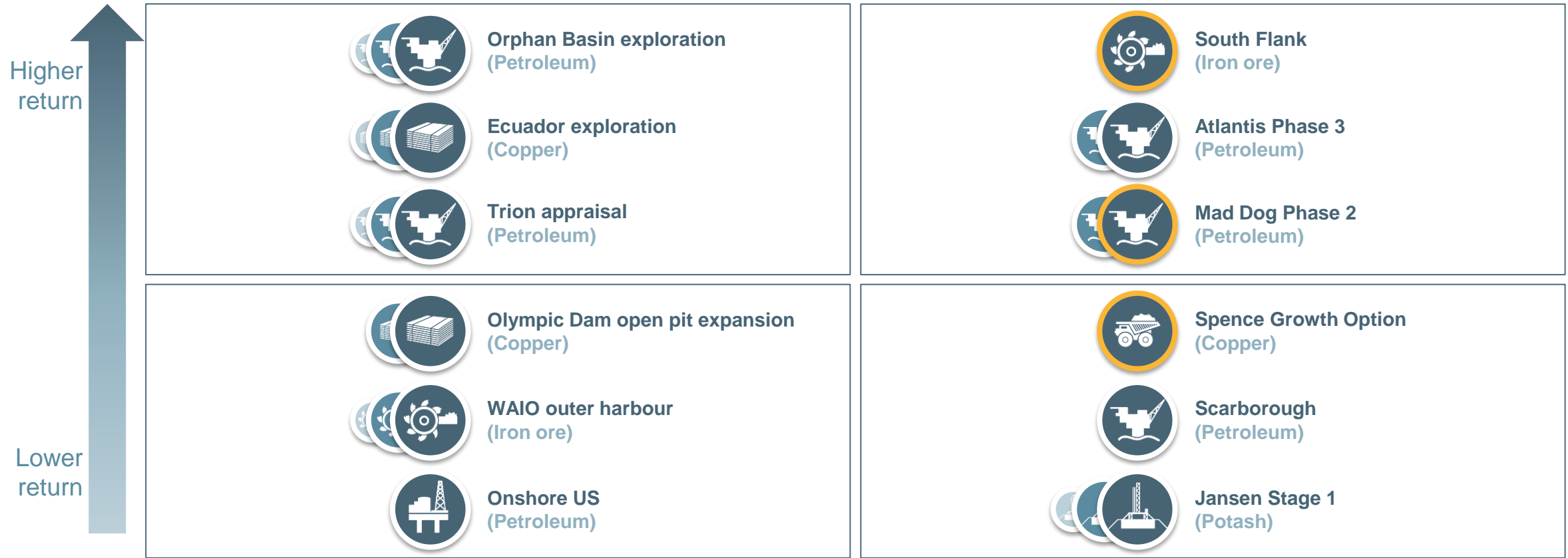
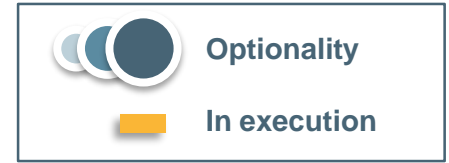
- Strategic fit
- Portfolio risk
- Scenario / stress testing
- Opportunity cost



1. NPV: Net Present Value; ROCE: Return on average capital employed; IRR: Internal Rate of Return.

# Broad suite of attractive opportunities

Comprehensive approach to evaluate and rank opportunities based on returns, risk and optionality

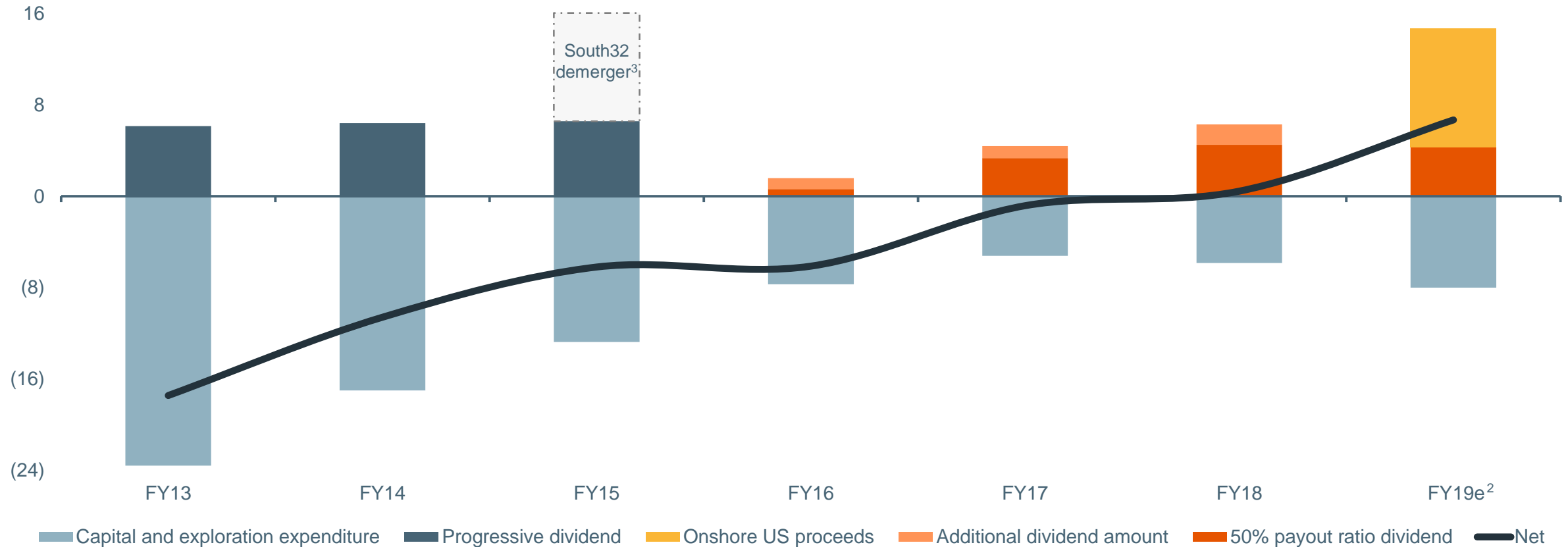


# Changes are embedded, sustainable and delivering

Rebuilding trust takes time and we will be judged on delivery, but changes are embedded and working well

## Returns to shareholders and capital and exploration expenditure<sup>1</sup>

(US\$ billion)



1. Dividends represent dividends determined for the period. Capital and exploration presented on a total operations basis up to FY14.

2. FY19e dividend assumes minimum 50% payout ratio dividend amount only based on 2018 consensus prices.

3. South32 demerger value based on market capitalisation using 5-day volume weighted average prices between 18 to 22 May 2015 inclusive.



# Changes are embedded, sustainable and delivering

Outcomes since the implementation of the Capital Allocation Framework at the beginning of 2016



| Debt  | Additional dividends   | Buy-backs  | Organic development  | Acquisitions/divestments  |
|---|--|--|--|---|
| <p>Over US\$15 billion of debt reduction</p> <p>At low end of the US\$10 to US\$15 billion net debt range</p> | <p>US\$9 billion of additional dividends announced</p> <p>US\$3.8 billion paid</p> <p>US\$5.2 billion special dividend announced</p> | <p>US\$5.2 billion Limited off-market buy-back announced</p> <p>~US\$2.2 billion of franking credits expected to be released</p> | <p>US\$15 billion invested</p> <p>3 major projects sanctioned at average IRR of ~20%<sup>1</sup></p> <p>5 latent capacity projects sanctioned at average IRR of ~60%<sup>1</sup></p> <p>8 exploration wells encountered hydrocarbons</p> | <p>Close to optimal portfolio</p> <p>Onshore US sold for US\$10.8 billion</p> <p>Successful bid for Trion oil discovery in Mexico</p> <p>Strategic position in SolGold copper exploration project</p> |

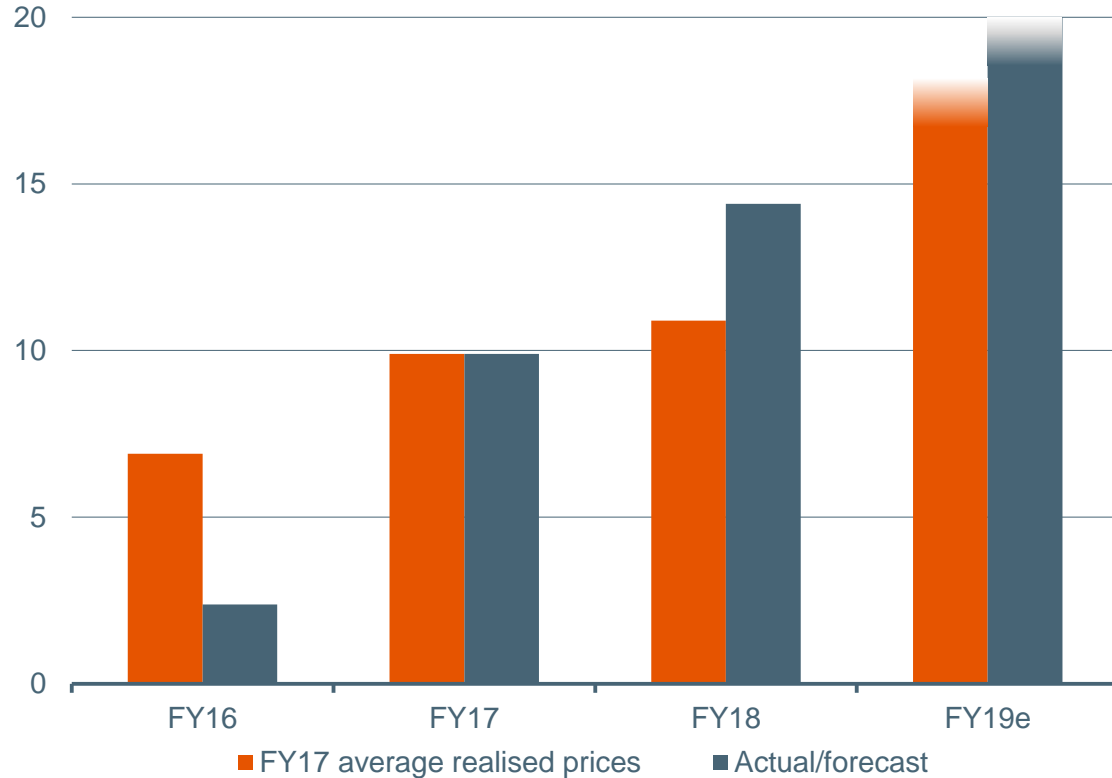
1. Average returns: Major project returns at consensus price forecasts at the time of Board approval; latent capacity project returns as presented in May 2018 at the Bank of America Merrill Lynch Global Metals, Mining & Steel Conference.

# Our plans are delivering

Rebuilding trust takes time and we will be judged on delivery, but changes are embedded and working well

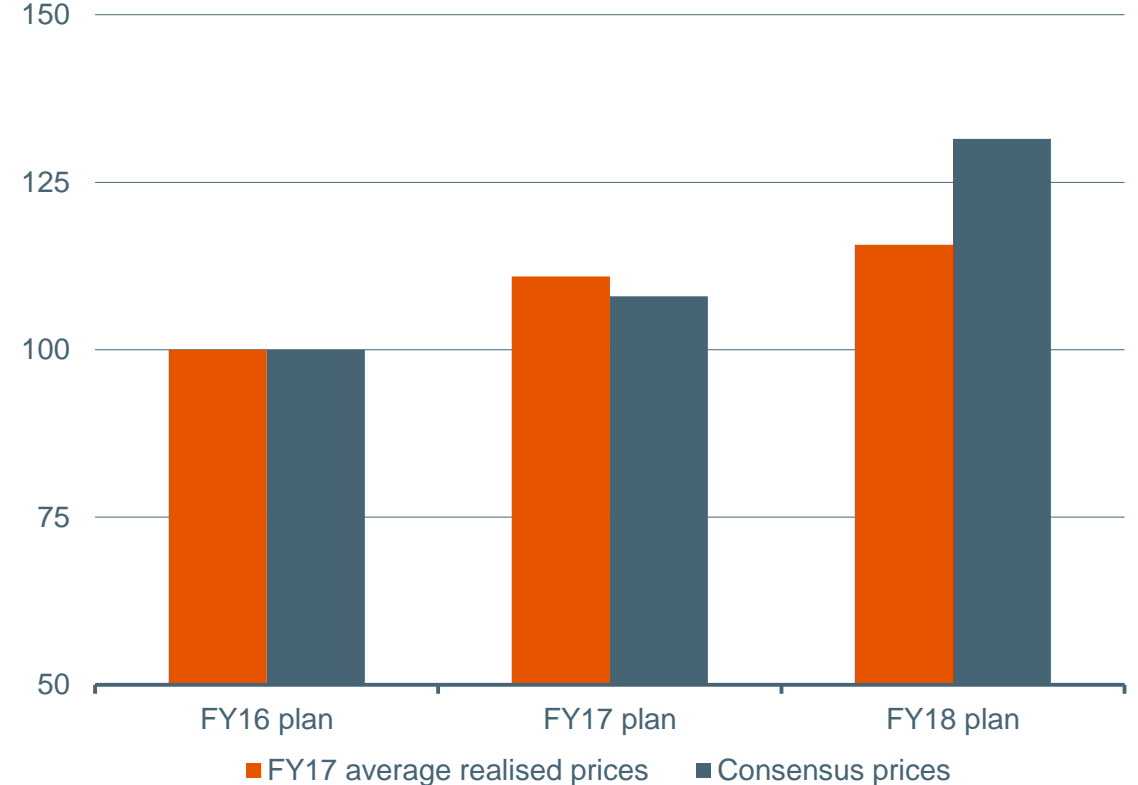
## Returns

(ROCE<sup>1</sup>, nominal %)



## Base value<sup>2</sup>

(Index, FY16=100)



1. Represents annualised attributable profit after tax excluding exceptional items and net finance costs (after tax) divided by average capital employed. Capital employed is net assets before net debt. Presentation of future Underlying Return on Capital Employed (ROCE) does not constitute guidance and represents outcomes based on differing price and other scenarios.
2. As presented at the Bank of America Merrill Lynch 2018 Global Metals, Mining and Steel Conference on 15 May 2018. Reflects the planning forecasts at the time before the addition of upside opportunities.

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# We have the assets, capability, discipline and options

Our plans show ROCE to 20% by FY22 (at FY17 prices) and improvement in base value



| Debt  | Additional dividends   | Buy-backs   | Organic development  | Acquisitions/ divestments  |
|---|--|---|--|--|
| <p>Net debt range of US\$10 to US\$15 billion</p> <p>To remain at lower end in current price environment</p> <p>Supports counter-cyclical investments</p> <p>Efficient return on equity focus</p> | <p>Committed to cash returns to shareholders</p> <p>Considered at each half-yearly period</p> <p>50% of shale proceeds to be returned in January 2019 via special dividend</p> | <p>Compete with investments and additional dividends</p> <p>Risk and return metrics fully considered</p> <p>50% of shale proceeds to be returned in December 2018 via off-market buy-back</p> | <p>&lt;US\$8 billion capex per annum to FY20</p> <p>Latent capacity projects deliver average returns &gt;100%<sup>1</sup></p> <p>Future options deliver average returns ~17%<sup>1</sup></p> <p>Continued focus on replenishing resource through exploration</p> | <p>Need to compete with internal options</p> <p>Potential for more copper and oil growth</p> <p>Focused on early stage high risk / high return opportunities</p> |

1. Average returns: Latent capacity project and future options returns as presented in May 2018 at the Bank of America Merrill Lynch Global Metals, Mining & Steel Conference.

# Key messages

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## Lessons learned

The mining industry is capital intensive but investments have at times been poor  
We have improved our capital allocation approach to support better decisions

## Capital allocation

Our Capital Allocation Framework provides a transparent hierarchy, accountability and discipline  
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## Managing cyclicity

Flexibility from a stronger balance sheet and payout ratio dividend policy  
Use of price ranges and portfolio scenarios to ensure resilience

## Balancing risk / reward

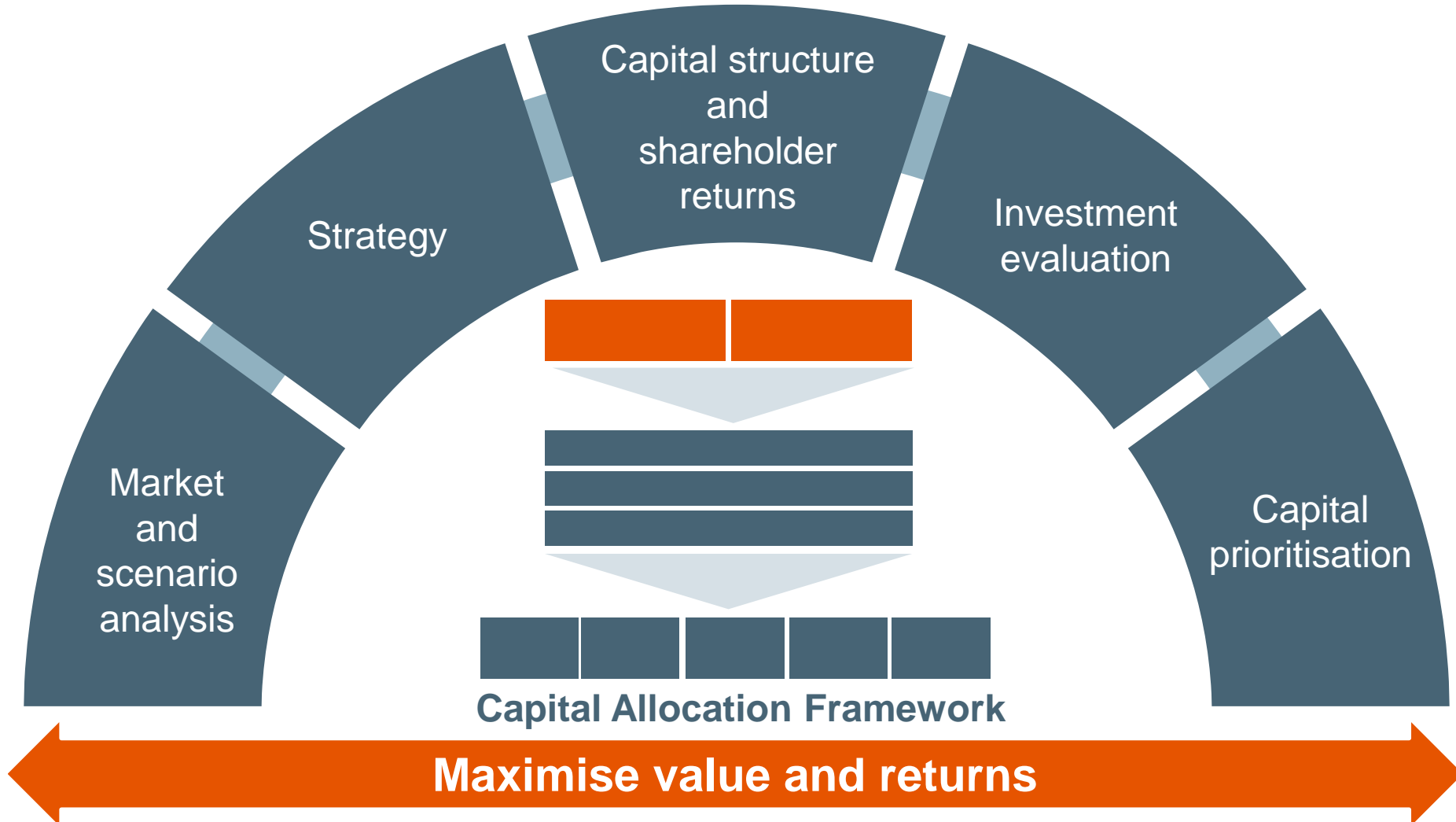
Accepting and managing risk is inherent to value creation  
Focus on a range of risk and return measures to evaluate opportunities

## Value and returns

Improvements are significant, sustainable and are driving improved value and returns  
All investments tested against additional cash returns to shareholders

**BHP**

# Capital allocation briefing: deep dive





# Capital allocation process

Continuous improvement

LICENCE TO INVEST

GOVERNANCE

Strategy

Corporate strategy

Macro-economics

Commodity Price Protocols

Planning

Opportunity assessment

Life of Asset plans

Capital prioritisation

5-year plan

2-year budget

Board

Execution

Minor and sustaining, initiatives, growth, M&A

Tollgates

Approvals



# Market and scenario analysis: Key messages

Market and scenario analysis narrows the range of future uncertainty, supporting better investment decisions today

## Differentiated view

Minerals and energy portfolio diversity enables a holistic view of the global landscape  
Integrated commercial and finance functions provide end-to-end market intelligence

## Independent & objective

Forecast commodity price ranges compiled independently of project sponsors  
Price forecasts applied consistently across the Company

## Through the cycle

Structures, accountabilities and methodologies seek to mitigate bias and pro-cyclicality  
More stable long-run views based on strong fundamental analysis enable counter-cyclical thinking

## Robust methods

Scenario, range, counterfactual and shock event analysis exposes most significant uncertainties  
Stress test core beliefs and key assumptions that underpin our 'business as usual' projections

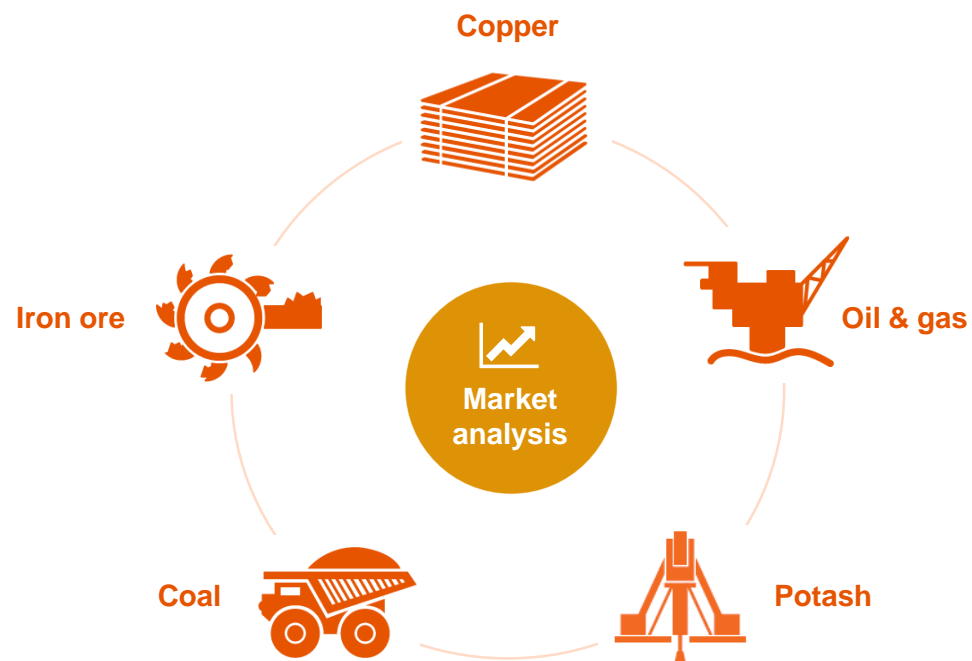
## Rigorous foundations

Holistic fundamental analysis synthesizing macro, sectoral, technological, market and 'geo' drivers  
Deep understanding of the operating environment, including detailed external benchmarking

# Our portfolio and structure provide unique perspective

A holistic view of the global landscape, enabled by our portfolio diversity and end-to-end commercial insights

## Diversity of our commodity portfolio



## Integrated commercial and finance functions



# Improving capital allocation

More stable long-term views and internal consistency drive a level playing field in the competition for capital

Our internal research showed we were pro-cyclical and biased towards recency

We have addressed both the *technical* and *human* factors behind pro-cyclicality and recency bias

We are now more stable, ...

Less volatility in long-term forecasts, especially instability stemming from recency bias

more objective, ...

Independent team drives internal consistency across all projections

more technically proficient, ...

Engineering out inadvertent pro-cyclicality in methodology and considering views of supply and demand experts

and more measured.

Mid case de-emphasised in favour of plausible ranges and probability weighted risk

# This is the tip of the iceberg – what's beneath the surface?

Our forecasts are built on rigorous foundations; and are routinely challenged by robust methods

## Short term

## Medium term

## Long term

|                    |                    |                          |                     |                                     |                               |
|--------------------|--------------------|--------------------------|---------------------|-------------------------------------|-------------------------------|
| Policy uncertainty | Growth moderating  | New copper & oil supply  | Steeper cost curves | Growth in population, wealth        | New demand centres and themes |
| Sentiment mixed    | Prudently cautious | Sustainable productivity | Emerging Asia       | Decarbonisation and electrification | Technology                    |

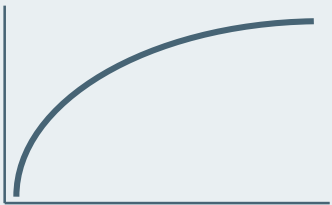
Forecasts

Scenarios

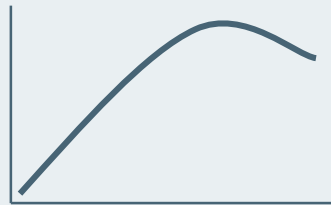
# Deep understanding of the operating context

Synthesizing macro, sectoral, technological and 'geo' factors with commodity specific dynamics

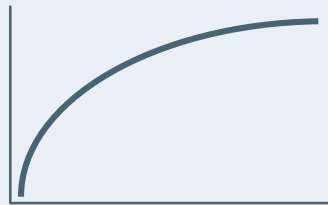
## Living standards & demography



## Metal intensity



## Energy intensity



## Technological diffusion



## Policy drivers



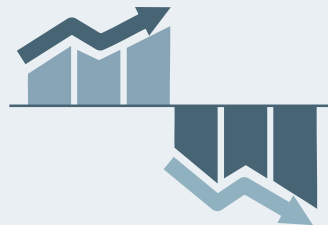
## 'Geo' factors

-  Geology
-  Geography
-  Geopolitics
-  Geoeconomics

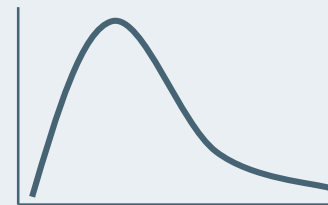
## Supply dynamics



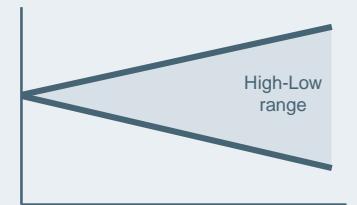
## Cost dynamics



## Price dynamics



## Acknowledging uncertainty

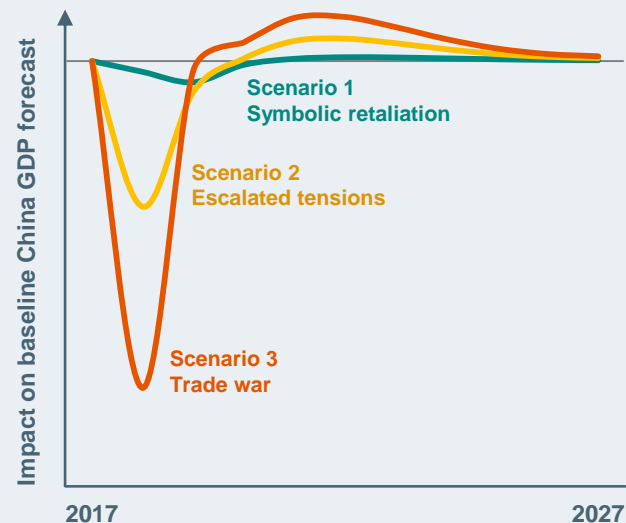




# Tracking demand dynamics on all time horizons

## Short-term shocks Sino-US trade tensions

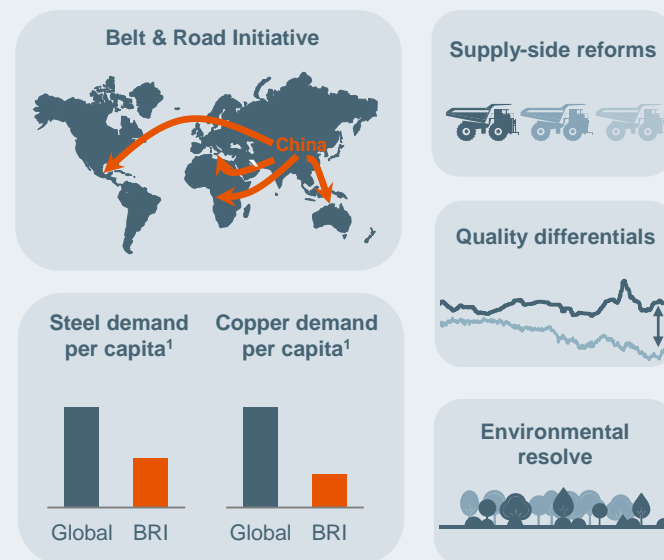
Dynamic modelling of potential shocks, allied to bottom-up expertise, equips us to anticipate and prepare for potential stress



► How resilient is our Balance Sheet to shocks?

## Medium-term shifts China's new reform era

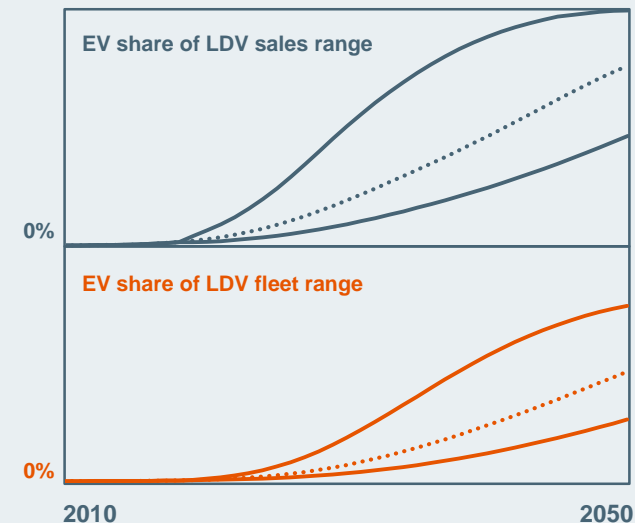
Quality differentials likely to be durable; China's mill fleet becomes bigger, coastal & greener; Belt & Road a key enabler of Eurasian development



► How do we replace declining Yandi volumes?

## Long-term risks & opportunities Electrification of transport

EV share of light vehicle sales is set to grow, potentially increasing demand for copper and nickel, while lowering demand for oil



► How is our portfolio set up to leverage EV trend?

Source: All data shown based on internal BHP analysis. Abbreviations: GDP – gross domestic product; BRI – Belt and Road Initiative; EV – electric vehicle; LDV – light duty vehicle.  
1. BRI figures shown for demand per capita exclude China; steel figures represent average for 2016; copper figures represent average for 2017.

# Strategy: Key messages

**Our strategy creates long-term value for shareholders**

## Scenario analysis

Long-term scenarios to test portfolio resilience and identify new opportunities under materially different worlds

## Strategic focus

Maximise shareholder value and returns by driving competitive advantage through industry-leading capabilities applied to a portfolio of world-class assets in the most attractive commodities

## Optimised portfolio

Strategy helps direct capital allocation enabling evolution from today's optimal portfolio to the optimal portfolio in the future

## Competitive advantage

Identification of key value drivers in each of our commodity businesses: productivity, simplification, maturation of our option suite; underpinned by a strong balance sheet

## Future options

Option-based approach to investments, with rigorous competition for capital, supports competitive advantage in a range of future outcomes

# Improving capital allocation

We have invested in strategic capabilities in the last three years

## Strategic thinking

Scenario analysis to uncover opportunities and risks: from now through the very long term

Divergent thinking, bookends to test extreme *what if* outcomes

## Strategic framework

Holistic framework drives competitive advantage: culture and capabilities, commodities and assets

## Strategic fit

Assets must be on strategy and compete for capital based on risk-adjusted returns

Filling the gaps through acquisitions and divestments, exploration and early stage options

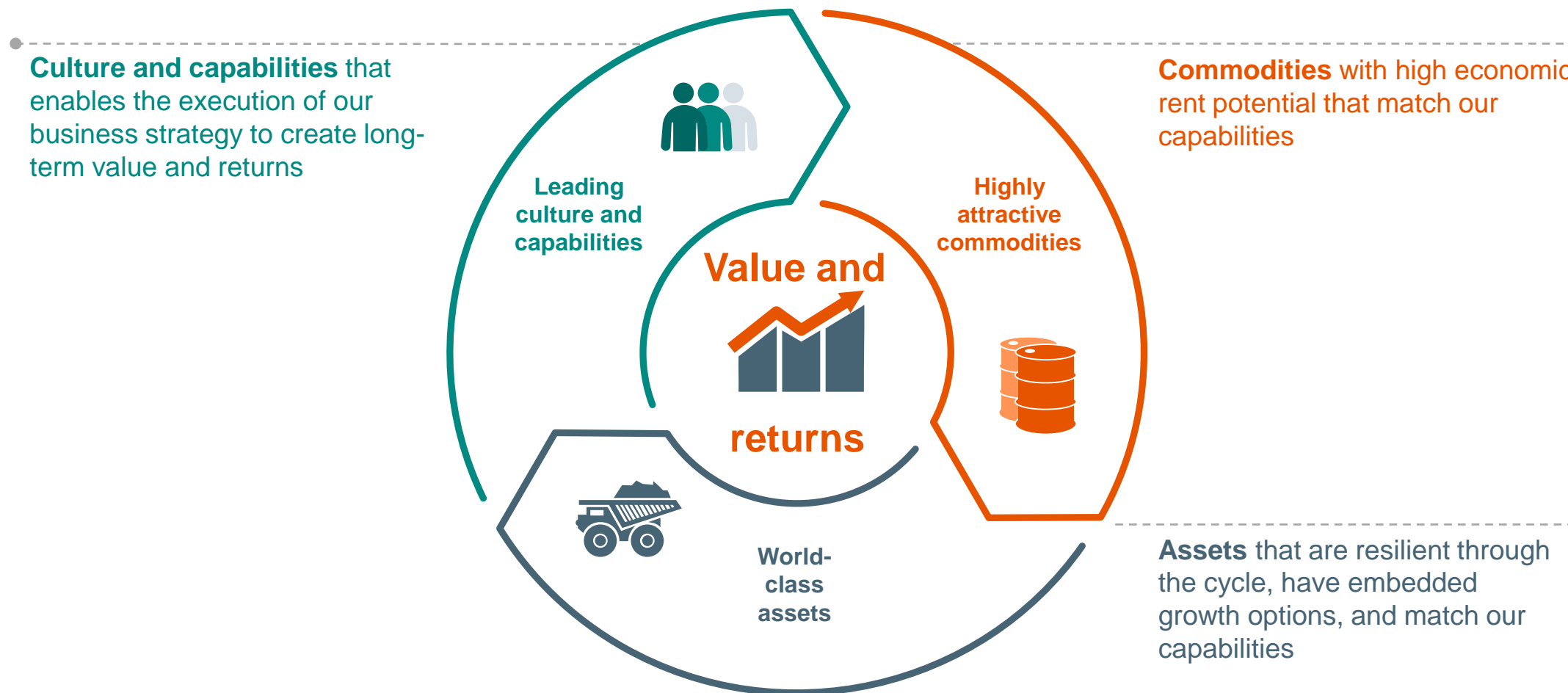
## Structure and capabilities

Centralised strategy team within Finance

Strategic alignment in all decision-making across the Group focuses effort towards a common goal

# Strategic framework

Leverage our values, capabilities and resources to meet the evolving needs of markets



# Strategic drivers

We aspire to have industry-leading capabilities applied to a portfolio of world-class assets in the most attractive commodities

## Strategic capabilities

Market intelligence

Resource access

Capital allocation

Value conversion

Social value

## Which commodities?

Market size

Supply and demand gap  
(i.e. growth potential)

Potential to capture rent

Risk of disruption

## Which assets?

Cost curve position

Expansion options

Resource life

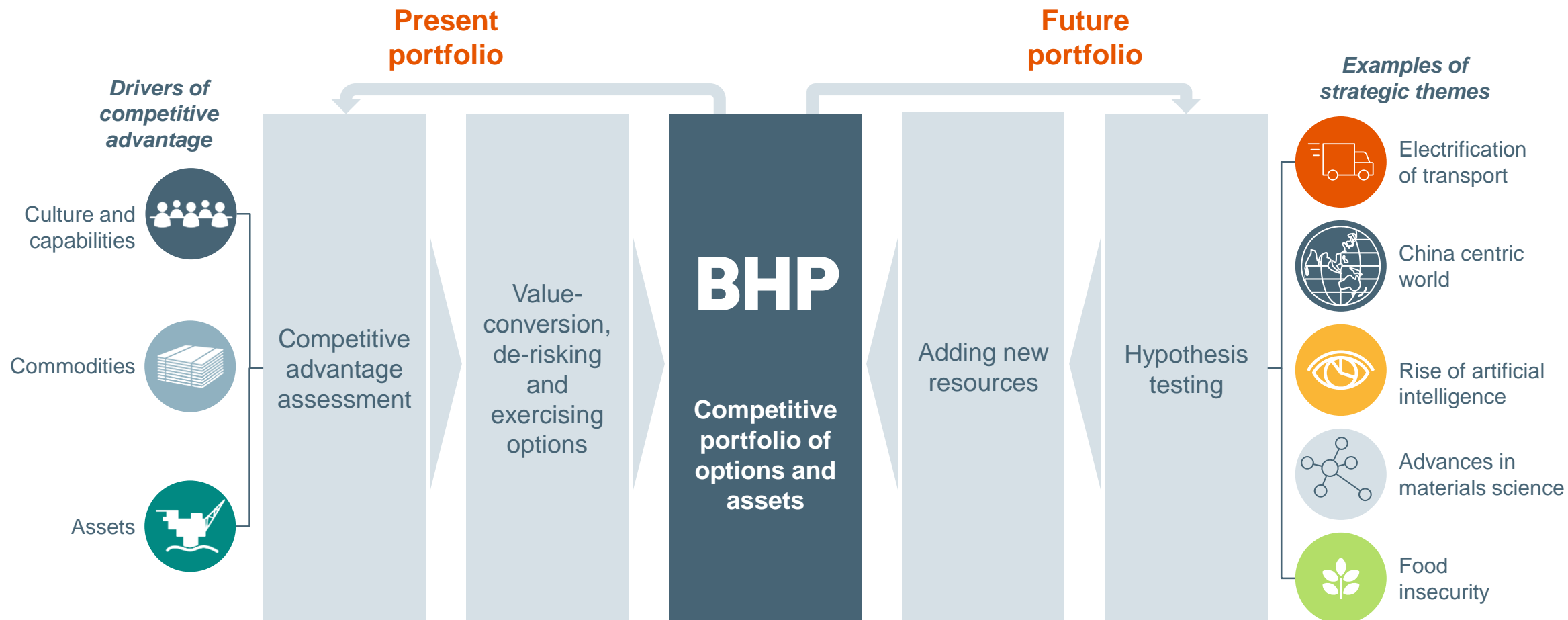
Capital intensity

Alignment with our capabilities

Country risk

# Strategic process

Continually assessing our competitive advantages and future fitness of portfolio



# Capital structure and shareholder returns: Key messages

**Strong balance sheet and payout ratio dividend underpin financial flexibility**

## Integrated

Capital Allocation Framework embeds Treasury in balance sheet, distribution and investment decisions  
Treasury an increasingly proactive influence in capital allocation

## Through the cycle

US\$10-15 billion net debt range provides optimal balance of flexibility, optionality and efficiency  
Provides downside protection and supports our ability to invest counter cyclically

## Scenario analysis

Forward-looking probabilistic and deterministic analysis to stress test the balance sheet and dividend payments  
Consistently test affordability of planned portfolio and investments

## Robust liquidity

Strong liquidity provides buffer from volatility  
Debt portfolio remains diversified and long dated

## Shareholder returns

Minimum 50% payout ratio dividend policy better suited to cyclical cash flows and supports counter-cyclical investment  
Additional distributions assessed through application of Capital Allocation Framework

# Improving capital allocation

Through the Capital Allocation Framework, Treasury is embedded in investment and capital returns decisions

## Integrated

Treasury expertise embedded in strategic decisions

Integrated approach to Financial Risk Management

## Commerciality

Best practice from bank and corporate treasuries

Commercial mindset in transaction structuring

## Transparent

Clear Treasury frameworks for balance sheet and liquidity

US\$10-15 billion net debt target range

Minimum 50% payout ratio dividend policy

## Risk

Increased focus on internal capital, market and credit risks

Range-based forecasts and stress testing to manage volatility



# Strong balance sheet

A strong balance sheet provides stability, flexibility and optionality through the cycle

## Stress tested metrics

### Balance sheet tested under a range of price scenarios

- Buffer for price moves protects the company and ensures ability to act counter-cyclically
- Consistently testing affordability of cash returns and investment

## Debt management

### Diversified and long-dated maturity profile

- Lower gross debt and long weighted average life of debt
- Staggered maturity profile for added flexibility

## Strong liquidity

### Shielding the business from volatility

- Undrawn committed US\$6 billion Revolving Credit Facility
- Enhanced liquidity framework better caters to volatility

## Net debt target range

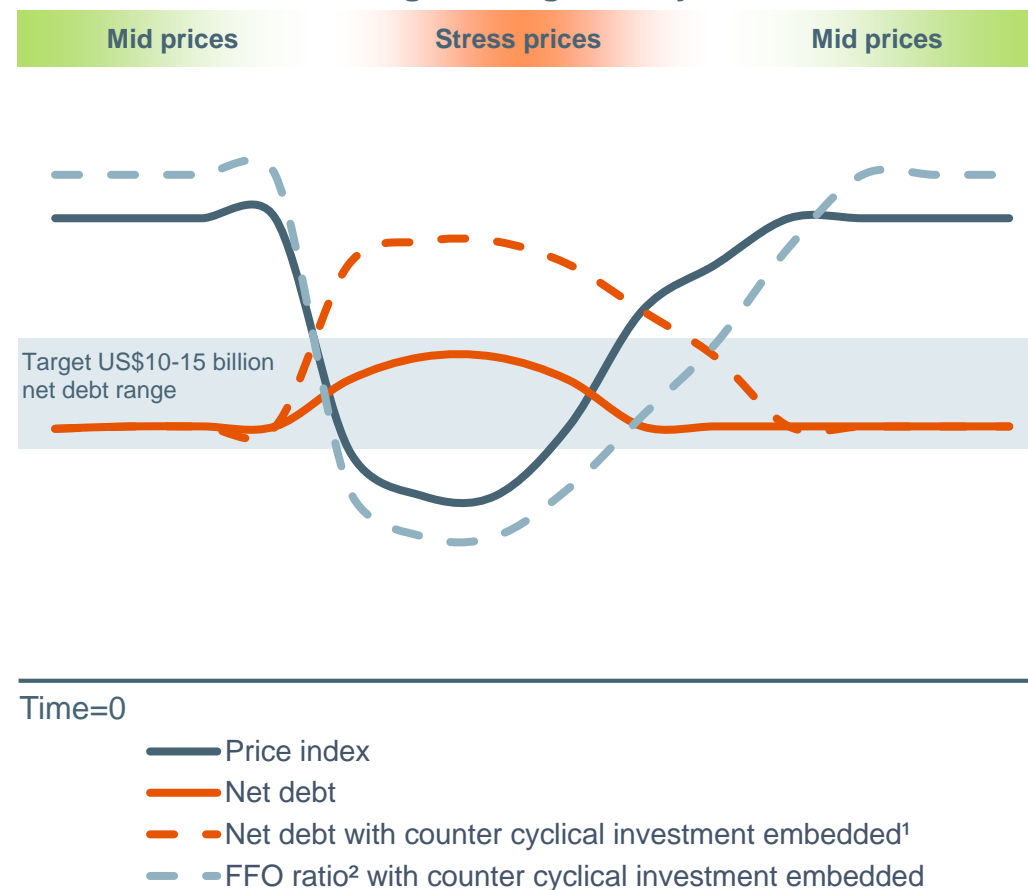
### Transparent target range provides stability and flexibility

- Net debt to move counter-cyclically
- Range can be temporarily breached for the right opportunity with pathway back to range

1. Assumes US\$5 billion acquisition of early-stage opportunity.

2. FFO ratio: Funds From Operations/Net Debt.

## Illustrative net debt range through the cycle



# Minimum 50% payout ratio dividend and additional returns

## Rewarding our shareholders whilst maintaining flexibility

### Minimum dividends

#### Payout ratio better suited to cyclical cash flows

- Committed to cash returns – important component of TSR<sup>1</sup>
- More responsive to changes in conditions
- Reduces volatility in net debt
- Supports counter-cyclical investing

### Additional amounts

#### Considered through Capital Allocation Framework

- Additional US\$9 billion over minimum dividend announced since February 2016<sup>2</sup>
- Balance sheet position considered when determining amount of excess cash available
- Additional shareholder returns compete with investments

### Strength and flexibility

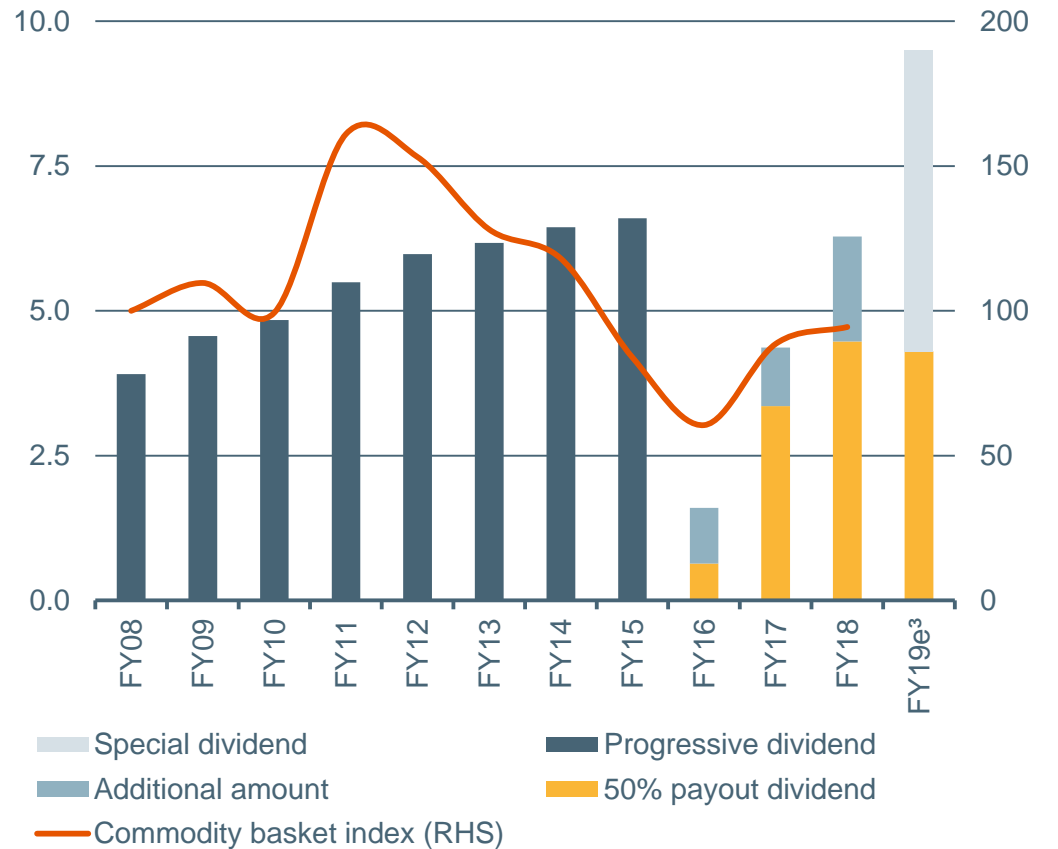
#### Better placed for the next downturn

- Debt moving counter-cyclically while dividends move pro-cyclically
- Supports improved capital allocation through the cycle

#### Payout ratio dividend policy responds to market conditions

(Dividends determined, US\$ billion)

(Commodity index, FY08=100)



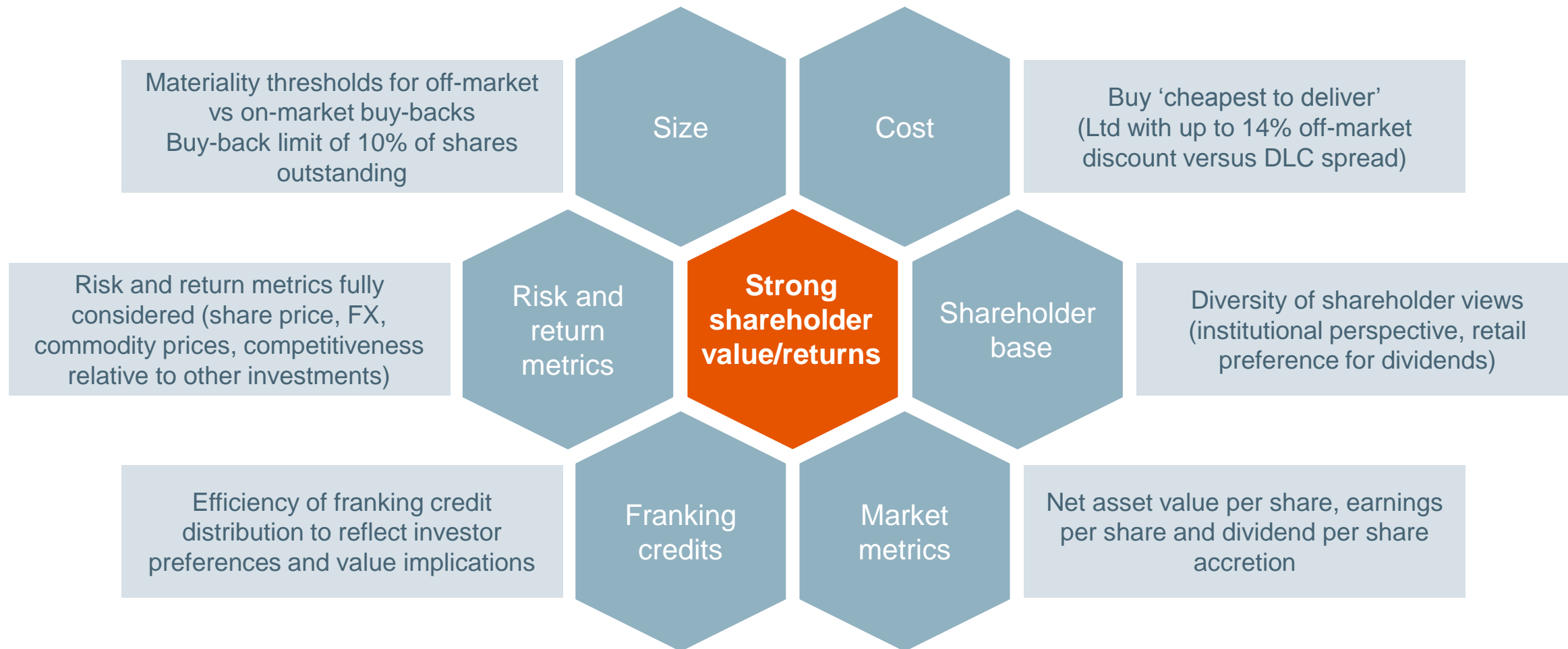
1. TSR: Total shareholder returns.

2. US\$3.8 billion additional dividend amounts returned in last two years, plus US\$5.2 billion special dividend announced in relation to Onshore US divestment.

3. Assumes minimum 50% payout ratio dividend amount only based on 2018 consensus prices.

# Share buy-back analysis

The Capital Allocation Framework underpins the form of returns of the shale proceeds



# Investment evaluation: Key messages

Thorough approach to investment evaluation to optimise our decisions

## Portfolio

Broad suite of attractive opportunities across commodities and time periods  
Objectively assessed through comprehensive risk-return framework across the development life cycle

## Return

Wide range of metrics to assess returns across project, portfolio and shareholder level  
Used in conjunction to provide holistic view on returns

## Risk

Full risk assessment across quantitative and qualitative criteria  
Consider full set of material risks relevant to each capital allocation decision

## Risk-adjusted returns

Our focus on risk-adjusted returns allows us to better understand embedded optionality and value  
Appropriately considering the investment risk and reward characteristics enables better decisions

## Options

Constantly replenishing options with flexibility at entry and exit points to manage risk  
Focus on options with a low cost of carry

# Improving capital allocation

Structural changes to our investment evaluation processes to improve objective opportunity assessment

## Strategic

Centralised opportunity assessment to increase strategic alignment and reduce bias

Simplified processes and robust internal capability enable fast investment decisions

## Transparent

Early and iterative investment review process

Fully incorporate impacts of incremental supply in investment decisions

Capital Allocation Working Group formed and recommendations implemented

## Objective

Quantitative and qualitative risk-return analysis

Focus on a range of inputs and outcomes to understand volatility

Standardised across major, minor projects, exploration and M&A

## Flexible

Assets identify and optimise opportunities

Low, medium and high scenarios considered to improve downside protection

# Project risk-return assessment

A broad range of metrics used to assess risk-returns across project, portfolio and shareholder level

## Risk-adjusted returns

Investment return must at least match the returns from alternatives with similar risk and time horizons

- Appropriate risk-return balance
- Consistent long-term assumptions
- Returns at project, portfolio and shareholder level

## Opportunity cost of capital

Tested against higher of cost of capital or return of share buy-back

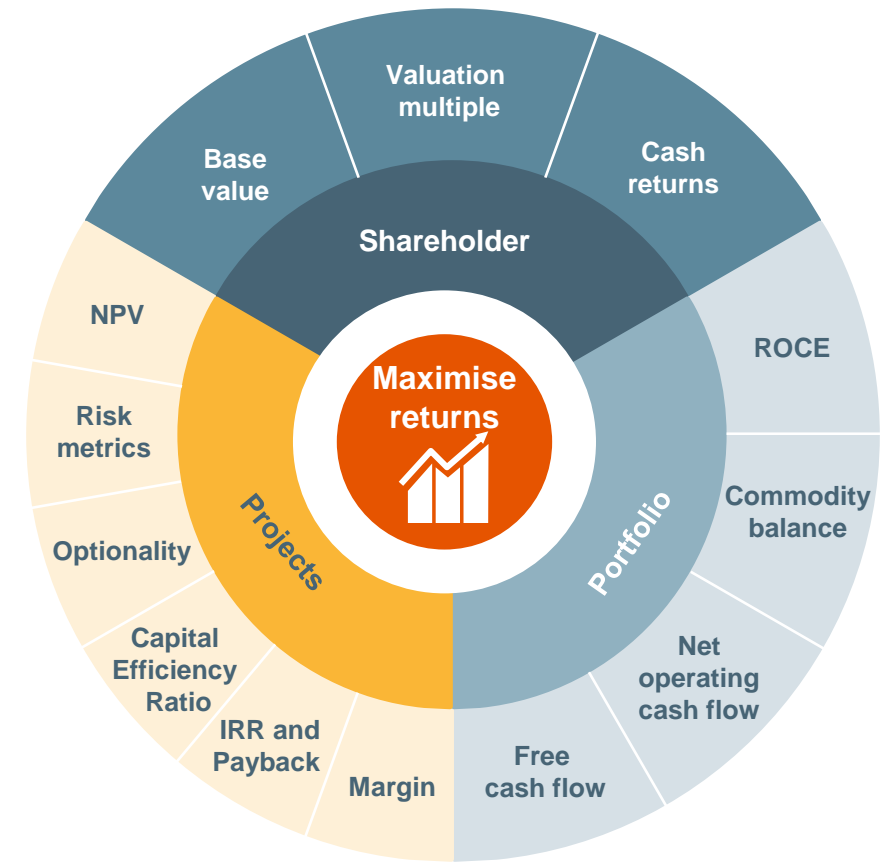
- Flexibility according to market conditions

## Incorporating real options

Consideration of option value potential

- Future expansion options considered
- Exploration, early stage M&A, organic options
- Capital allocation guides investment decisions across real options

*Metrics used in conjunction to provide comprehensive view on returns*

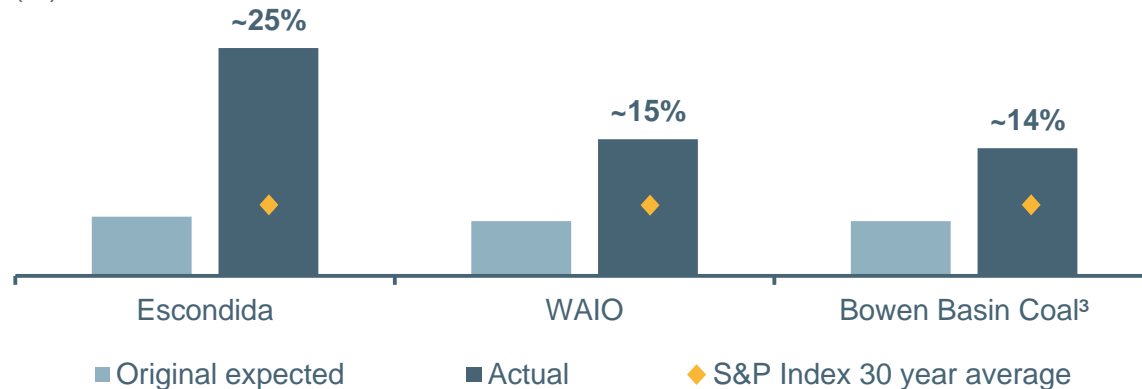


# Focused on risk-adjusted returns

## Simple hurdle rates may prevent us from making optimal decisions

- Investment into Tier-1 assets have been highly value accretive, returning significantly above the market average for ~30 years
  - these investments may have been missed if the decision was based on a hurdle rate, rather than their risk and reward characteristics
- In Onshore US, the expected high returns on short-cycle investments with volatile commodity prices were not realised – we have learnt from this

### Asset returns (annualised)<sup>1,2</sup> (%)



1. IRR real on a risked, 100% basis. Indicative internal analysis.

2. Source: Thomson Reuters, BHP. Market indices reflected with Total Shareholder Return (TSR).

3. Includes BMA, BMC and Gregory Crinum.

*Appropriately considering the investment risk and reward characteristics enables better investment decisions*

| Cash flow distribution and payback  | Real options   |
|---|--|
| <ul style="list-style-type: none"> <li>Near vs long-term view on cash flows</li> <li>Period of time initial capital is at risk</li> </ul> | <ul style="list-style-type: none"> <li>Multiple commodity price cycle improvement</li> <li>Assessing expansion, deferral and exit costs</li> </ul> |
| Industry cost curve position  | Downside / upside risk distribution  |
| <ul style="list-style-type: none"> <li>Sustainable high margins</li> <li>Cost curve steepness</li> </ul>                                  | <ul style="list-style-type: none"> <li>Probabilistic analysis enabled</li> <li>Understanding of both downside and upside risk</li> </ul>           |

# Holistic approach to project risk

Improved understanding of risk is driving better investment decisions

## Quantitative risk



## Qualitative risks



## Integrated risk assessment



Operational risk



HSEC exposure

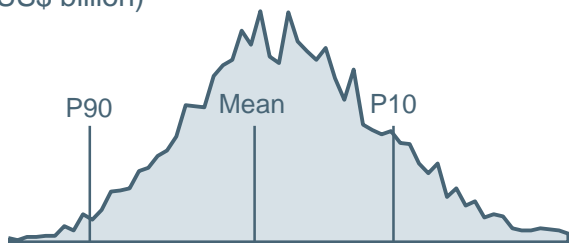


Macroeconomic risk



Geopolitical risks

Project NPV distribution  
(US\$ billion)



*Understand NPV and IRR ranges to mitigate downside risks and improve certainty of outcomes*

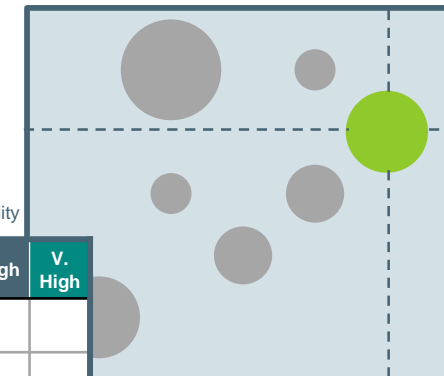


Capability / experience



Others

*Qualitative risks assessed using dedicated framework*



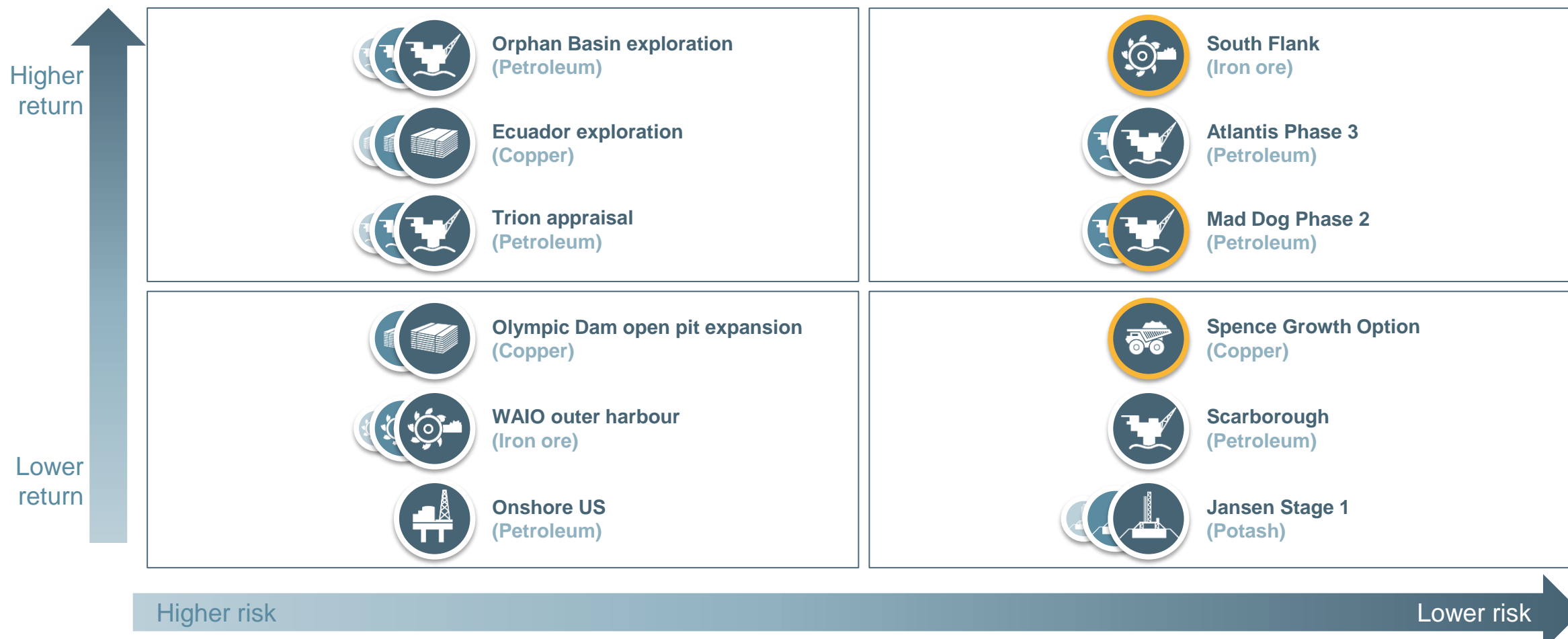
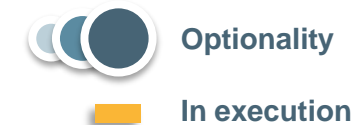
|    | Low | Mid | High | V. High |
|----|-----|-----|------|---------|
| 0  |     |     |      |         |
| 1  |     |     |      |         |
| 2  |     |     |      |         |
| >2 |     |     |      |         |

*Consider full set of material risks relevant to each capital allocation decision to compare against returns*



# Broad suite of attractive opportunities

Comprehensive approach to evaluate and rank opportunities based on returns, risk and optionality



# Capital prioritisation: Key messages

Improved capital prioritisation is encouraging purer competition for capital and driving improved capital productivity

## Fundamental analysis

Bottom-up scenario and range analysis to consider the optimal level of investments  
Greater rigour in option evaluation mitigates downside risks and improves certainty of outcomes

## Structured approach

Opportunity assessment starts at the assets before competing centrally  
Bottom-up build during the Life of Asset planning process

## Multi-disciplinary

Weighing optimal capital towards balance sheet strength, growth, M&A and shareholder returns  
Incorporating input from other areas of the business (including treasury, marketing, tax, accounting and projects)

## Portfolio optionality

Capital allocation framework provides level playing field for diverse opportunities to compete  
Growth, exploration and early stage M&A options assessed from a portfolio perspective

## Time horizons

Lessons learnt from the past to better manage inevitable cyclicity of the mining industry  
Embedded in our short, medium and long-term decision-making

# Improving capital allocation

Fundamental changes to our capital prioritisation processes to enable objective portfolio assessment

## Holistic

Capital prioritised from a portfolio perspective consistent with long-term strategy, to ensure maximum value and returns

Includes major, minor & sustaining projects, latent capacity, exploration, technology and functional initiatives

## Competitive

Purer competition for capital drives capital productivity

Investment tested against buy-backs and acquisition options

## Objective

Capital prioritisation managed centrally to avoid bias from asset submissions

Whole of portfolio view drives better decisions

## Discipline

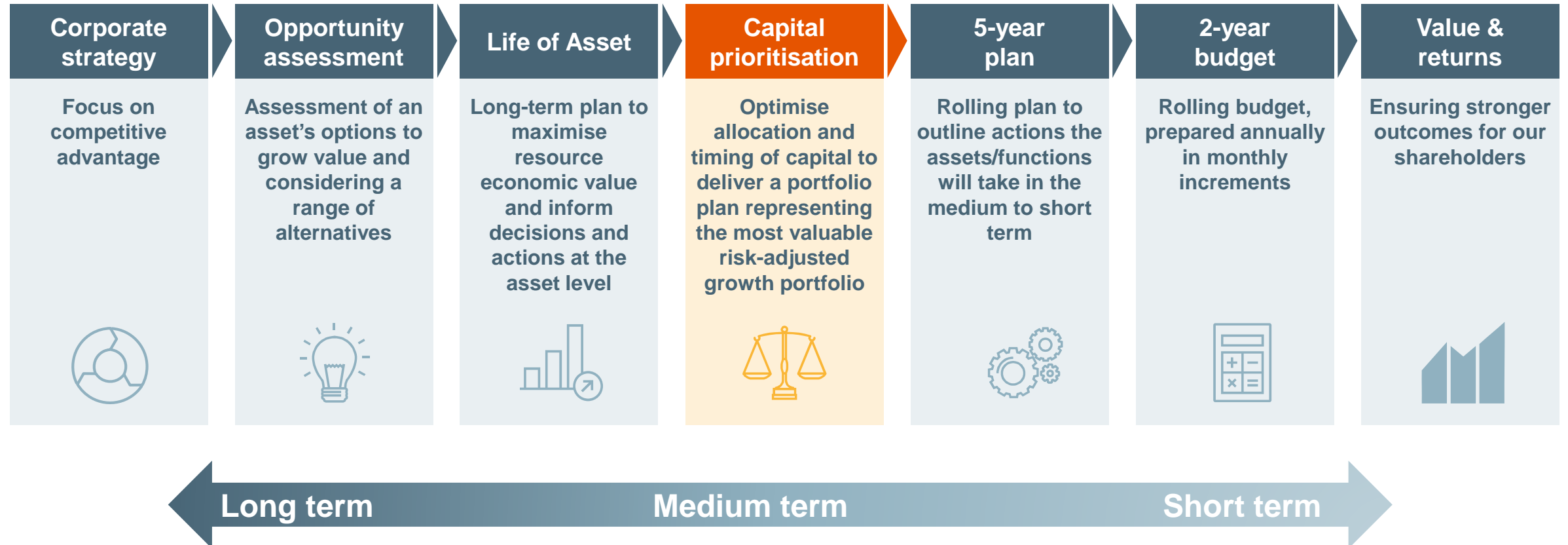
Standardised investment and evaluation approach

Fully consider risk vs reward, qualitative factors and investment constraints

Guided by the Capital Allocation Framework

# Capital prioritisation is integral to our planning process

Capital prioritisation bridges planning across all time horizons to ensure alignment with strategy and day-to-day operations



# Structured approach to assess options

Information generated by the assets during Life of Asset planning process

Centrally assessed in corporate office with common criteria against other options

Healthy competition of options with objective approach



Bottom-up build up



Optimise value for considered level of risk



Strategic fit



Scenarios



Risk-return



Sequencing

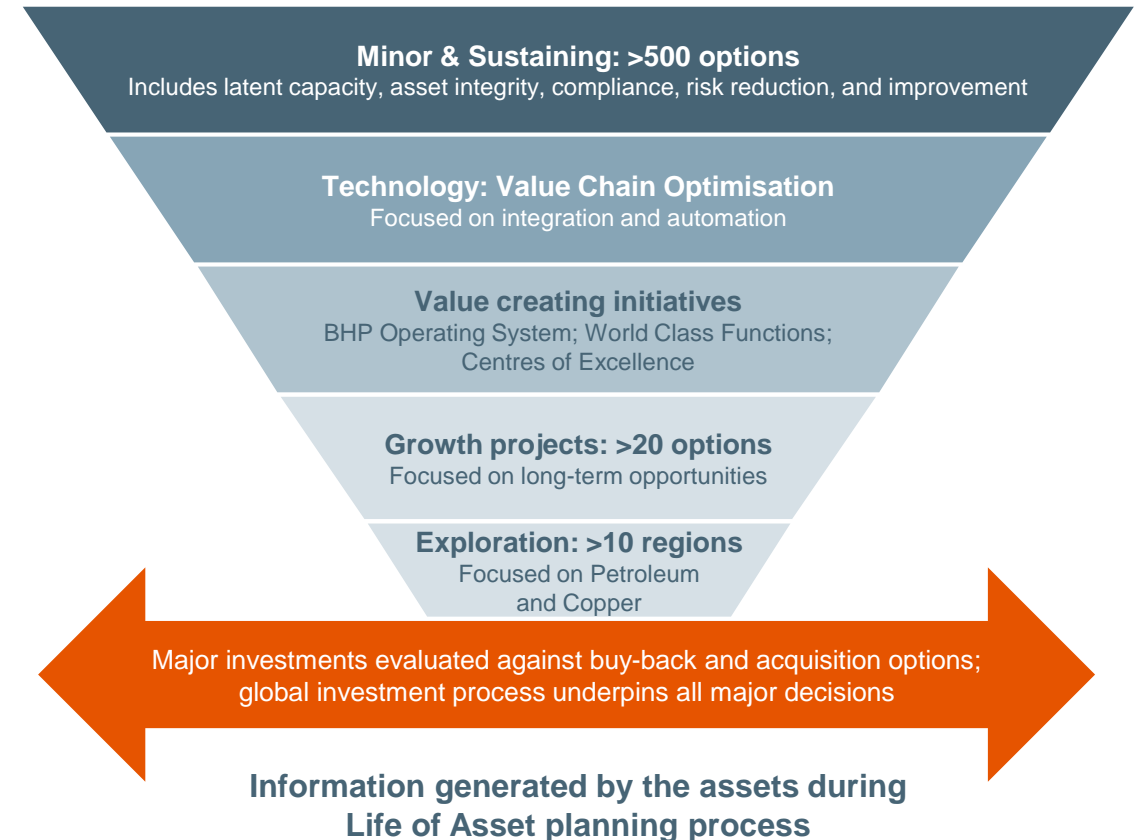
# Bottom-up build during Life of Asset planning process

Assets identify different options to grow value of the business and include these in their Life of Asset plans



Life of Asset plans for capital prioritisation incorporates:

|   |  |
|---|--|
| <b>Current base plan</b>  | <b>Potential growth</b>  |
| <p>A current long-term plan excluding unapproved capital projects</p>         | <p>Potential growth options based on insights from Opportunity Assessment</p>    |
| <b>Closure plan</b>   | <b>Asset preferred plan</b>  |
| <p>Plans for closure are incorporated into the long term development plan</p> | <p>A long-term plan preferred by the assets including value creating options</p> |



# Portfolio optionality assessed by centralised planning

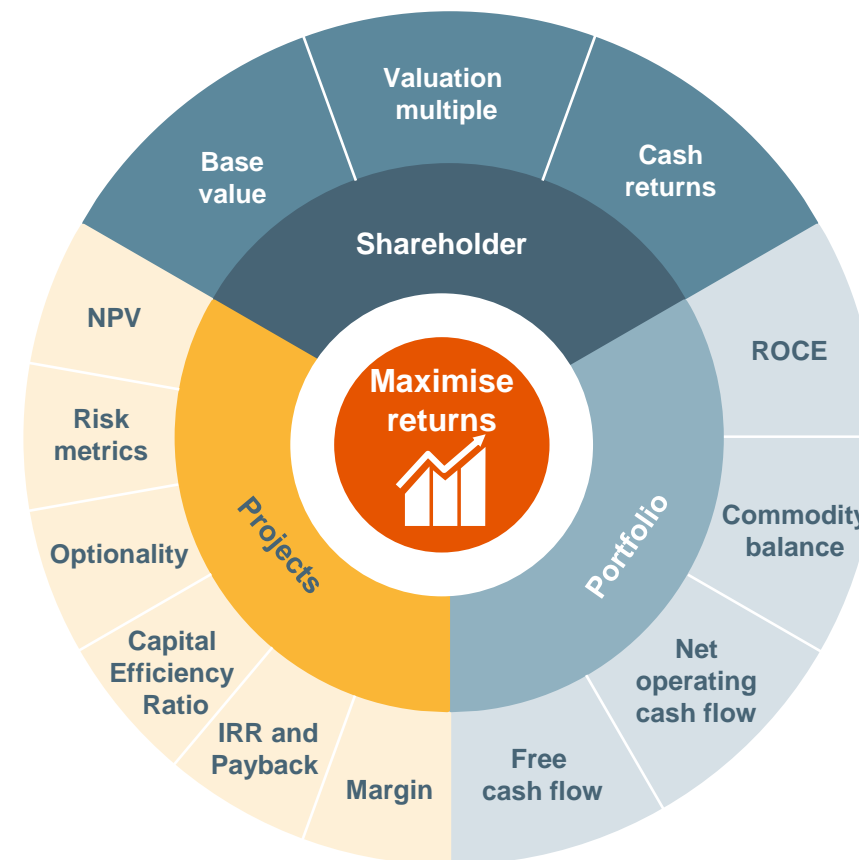
Options assessed from a portfolio perspective against a number of metrics



The assessment of options evaluates:



| Strategic fit   | Scenarios   |
|---|---|
| Alignment to BHP's portfolio strategy                           | Stress test plans against different pricing scenarios       |
| Risk-return   | Sequencing  |
| Evaluate capital projects against different risk-return metrics | Consider the timing of options to deliver the optimal value |



Options are assessed across number of metrics at project and portfolio level

# Value is optimised for a considered level of risk

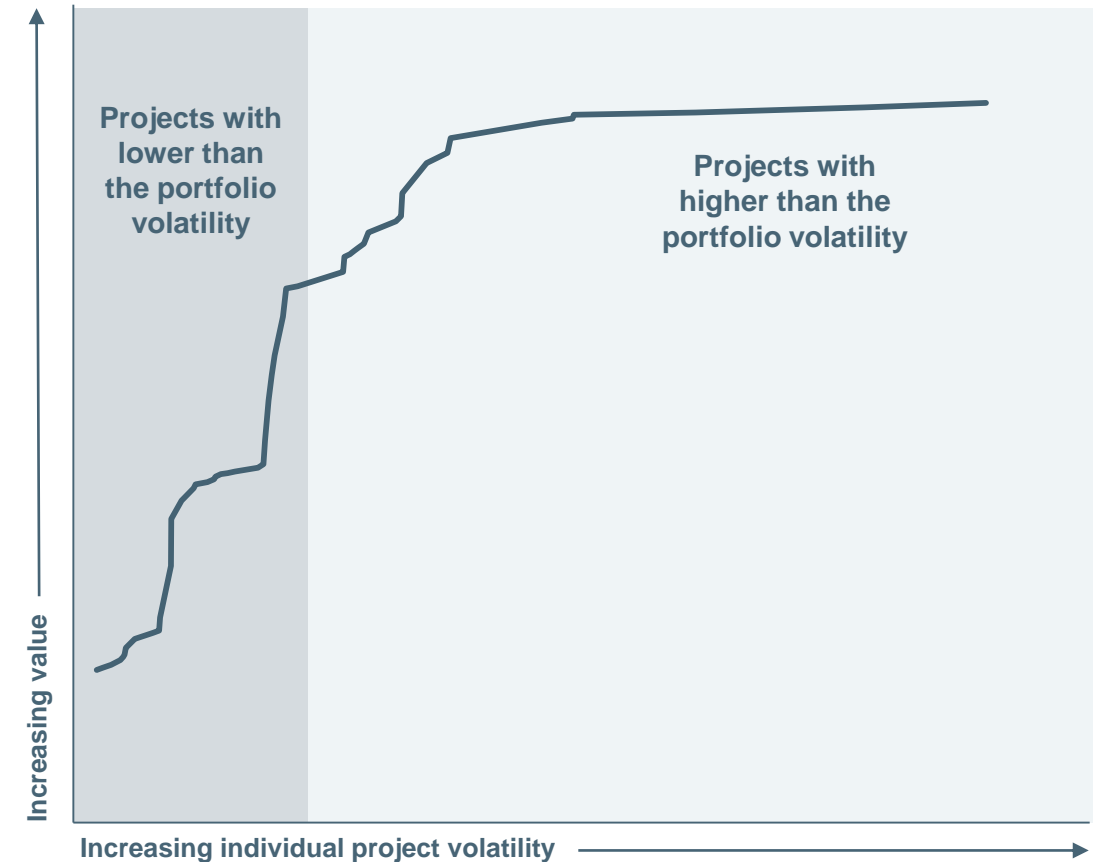
An optimised portfolio plan represents the most valuable risk-adjusted growth portfolio



The optimised portfolio plan considers:

|  |  |
|--|--|
| <b>Portfolio risk-return</b>   | <b>Portfolio correlation</b>   |
| <p>Long-term growth portfolio optimised on a risk-return basis</p>       | <p>Portfolio correlation of each major growth project considered to help manage risk</p> |
| <b>Balance sheet</b>   | <b>Timing</b>  |
| <p>Stress testing of balance sheet under different pricing scenarios</p> | <p>Criticality and optionality around project execution</p>                              |

Options portfolio value  
(US\$ billion)





# Portfolio considerations

A strong portfolio gives us stability and flexibility through the cycle

## Strategic fit

Opportunities are assessed against strategic framework

- Prioritise safety in all decisions
- Targeting the right commodity and assets
- Enabled by the right internal capabilities and capacities

## Balance sheet impact

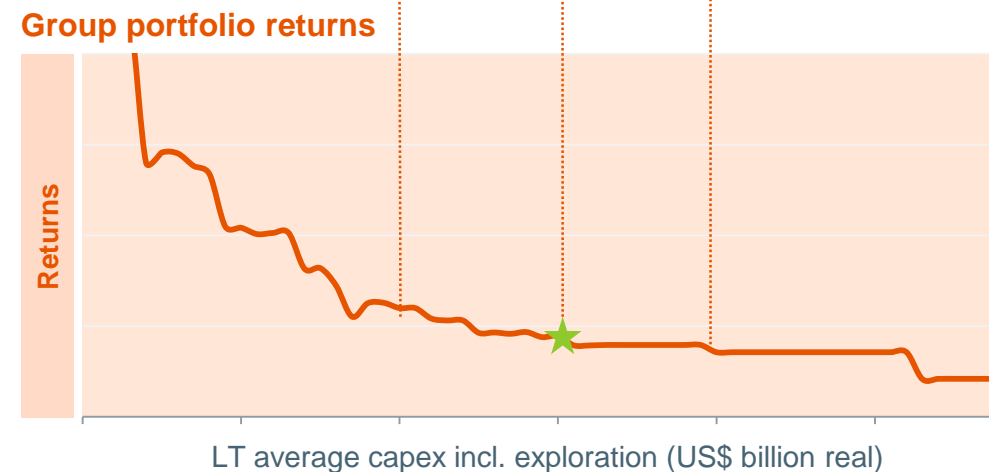
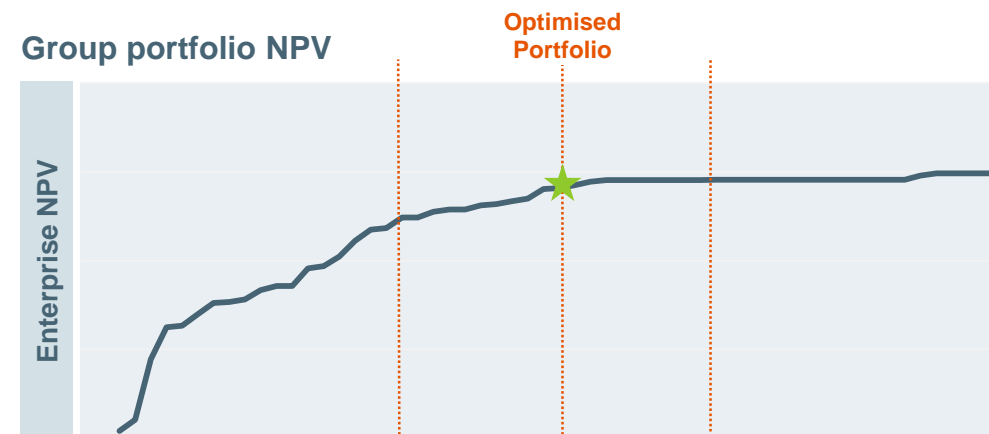
Optimised portfolio assessed for impact on balance sheet

- Stress testing the portfolio on multiple scenarios
- Consider size of projects and impact to capital structure
- Explore options for partnership-based risk sharing structures (e.g. Jansen)

## Portfolio risk

Assess options to better 'balance' portfolio exposures

- Avoid concentration towards one economic driver (e.g. steel demand or energy)
- Stable portfolio reduces volatility of cash flows and lowers funding costs
- Optionality to take advantage of opportunities throughout the commodity cycle

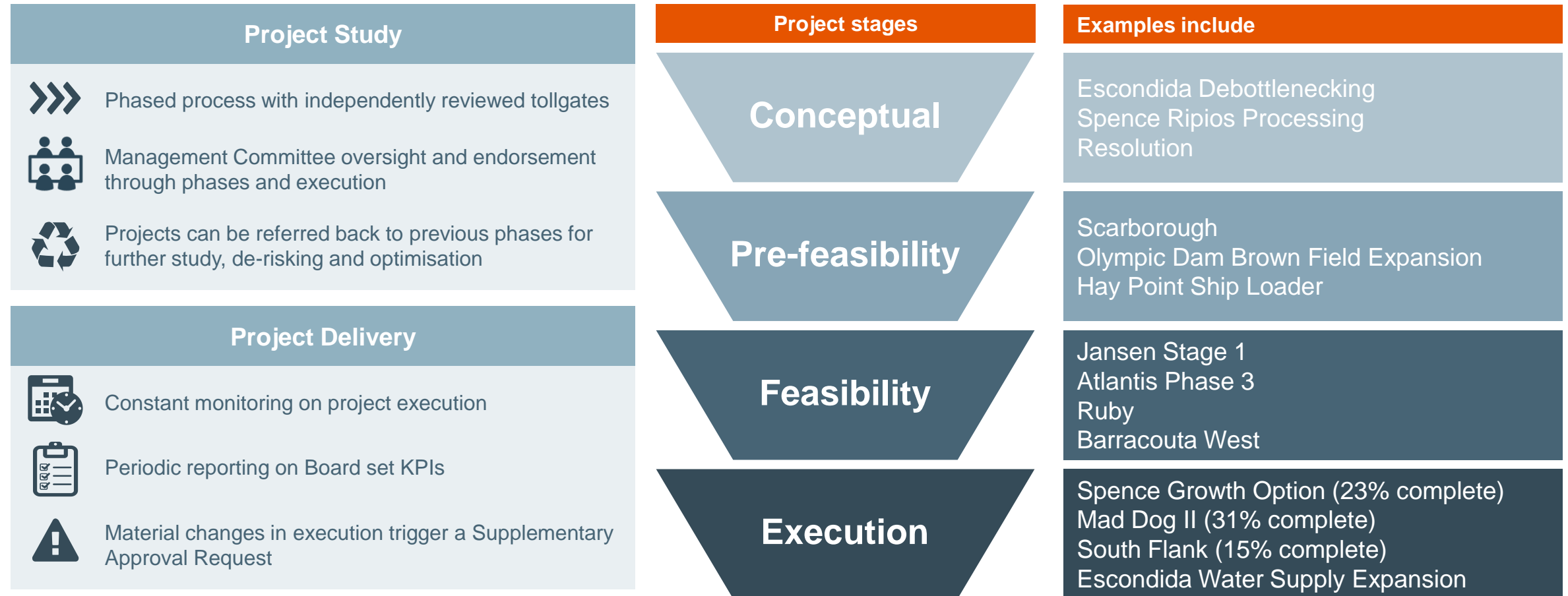


Optimise value for considered level of risk

# Value maximised through our Global Investment Process

Fundamental process underpinning all major decisions before commitment of project capital

## Global Investment Process (GIP)



# Capital stewardship in Minerals Australia: Key messages

Embedding the culture, capability and processes to drive better capital decisions through to the front line

## Capital stewardship

Greater respect for every dollar of capital across all levels of the organisation  
Competition for capital and disciplined mindset now embedded throughout

## Competition for capital

All project capital >US\$2 million goes through a robust prioritisation process  
Capital discipline encourages innovation and more intense testing of the 'optimise without capital' case

## Efficiency

Significant improvement in project capital efficiency  
Faster, better studies; programs of work increase synergies and reduce effort; dedicated contracts team

## Increased certainty

Improved project delivery in accordance with safety, time and cost targets  
Enhanced project management across all projects throughout the portfolio

## Capability

Deep project expertise drives value optimisation during study phase  
Business case to justify capital applications are better defined, bringing more scrutiny into business benefits

# Improving capital allocation

Significant improvement in major project performance (externally benchmarked); permeated into all projects in a fit for purpose way

## Certainty

Integrated planning provides stability

Portfolio tracking enables early escalation

Project-specific commercial skills and discipline

## Capital efficient

Enhanced study expertise drives earlier value optimisation

Greater performance benchmarking

## Disciplined

Simplified operating requirements

Consistent standards applied to all projects >US\$10 million

Standard approach to safety in design to improve long-term outcomes

## Integrated

Working as a single projects community

Projects Centre of Excellence to accelerate improvement

# Disciplined approach to choose only the right projects

Front-line has to justify capital demand and understand trade-offs

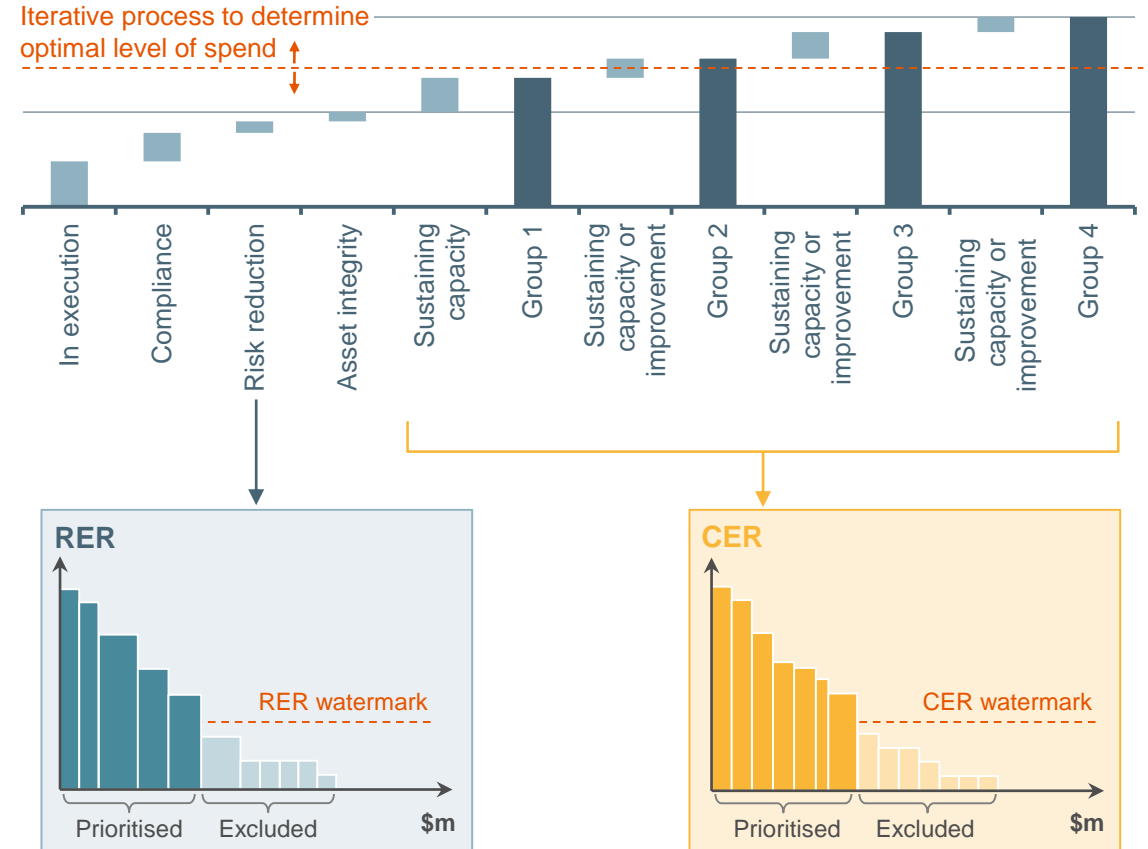
## Process

- All projects >US\$2 million must submit business case (fit for purpose) to be included in prioritisation process
  - grouped by type; prioritised for compliance, risk reduction and asset integrity
- Fed into iterative Group-wide prioritisation process to allow best allocation of limited resources (e.g. capital; capability)

## Value

- All projects assessed against relevant standard metrics<sup>1</sup>
- General Managers need to compete with each other for the best place to invest
- Increased maturity in asset integrity and sustaining capital requirements for the long term

## Prioritisation of minor and sustaining capital (US\$)



1. Includes Capital Efficiency Ratio (CER); Internal Rate of Return (IRR); Net Present Value (NPV); Risk Efficiency Ratio (RER); Asset Integrity Assessment.

# More value captured through high-quality studies

Study specialists work hand-in-hand with the operation to fully evaluate possibilities before scope is locked

## How

- Invested in people with deep expertise in study leadership
- With an increased focus on brownfield projects, we bring a 'whole of business' mindset to what we do (not just 'the builder of stuff')
  - shift in focus from 'what needs to be built' to 'what needs to be solved'

## Examples

- Identified that Olympic Dam clarifier could be replaced (rather than repaired, as originally proposed) for similar capital, but with less risk and while catering for BFX
- Proved that leaving a major substation was higher value than relocating to extract coal from underneath
- Competition between iron ore mines for incremental capital proved which has best metric; changed batting order to match

Clarifier at Olympic Dam



Substation at Peak Downs



# Significant improvement in project efficiency

We are leveraging the scale of Minerals Australia Projects to drive efficiency and continuous improvement

## Measuring our performance

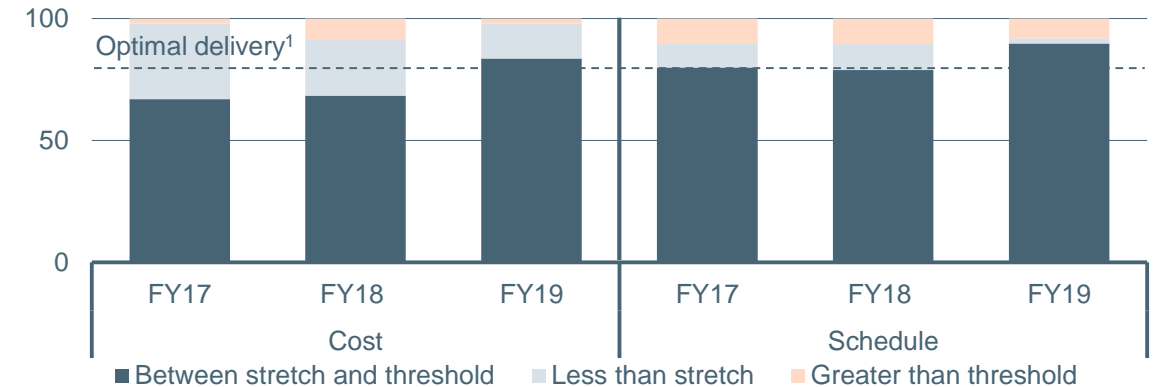
- We have benchmarked (internally and externally) extensively to understand project performance
- We sit at, or better than, industry averages including for study costs and durations, and construction productivity
- Underpins strong safety performance

## Still more to get

- Opportunities exist through more scrutiny
  - every dollar of scope
  - engineering service provider performance
  - in-field productivity

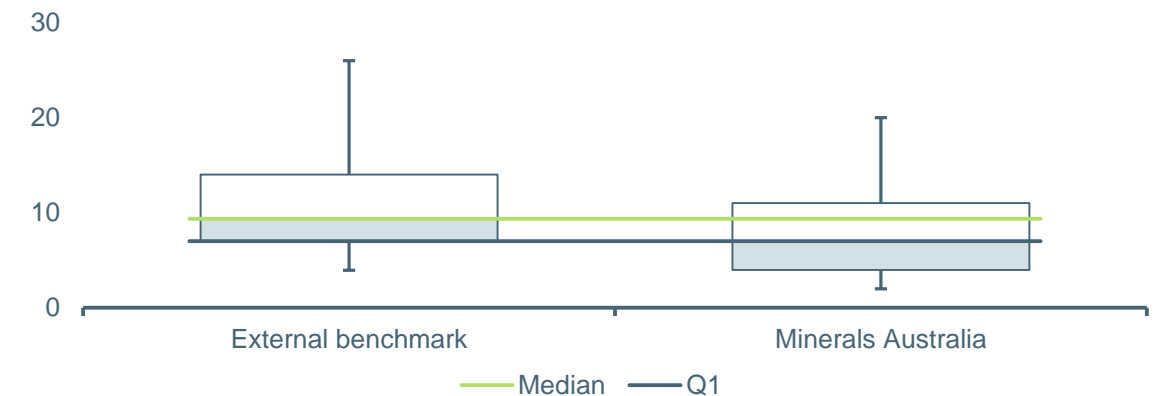
## More projects delivered to plan drives efficiency and predictability

(Minerals Australia project delivery performance, %)



## More efficient studies

(Study and engineering cost as % of total cost)



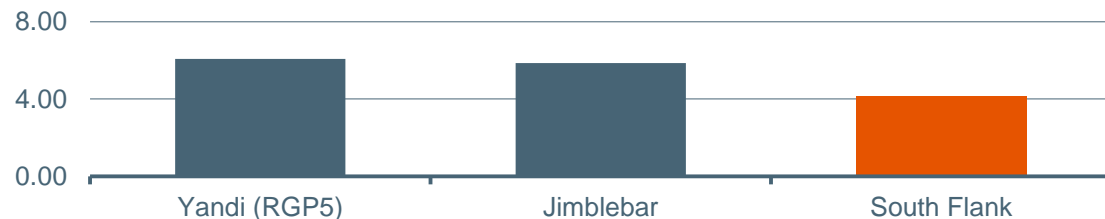
1. Stretch set at P10 and threshold set at P90. Therefore, 80% of projects should be delivered between stretch and threshold.

# South Flank: Getting the most out of every dollar

Investment returns were compelling, but we actively analysed every element to improve efficiency

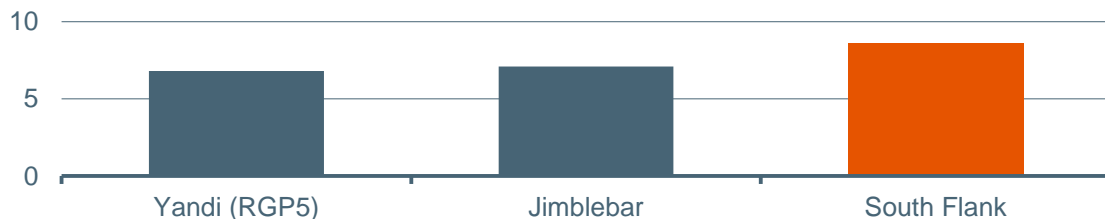
## Learning from past projects to optimise OHP design

(A\$/tpa)



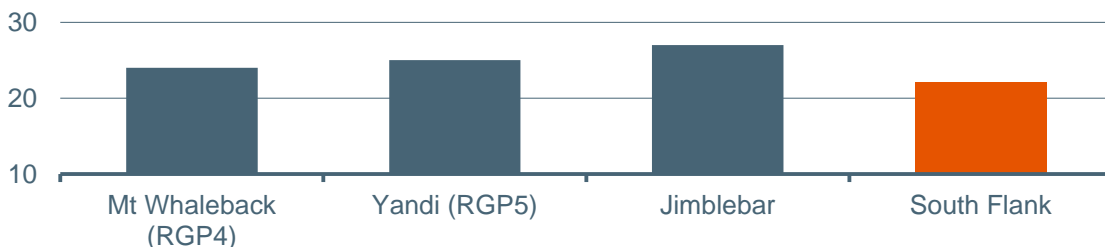
## Design improvements means NPI supports larger fleet

(Heavy vehicles/bay)



## Integrated teams reduce costs and drive better outcomes

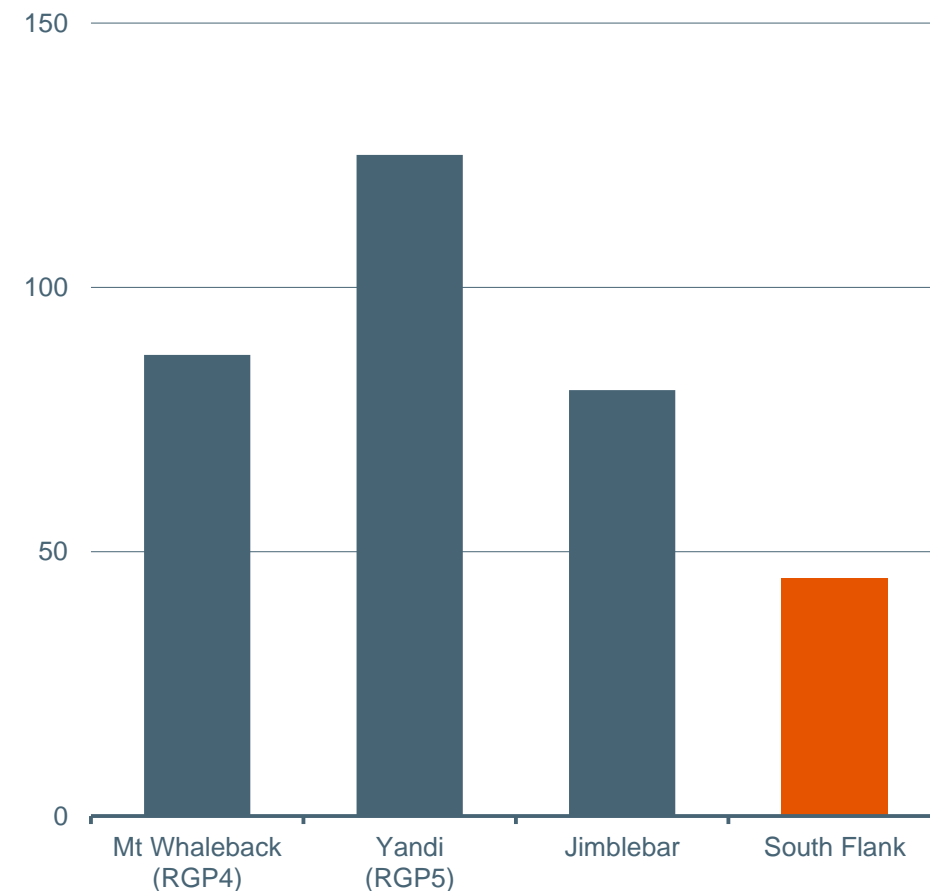
(Engineering and EPCM costs as % of plant and infrastructure costs)



1. Includes pre-commitment funding.

## Delivering an improvement in capital efficiency

(Capital intensity<sup>1</sup>, US\$/t)





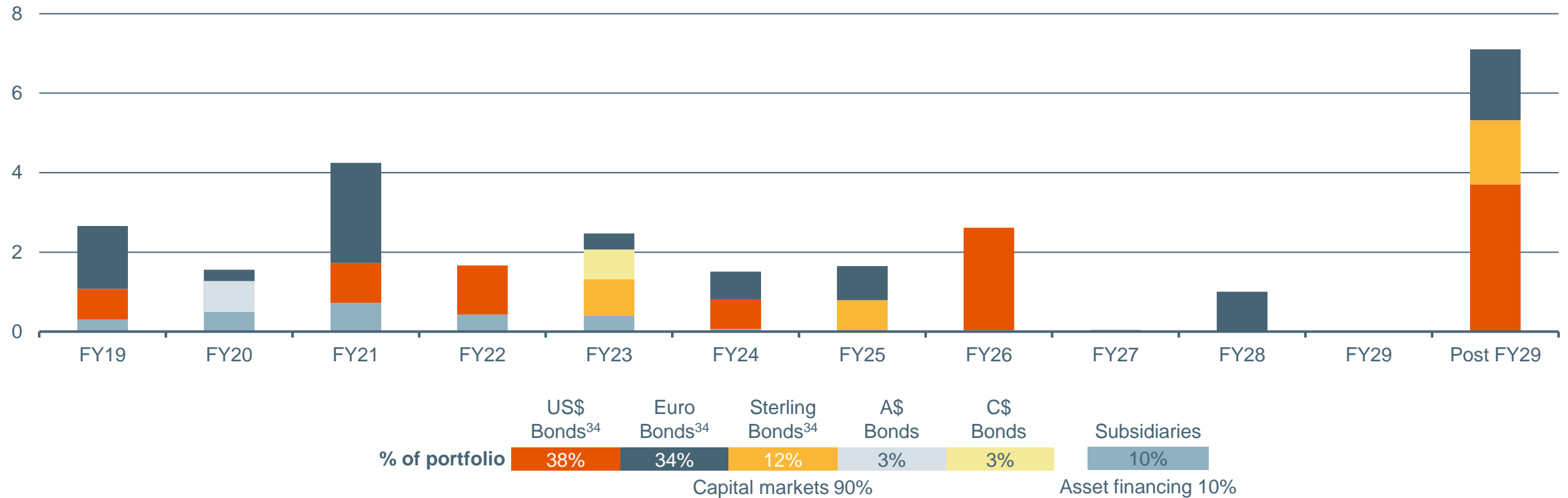
**BHP**

# BHP

## Appendix

# Debt maturity profile

Debt balances<sup>1</sup>  
(US\$ billion)



1. As at 30 June 2018.

# Latent capacity – attractive returns, limited risk

Continuous replenishment of our suite of capital efficient, low risk, high return options supports the next wave of latent capacity

| Options                                   | IRR <sup>1</sup><br>(%) | Risk <sup>1</sup><br>(1-5) | Timing <sup>1</sup> | Capex<br>(US\$m) | Description  |
|---|-------------------------|----------------------------|---------------------|------------------|--|
| <b>WAIO</b><br>Debottlenecking            | >100                    | ●                          | <2 years            | <250             | Supply chain debottlenecking initiatives at the port and rail, and releasing latent capacity at Jimblebar to increase production to 290 Mtpa |
| <b>Barracouta West</b><br>Petroleum       | ~20                     | Non<br>Operated            | <2 years            | ~200             | Brownfield tieback opportunity to existing infrastructure in the Bass Strait.  |
| <b>Escondida</b><br>EWS Expansion         | >50                     | ●●                         | <2 years            | ~500             | Expansion of desalination plant to reduce groundwater usage and maximise concentrator throughput   |
| <b>Escondida</b><br>Debottlenecking       | >100                    | ●●                         | various             | >500             | Concentrator debottlenecking, sulphide leach reprocessing of ripios, truck and shovel fleet upgrades   |
| <b>Spence</b><br>Ripios processing        | ~60                     | ●●                         | 2-5 years           | 250-500          | Reprocessing of ripios dumped since the beginning of the Spence operations   |
| <b>Queensland Coal</b><br>Latent capacity | >100                    | ●                          | >5 years            | >500             | Investing in stripping capacity and pipeline of productivity initiatives to shift the bottleneck towards the coal handling plants            |
| <b>Spence</b><br>Debottlenecking          | >15                     | ●●●                        | >5 years            | >500             | Processing lower grade hypogene material with increased recoveries, concentrator debottlenecking, in-pit semi mobile ore conveying           |
| <b>Aggregate</b>                          | <b>&gt;100</b>          |                            |                     | <b>~US\$4 bn</b> | <b>Up to ~2 Mt of incremental Cu eq. capacity with ~US\$16 bn unrisks NPV</b>  |

1. Projects as presented in May 2018 at the Bank of America Merrill Lynch Global Metals, Mining & Steel Conference; IRR: Returns at 2018 consensus price forecasts; ungeared, post tax, nominal return; Risk profile is based on a BHP assessment of each project against defined quantified and non-quantified risk metrics rated out of 5; 5 represents more risk; Timing: Represents potential first production

# Future options – worked for value, timed for returns

Investment decisions made in accordance with our capital allocation framework and fully consider the broader market impact

| Options                                     | Description  | Potential execution timing | Capex (US\$m)    | GIP tollgate <sup>1</sup> | IRR <sup>1</sup> | Risk <sup>1</sup> (1-5) | Investment considerations  |
|---|--|----------------------------|------------------|---------------------------|------------------|-------------------------|--|
| <b>Atlantis Phase 3</b><br>Petroleum        | Tie back to existing Atlantis facility unlocked through Advanced Seismic Imaging   | <1 year                    | >500             | Feasibility               | ~25              | Non Operated            | - Resilient to price<br>- Low risk, robust economics<br>- Non-operated JV  |
| <b>Ruby</b><br>Petroleum                    | Tie back into existing processing facilities in Trinidad & Tobago  | <1 year                    | >150             | Feasibility               | >25              | ••                      | - Similar scope to existing tie backs<br>- Utilisation of existing facility capacity<br>- Early life sensitivity to oil price  |
| <b>Olympic Dam BFX</b><br>Copper            | Accelerated development into the Southern Mine Area, debottlenecking of existing surface infrastructure to increase production | <5 years                   | >2,000           | Pre-feasibility           | ~20              | ••                      | - Resilient to price<br>- Improved Cu grades in the Southern Mine Area<br>- Continued resource definition<br>- Power network instability   |
| <b>Scarborough</b><br>Petroleum             | Tie back development to existing LNG facility  | <5 years                   | <2,000           | Pre-Feasibility           | >15              | Non Operated            | - Tier 1 resource<br>- Ability to process through North West Shelf<br>- Oversupply of LNG driving low price market environment<br>- Remote field location, deep water, severe metocean conditions  |
| <b>Wards Well</b><br>Metallurgical Coal     | Long-life, premium hard coking coal resource, greenfield underground long-wall mine  | >5 years                   | >1,000           | Opportunity assessment    | ~15              | ••••                    | - Tier 1 resource<br>- Proximity to existing operating assets<br>- Geological definition required to de-risk<br>- Risk of impact on market supply<br>- Supply chain logistic complexities  |
| <b>Resolution</b><br>Copper                 | Underground block cave with attractive grade profile and competitive cost curve position                                       | >5 years                   | <3,000           | Conceptual                | >15              | Non Operated            | - High copper grades<br>- Resilient to price<br>- Non-operated JV<br>- Technical risk due to caving at the resource depth and tailings options.<br>- Permitting requirements   |
| <b>Jansen Stage 1<sup>2</sup></b><br>Potash | Tier 1 resource with valuable expansion optionality  | <5 years                   | ~5,000           | Feasibility               | ~13              | •••                     | - Tier 1 resource, stable jurisdiction<br>- Operating costs of ~US\$100/t (FOB Vancouver)<br>- Unrivalled position of land<br>- Risk of market oversupply<br>- New commodity entry<br>- Sensitive to price<br>- High capital cost and long payback |
| <b>Jansen Stage 2-4</b><br>Potash           | Sequenced brownfield expansions of up to 12 Mtpa (4 Mtpa per stage)  | >15 years                  | ~4,000 per stage | Opportunity assessment    | ~16              | ••                      | - Long term growth optionality and value generation<br>- Risk of market oversupply<br>- Complexities from project size<br>- Significant capital requirement<br>- Further de-risking required   |
| <b>Aggregate</b>                            |  |                            |                  |                           | ~17              |                         | <b>Aggregate unrisks value of ~US\$15 bn spanning commodities and time periods</b>   |

1. Projects as presented in May 2018 at the Bank of America Merrill Lynch Global Metals, Mining & Steel Conference; Global Investment Process (GIP) tollgate; IRR: Returns at 2018 analyst consensus price forecasts; ungeared, post-tax, nominal rates; Risk profile is based on a BHP assessment of each project against defined quantified and non-quantified risk metrics rated out of 5; 5 represents more risk.

2. Jansen Stage 1: IRR is ~14% excluding the remaining investment for completion of the shafts and installation of essential service infrastructure and utilities.

## Capital allocation briefing

21 November 2018

# Exploration – extending our conventional reserve life

Investment decisions made in accordance with our Capital Allocation Framework and fully consider the broader market impact

| Options                                | Location                | Ownership     | Maturity    | Earliest first production | Description   | Planned future activity  |
|--|-------------------------|---------------|-------------|---------------------------|---|--|
| <b>Wildling Petroleum</b>              | USA - Gulf of Mexico    | 80+% Operator | Appraisal   | Mid 2020s                 | Large oil resource across multiple horizons near operated infrastructure in US Gulf of Mexico                   | Complete additional appraisal to optimize development  |
| <b>Western GOM Petroleum</b>           | USA - Gulf of Mexico    | 100% Operator | Frontier    | Early 2030s               | Acquired a significant acreage position in Western Gulf of Mexico   | Commenced acquisition of Ocean Bottom Node seismic survey in August 2018   |
| <b>Trion Petroleum</b>                 | Mexico - Gulf of Mexico | 60% Operator  | Appraisal   | Mid 2020s                 | Large oil discovery in the Mexican deepwater Gulf of Mexico.  | Commenced drilling first operated appraisal well in November 2018  |
| <b>Magellan Southern Gas Petroleum</b> | Trinidad and Tobago     | 65% Operator  | Exploration | Mid 2020s                 | Potential material gas play in Deepwater Trinidad, well positioned to the Atlantic LNG plant onshore T&T        | Rig completed 2 well exploration program in October 2018   |
| <b>Northern Gas Petroleum</b>          | Trinidad and Tobago     | 70% Operator  | Exploration | Mid 2020s                 | Potential material gas play in Deepwater Trinidad, well positioned to the Atlantic LNG plant onshore T&T        | Additional exploration to test other prospects following the recent Bongos-2 success                               |
| <b>Northern Oil Petroleum</b>          | Trinidad and Tobago     | 70% Operator  | Frontier    | Late 2020s                | Potential oil play in deepwater Trinidad  | Further geotechnical analysis  |
| <b>Exmouth sub-basin Petroleum</b>     | Australia               | 35-75%        | Exploration | Mid 2020s                 | Proved hydrocarbon system with producing oil and gas discoveries  | 3D seismic data has been received and is being analysed  |
| <b>Orphan Basin Petroleum</b>          | Canada                  | 100% Operator | Frontier    | Early 2030s               | Recent bid success for blocks with large oil resource potential in the offshore Orphan Basin in Eastern Canada. | Exploration work programs of US\$140 million up to FY2021  |
| <b>Samurai Petroleum</b>               | USA - Gulf of Mexico    | 50%           | Appraisal   | Early 2020s               | Oil discovery in the Wildling mini basin  | Appraised field in 2018 with Samurai-2 and Samurai-2 sidetrack. Evaluating further appraisal and development plans |

**Multi-billion barrel equivalent risked potential; unrisked NPV of up to US\$15 billion\***

Note: Petroleum exploration NPV: Unrisked values at BHP long-term price forecasts as presented in May 2018 at the Bank of America Merrill Lynch Global Metals, Mining & Steel Conference.

**BHP**