RESPONSE TO ELLIOTT'S PROPOSALS
ANDREW MACKENZIE, CEO AND PETER BEAVEN, CFO
BHP BILLITON

ANDREW MACKENZIE, CEO

SLIDE 1 – RESPONSE TO ELLIOTT'S PROPOSALS

Good afternoon everyone and thank you for your interest in today's presentation.

As you are aware, US hedge fund Elliott have outlined a number of suggested changes to our company, in a letter to our Board.

We have been engaging with Elliott for around eight months. I was genuinely excited to enter into these discussions. I thought Elliott could bring good ideas that we may have missed for value-creation around the Dual Listed Company structure, Petroleum and capital allocation.

We are constantly looking for ways to create more value for our shareholders and welcome ideas from all shareholders, including everybody on this call.

I had hoped that Elliott had found breakthroughs that we had missed and that we might be able to work together to create novel solutions.

However, from our earliest engagements it was clear that there were major flaws in Elliott's proposals - and despite huge amounts of constructive feedback from our side, over many months, Elliott have been unwilling to consider any of our alternate views.

We have a better way – one that is about value for <u>all</u> of our shareholders and stakeholders.

For more than 130 years - in pursuit of long term shareholder value - this Company has delivered for shareholders, but also for employees, customers, suppliers, our host governments and the communities in which we work and we intend to continue to do so.

I am passionate about the values of this company – its heritage and its future all of which are also key drivers of long-term shareholder value.

And it is through this lens that we have assessed Elliott's proposals, which Peter and I will now step through.

SLIDE 2 – DISCLAIMER

Before we begin, let me first draw your attention to the disclaimer and ask you to note its importance to this presentation.

SLIDE 3 – WE ARE WELL PLACED TO CREATE VALUE

We have given detailed and thorough consideration to all of the matters Elliott have raised – and not just in recent months but over many years.

This is a considered response.

We have concluded that the elements of Elliott's proposal, as they are described in their letter to the Board, would not be in the best long-term interests of shareholders. The costs and other disadvantages would significantly outweigh the potential benefits.

We believe that our current strategy is the right strategy for this point in the cycle and for our shareholders over the longer-term.

We are on a deliberate path to sustainably grow shareholder value and build on our track record.

- Our simplification journey is well advanced. Since 2013, we have reduced the number of assets in the portfolio by more than one third, through the demerger of South32 and the sale of over US$7 billion of assets.

- Our assets that remain are large, long-life and low-cost and provide exposure to a diverse mix of commodities with an attractive outlook. We have sharpened the focus of our operations on the things that matter most to us: safety, culture and productivity. Our evolving culture drives even more safety and productivity and improved returns!

- In February, we announced US$11 billion in annualised productivity gains embedded over the last four years. There is significant value still to come from our assets and initiatives across the Company and we are well positioned to capitalise further upon these opportunities.

- Petroleum is core to our business and we expect to deliver material value going forward. Last month I travelled to Mexico City to meet with President Nieto, and celebrate our partnership with PEMEX Exploration, for the development of the Trion discovery in the Gulf of Mexico.

- Our disciplined, rigorous approach to capital allocation saw us strengthen our balance sheet in the recent half year, against a low in the cycle. Net debt was reduced by US$6 billion in the first half of FY17.

SLIDE 4 – ELLIOTT'S PROPOSALS – OUR ASSESSMENT

Elliott have outlined three suggestions which they argue would result in a lift in the share price – these are:

- unification of the DLC under a new UK incorporated NewCo;
- a demerger of a major part – but not all – of our Petroleum business; and
- a mechanistic buyback program.

A summary of our conclusions is detailed on the slide and we will expand on them shortly.

We continually search for ways to add long-term value for our shareholders, while holding true to our values.

That is why we have in fact examined these suggestions – and variations of them – many times before and will continue to do so in relentless pursuit of value.

SLIDE 5 – OUR JOURNEY

Before I hand over to Peter to take you through each of Elliott's suggestions and our detailed responses, I will summarise the work we have done to increase BHP Billiton's returns and position us for significant growth in long-term shareholder value.

Today… we are a far more efficient company… able to withstand any near-term uncertainty and to respond profitably to a range of longer term scenarios.

We have made significant progress and built a stronger and more agile company well positioned for growth.

SLIDE 6 – PRODUCTIVITY FOCUS HAS DELIVERED RESULTS

Our plans have delivered results for our shareholders.

- As I said, we have already embedded US$11 billion in productivity improvements
- We have simplified the portfolio and unlocked low-cost latent capacity.
- Our Onshore US operation was free cash flow positive in the most recent half year, and is now poised for growth as prices recover.
- And we enjoy strong cash flows which have helped us maintain an A rated balance sheet.

SLIDE 7 – DISCIPLINED, RIGOROUS APPROACH TO CAPITAL ALLOCATION

Our Capital Allocation Framework sets clear parameters for how we:

- achieve safe and stable operations
- deliver balance sheet strength through the cycle;
- pay shareholders a minimum of 50 per cent of Underlying Attributable Profit as dividends; and
- optimise the use of surplus cash.

The Capital Allocation Framework balances the need to invest in our business, create the strength and flexibility to take advantage of opportunities as they arise and to efficiently return capital to our shareholders.

Critically, we always consider cash returns, including buybacks, as a potential use of surplus cash in every reporting period as part of this framework.

SLIDE 8 – WE HAVE STRENGTHENED THE BALANCE SHEET

Against a backdrop of political and economic uncertainty and volatility, we have further strengthened the balance sheet – reinforced by that disciplined Capital Allocation Framework. This insulates operations and allows us to invest widely through the cycle.

We are the only company in our sector with an A rating from the three main rating agencies. And S&P recently revised our outlook to stable.

BHP Billiton has a strong track record of returning cash to shareholders.

Since the merger with Billiton in 2001, we've achieved a 12.8 per cent per annum compound growth in shareholder returns, which includes US$56 billion of dividends and US$23 billion of share buybacks, which have been undertaken in both Plc and Limited.

SLIDE 9 – OUR ASSESSMENT OF ELLIOTT'S PROPOSALS

I am confident that we have everything in place to create significant long-term value well into the future. We are on track, and see enormous potential ahead!

We will now step through each of Elliott's proposals sequentially.

I will ask Peter to start with Elliott's proposal for unification of the DLC.

PETER BEAVEN, CHIEF FINANCIAL OFFICER

SLIDE 10: UNIFICATION

Thank you Andrew.

SLIDE 11 – THE DLC IS NOT AN IMPEDIMENT AND HAS SOME ADVANTAGES

Elliott suggest replacing the DLC with a new, UK Company, which has its primary listing on the London Stock Exchange.

As many of you know, we have reviewed the DLC structure in the past and will continue to do so in the future.

But the DLC is not a constraint to our business. In fact, it allows us to do things that a unified company could not do, such as:

- preserving franking credits for shareholders who value them most;
- structuring buybacks to secure the cheapest possible price, to maximise value for all shareholders;
- allowing us a full primary domestic listing on both the LSE and the ASX, with secondary listing on the JSE and a US ADR program; and
- providing two important acquisition currencies, in addition to cash.

Every review we've undertaken has made it clear that the costs of implementation and loss of the advantages of the DLC significantly outweigh the minimal potential cost savings. There is almost nothing a single listed company can do, that we cannot do, in our current structure.

SLIDE 12 – UNIFICATION PROPOSAL WOULD BE COSTLY

Let me walk you through our findings in more detail – starting with costs.

Our assessment of Elliott's proposal has found that the net costs of unification are likely to be at least US$1.3 billion, not including transaction costs or potential wastage of franking credits.

In addition, South African shareholders, who comprise 17 per cent of the Plc register, would likely be required to pay Capital Gains Tax with no offsetting benefit.

We have identified no other material benefits from unification.

SLIDE 13 – PROPOSAL WOULD RESULT IN WASTAGE OF FRANKING CREDITS

Elliott's unification proposal would also waste franking credits that are generated by assets held under Limited, and from which Australian tax is paid.

Under the DLC, these franking credits accrue in the Limited entity and are available to distribute to Limited shareholders as franked dividends.

This provides Limited shareholders with a tax benefit that is not available to non-Australian tax residents.

The DLC enables us to preserve these franking credits as they accrue and provide them to shareholders that are able to utilise them.

If BHP Billiton were a single headed company, an additional US$7.3 billion of franking credits would have been paid to non-Limited shareholders since 2001 – most of whom cannot use them.

The collapse of the DLC and the creation of a single, UK listed entity would mean that while franking credits would still be generated, they would be distributed to all shareholders. Their value would be wasted on anyone who is not an Australian tax resident.

To illustrate the point, consider a 50 cent per share dividend paid under the DLC, to which US$700 million of franking credits would be attached.

These franking credits are paid entirely to Limited shareholders – the group most likely to value them.

Under Elliott's proposal, an additional US$400 million of franking credits would be distributed for that same US0.50 per share dividend, but those additional franking credits would be paid to a significant number of shareholders who could not derive value from them.

SLIDE 14 – UNIFCATION IS NOT REQUIRED FOR OFF-MARKET BUYBACKS

The DLC is not a constraint to our ability to return cash to shareholders when it is appropriate to do so.

As this chart shows, since the DLC merger in 2001, BHP Billiton has returned approximately 50 per cent of its underlying earnings to shareholders in the form of dividends and buybacks.

This includes approximately US$56 billion in cash dividends and US$23 billion in buybacks.

SLIDE 15 – PROPOSAL WOULD MAKE OFF-MARKET BUYBACKS LESS ATTRACTIVE

The accounting treatment of Elliott's proposal also makes off-market buybacks less valuable for shareholders.

Currently, off-market buy backs in Limited comprise almost entirely franked dividends, maximising the value of the franking credits that can be distributed and the value derived by participating shareholders.

But Elliott's proposal would materially change the structure of the balance sheet, by adding a large "merger reserve", which we expect would be classified as capital to which franking credits could not be attached, when distributed.

This would mean that instead of an off-market buyback being deemed almost entirely a franked dividend, in future the proceeds would comprise roughly 50 per cent capital and 50 per cent franked dividend.

As a result, the value of an off-market buyback to a participating shareholder would be significantly lower: 15% lower, in fact, for a shareholder able to fully value the franking credit.

SLIDE 16 – PROPOSAL UNLIKELY TO APPEAL TO LIMITED SHAREHOLDERS

Elliott's unification proposal holds particular risk for Limited shareholders

If Elliott's unification proposal was implemented, and the new UK incorporated parent traded at a blended average of the current Limited and Plc prices (as suggested by Elliott), that would be higher than the current Plc share price.

However, the price of a NewCo Chess Depository Interest, quoted in Australia and on the ASX, would therefore be lower than the current Limited share price.

This would clearly not appeal to Limited shareholders.

The long term viability of the ASX listing is also a risk – as trading could migrate to the primary LSE listing, meaning that the secondary trading of CDIs on the ASX would diminish.

This transfer of value between groups of shareholders is a significant downside, especially in the absence of any other identifiable benefits that would be realised.

It should also be noted that as a legal matter, each of Plc and Limited shareholders would need to separately approve Elliott's unification proposal.

SLIDE 17 – PROPOSAL HAS REGULATORY UNCERTAINTY

We believe Elliott's approach would be the subject of regulatory uncertainty.

Under their unification proposal, both Limited and Plc would become subsidiaries of a UK incorporated NewCo. Limited, as an Australian company, would also no longer be the ultimate holding company of its Australian assets.

This would be inconsistent with the conditions imposed at the time of the merger of BHP and Billiton in 2001, and would require the consent of the Australian Foreign Investment Review Board.

So, in summary, we have continued to reduce the costs and complexity of the DLC while maximising its unique benefits – yet the costs and risks of unwinding it, under many options including Elliott's, remain high. But we will keep this under review.

SLIDE 18 – US PETROLEUM DEMERGER

I will now hand back to Andrew to speak to Elliott's proposal to demerge the US Petroleum business.

ANDREW MACKENZIE, CEO

SLIDE 19 – PETROLEUM IS CORE TO OUR STRATEGY

Thank you, Peter.

I have asked the question about the fit of Petroleum in our business at every major milestone in my time at the Company – including when I became CEO and at the demerger of South32.

On balance, I continue to conclude that Petroleum is a good fit with our strategy!

It has been part of BHP Billiton for more than sixty years. In the last five years, it has been our highest margin business, with an average Underlying EBITDA margin of 66 per cent. And it has our highest returning growth options.

Petroleum significantly diversifies BHP Billiton's cash flow, and allows us to invest and return capital through the cycle.

Our Petroleum assets fit well with big coal, big copper and big iron ore.

I believe there are more synergies between E&P and big coal, copper and iron ore than there are with smaller, downstream minerals, like those of South32. Or than those that exist between E&P and downstream oil and petrochemicals.

This diversification of our portfolio is one of our strengths! This makes us unusual – but unusually advantaged!

Our minerals businesses are better by being alongside Petroleum and our Petroleum business profits by being alongside minerals.

There are strong operational synergies from the combination of oil and mining within the portfolio. Talent, ideas and best practice flow across a more diverse Group. And this will be accelerated by our new Operating Model and our evolving culture. Elliott's plan would destroy this potential value uplift.

Petroleum has and will make our business better at safety and maintenance. Minerals practices have helped propel our Shale business to best in class on many dimensions. We are reinventing how to map and dig for coal and potash more effectively with Petroleum technology.

While there has recently been a period of unusual correlation in prices in our commodities, the long term trend shows the clear benefits of diversification and this has been noted by many including the credit agencies, like S&P, as beneficial to our cost of capital.

The outlook is attractive and our large, quality resources deliver long-term returns and substantial optionality.

SLIDE 20 – PETROLEUM BENEFITS FROM BEING A PART OF BHP BILLITON

BHP Billiton's scale and financial strength are a key competitive advantage for the Petroleum business. It is stronger as part of BHP Billiton – backed by the financial strength required to pursue new opportunities when the time is right.

A standalone US Petroleum business would lose access to BHP Billiton's balance sheet.

We could not have won the Trion bid without the scale and scope of the minerals businesses alongside. The small US independent proposed by Elliott would have failed!

Elliott's proposal to separate our US oil business shows a fundamental misunderstanding of how we work.

The oil industry works on partnerships between the major operators who work together globally to improve safety and environmental performance, as well as the efficiency of our operations.

Were we to adopt this proposal, our global partners would have to work with a broken-up, balkanised BHP Billiton – the common relationships we enjoy and that drive our advancement on the Mexican and US sides of the Gulf of Mexico, and in Trinidad and here in Australia, would be ripped apart destroying efficiency, value and HSE performance.

SLIDE 21 – ONSHORE US – FREE CASH FLOW POSITIVE AND POSITIONED FOR GROWTH

In our Onshore business we have achieved significant operating and capital productivity improvements which unlock value.

We have increased investable inventory to greater than 3,000 net wells that deliver at least a 15 per cent Internal Rate of Return.

We have adopted a nimble and commercial approach to run this business. We have optimised our acreage, some via asset trading. We have implemented a gas hedging program to lock in returns and maximise value from our very large resource.

We have reduced drilling costs in Black Hawk by 64 per cent since FY13 and because these operations are part of the broader BHP Billiton Group, this enables us to opportunistically develop the resource when the time is right, and secure attractive returns when investing into rising prices. As a standalone business, the flexibility to preserve the resource, produce at the right time and maximise value would not exist.

So the business, in summary, is now in excellent shape and is delivering.

SLIDE 22 – DEMERGER PROPOSAL HAS LIMITED UPSIDE, SIGNIFICANT DOWNSIDE RISK

As we have recently demonstrated, demergers can create value. But not in this case. We do not believe that the idea of demerging our US Petroleum business make sense:

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- Elliott's proposed demerger would not materially simplify BHP Billiton in the same way as the South32 demerger did;
- And further, the market has all the information it needs to value our US Petroleum business correctly;
- This demerger would create significant risk for the sub-scale separated business. It would lose access to BHP Billiton's balance sheet, operating synergies and would incur higher overhead costs;
- A New York Stock Exchange listing would not suit all BHP Billiton shareholders and could result in material flow back;
- And for those shareholders forced to sell it would crystalize value at the low-point in the cycle.

This business is good for BHP Billiton and its shareholders and its value is being maximised under our ownership

Now is not the time to consider demerging it.

SLIDE 23 - BUYBACKS

I will now hand back to Peter to discuss Elliott's mechanistic buyback proposal.

PETER BEAVEN, CFO

SLIDE 24 – RETURNS TO SHAREHOLDERS ARE CENTRAL TO OUR CAPITAL ALLOCATION FRAMEWORK

Thanks Andrew.

BHP Billiton is committed to return surplus capital to shareholders at the right point in the cycle. In fact, we have returned almost the equivalent of our current market capitalisation in buybacks and dividends since the merger.

As Andrew explained, we make decisions about the best mechanisms consistent with our Capital Allocation Framework.

Buybacks have been, and will continue to be, a core element of that Framework.

We must maintain our strength and flexibility, while ensuring resilience through all cycles. That requires flexibility at the bottom of the cycle and discipline at the top.

Right now, our balance sheet is our priority. Now is not the right time to pursue a US$6 billion buyback like that proposed by Elliott. Nor is a mechanistic approach to capital management appropriate for a resources company.

SLIDE 25 – PROPOSAL WOULD UNDO RECENT STRENGTHENING OF BALANCE SHEET

As this graph demonstrates, a buyback of the magnitude proposed by Elliott would significantly increase Net Debt levels and diminish credit metrics.

It would undo the work we've done to strengthen our balance sheet, to create flexibility and resilience – and would not be in the long-term interests of our shareholders.

SLIDE 26 – A MECHANISTIC APPROACH TO BALANCE SHEET MANAGEMENT IS INAPPROPRIATE

I now want to address Elliott's suggestions that BHP Billiton should target mechanistic credit ratios – and conduct regular buybacks with resulting excess cash.

It should not come as a surprise to anyone on this call that the resources industry is a cyclical one. We have a responsibility to manage the company so that we remain resilient throughout the cycle and we must also invest to maintain and grow our production and create future value for shareholders.

As this chart shows, had we mechanically managed our balance sheet to a 1.3 times ratio we would have bought back shares at the top of the cycle (in FY12), no further buybacks would have been possible from FY13 onwards and debt would have reached unsustainable levels, as shown, with the net debt to EBITDA ratio reaching 4.2 times.

In framing their proposal in this way, Elliott appears to have ignored the realities of how resources companies create value.

ANDREW MACKENZIE, CEO

SLIDE 27 –CONCLUSION

SLIDE 28 – WE ARE ON THE RIGHT PATH

Thank you Peter.

Let me conclude by saying once again, that we welcome ongoing dialogue with all of our shareholders – including Elliott – to create value.

I cannot overstate my strong belief that BHP Billiton is on the right track!

- After several years of considered and deliberate effort, BHP Billiton is a stronger, simpler, more productive company.
- We have the right assets, in the right commodities, with the capability and culture to prosper.
- Our strong balance sheet provides stability and we are well positioned to deliver additional value to our shareholders.

We see enormous potential ahead if we stay true to our strategy!

Thank you for your time and interest and we'd now be happy to take your questions.

CLOSING REMARKS

Thank you everyone for taking the time to join this call. I hope you have found this discussion useful.

I believe that we have outlined a robust case for why we believe that Elliott's proposals amount to little more than financial engineering, with inherent and obvious flaws.

I want to say again, that our strategy is delivering results and we are making progress against our roadmap to grow the Company through our focus on:

- Productivity;
- unlocking latent capacity;
- Onshore US;
- our growth portfolio;
- exploration; and
- technology

We are confident that we have all of the settings in place to create substantial shareholder value in the future.

Thank you.