

BHP

**Financial results
for the half year
ended 31
December 2017
Investor and
analyst briefing
Q&A transcript**

20 February 2018

1. Questions

PAUL YOUNG, DEUTSCHE BANK: I have a few questions on Escondida. First of all, on the labour negotiations, Andrew, how will your strategy differ this time to avoid a prolonged strike? Also, the theoretical throughput of all three plants is around 380,000 tonnes a day. I am interested in the early stages of ramp-up. What are you running at, at the moment?

ANDREW MACKENZIE: Paul, can I stop you a minute? We have a sound problem here in London. I got the question about Escondida labour, but I did not hear the question about the ramp-up. Could I ask the technical people to see if you could fix this? I am sorry about this, Paul. While we are waiting, let me just talk to the first part of your question and then, hopefully, we will get this fixed so you can ask it again. I cannot hear him and obviously this was not checked earlier.

Paul, on the industrial relations side, it is very hard for me to give you a firm answer to that question. Clearly as you know, from July the workforce has a legal right to go back on strike, as we restart the negotiations that we broke off 18 months ago. I can tell you that, since that, the return to work has been very positive. You have heard some of the results from Escondida. Morale is strong and relationships at the moment are very positive, I think, on that site. We fully intend to talk to the union about the possibility of getting a settlement ahead of when it is possible for a legal strike. I cannot say more than that, but clearly our intentions are not to undertake a disruption to our production. But we also have the long-term aim of making sure that, when we get through to the latter part of the next decade and we are producing at a much lower grade, we have a cost structure that still makes it competitive to invest at Escondida.

PAUL YOUNG: Andrew, can you hear me?

ANDREW MACKENZIE: I can hear you now, because they have put a speaker next to me, which is much better, if you ask the second question.

PAUL YOUNG: It was actually on the upside of Escondida with running the three plants. The theoretical throughput is 380,000 tonnes a day or thereabouts, so I am wondering what rates you have been running at recently, when running all three. Do you think you can actually achieve the 380,000 tonnes a day sustainably?

ANDREW MACKENZIE: We have been running at 365,000 tonnes a day just in December. I would certainly hope that the team there can get to 380,000 and beyond sustainably. I am very optimistic, a bit like you have seen in iron ore and coal, that having created this investment platform over the last few years – which we do not really need to add to in the near term – but some of the best new latent capacity projects are going to come out of Escondida in the years to come. That will mirror the success we have had in some of the iron ore and coal assets in the preceding years. Yes, I am sure we will get to 380,000 and more sustainably.

PAUL YOUNG: Lastly, Andrew, you reset your oil exploration strategy two years ago. I wonder how you would mark yourselves on conventional exploration so far.

ANDREW MACKENZIE: Seven out of ten. Obviously I am pleased by the discovery at Wildling and LeClerc. We are looking at how best to commercialise these right now. But I include in that strategy the very successful bid that we had in Mexico, where we won the opportunity to be the operator of the development of Trion. With hindsight, looking at the more recent licensing round in Mexico where we were significantly outbid, there is a lot more interest that has come back into that market. We timed our bid in Trion very well, at the low point in the cycle. Everything we know about Trion, as we continue the process to get on with appraisal, leads us to believe that this is a very effective catch. There is a lot of exciting prospectivity now in the western Gulf of Mexico. During some of the fallow years for the oil price, we were extremely good at picking up some very attractive acreage. So seven out of ten, but I would like a ten.

CLARKE WILKINS, CITI: This question is probably for Peter. In terms of unification and the Elliott proposal, the big difference seems to be in terms of the tax losses and whether they can be maintained or not. Is it as simple as that top-hat structure that they have proposed or is there something else that they or we are not aware of that drives the higher cost, which does not justify the collapse of the DLC the moment?

The other question is in terms of the increase of the payout ratio versus buybacks. What consideration was given to get the cash for the UK to pay the increased dividend? You are diluting the franking credits down. Is there a

consideration of a better way to return those franking credits through off-market buybacks, rather than upping the payout ratio?

ANDREW MACKENZIE: Can I suggest that Peter answers the whole of the second part of your question and deals with the detail of some of the costs related to the loss of tax cover on plc revenue from unification? I might just answer a bit more broadly aspects of your question. Sorry, I am being a bit distracted by the sound and the technical problems that are still not being quite ironed out here. Let me just collect my thoughts a bit.

What I wanted to say is that there is a huge difference in the valuation that we would put on unification, depending on the assumptions that you make around the mix of the shareholding in the unified company and how many of those shareholders are resident in Australia. That difference drives how many of the franking credits will be wasted and how many of them can be used by Australian resident shareholders and that range creates a wide range in valuation, from something that can be quite positive to something that can be quite negative from unification. As I have said in several media interviews this morning, we have to understand that. We have to reduce that risk considerably and we are working on that, we are very open to the ideas around that, before we might rush to move towards unification. Then we have to consider the cost, which Peter will now describe.

PETER BEAVEN: On the tax losses, just a quick recap; probably around about \$1 billion worth. There are three sources; two of those are material. One is the tax losses that we carry in our Australian tax group, which is the plc, the old Billiton Group; that contains tax losses in what was Worsley and so on and that is offsettable against the profitability of New South Wales Energy Coal, which is, as you know, a highly profitable asset. We have more or less over \$2 billion worth of assessed losses in that grouping and so you can see that is worth a lot of money to us, to utilise that against our very profitable assets. Probably NPV is in the order of \$600 million associated with that.

The other material part, of course, is the Singapore BMAG profitability. That is, again, a profitable entity. You know that our tax rate is zero, essentially, in Singapore, but you also know that 58% of that gets taxed in Australia; therefore 42% is really the benefit to shareholders. There is some more stamp duty, but in the event that we collapsed, the issue is that, in fact, we would not be able to take advantage of those tax losses. The issue for the Australian tax group in plc is that it would essentially dissolve. Now, you could maybe restructure ahead of any unification, but you would have to have a good business purpose. The ATO look very closely, they are smart folks, and we would have to work our way through that.

The second part is around Singapore. Again, we have this ongoing conversation with the ATO; it is a matter of a difference of opinion on the prices that we are charged. It is not going to go away with a collapse; they are very different, independent issues and so that is really the issue: the costs are there and they are not going to go away as a result of the unification. In fact, we will lose the benefits that we have. That is the basis of that.

On the payout ratio versus buyback, every time we go we have a think about buybacks versus cash returns and there are two things, basically, around buybacks. One is that you are buying something, so you need to be sure that you are buying something for value and you know what you have to pay for it. You have a pretty decent idea of what it is worth, because it is our company and so we have to tick that box. The other box you have to tick is it has to be material and, in this half, we declared a dividend of 17% above the payout ratio. Of course, the payout ratio has to go in cash; that is \$900 million and so that is just not material in a company of our size.

ANDREW MACKENZIE: Clarke, if I could just add to the first part of the question, we are going to be spending a lot of time on the road, Peter and myself and with some of our colleagues. We will be talking to a wide range of shareholders, including, by the way, Elliott, about their most recent proposal, but also about what we understand around the unification of the DLC based on five years of work. I, personally, have been studying this since I became CEO in trying to find a way through, because we are attracted to the simplification that comes from unification. However, as you have heard from myself and Peter, at the moment there are enormous risks in assessing what the value might be, from pretty decent to ones that are value-destroying. Until we can reduce that level of risk and increase the level of expected return from this type of transaction, we will handle it exactly the same way we would handle capital projects. We have to get the risk return right, but we are open to ways in which we can do this. Things can change externally, we can bring about changes internally, and we see this a lot with these sorts of things. Just last week, we saw Relx choosing to unify after many years, in their case, of studying it, through external changes in things like Dutch taxation and internal changes that they did. In the same way, we are working towards and waiting for the stars to align and we are always open to ideas as to how we might unify and make our company more simple, if that is the right thing to do. No doubt we will hear a lot more this week and we will probably talk to you again, as shareholders.

CLARKE WILKINS: Thank you very much.

ANDREW MACKENZIE: You are welcome, Clarke.

SYLVAIN BRUNET, EXANE BNP PARIBAS: Good afternoon. My first question is on the supply chain and potential implications on cost. Have you experienced, in any part of your business, any tightness already in consumable or spare parts that were made in China and impacted by the supply reforms we heard about on electrodes, for instance?

Second, on Escondida again, if you could tell us a bit more beyond the morale and the results at Escondida, what would you say is different from last year, obviously other than the copper price, which is 20% higher?

Lastly, on strategy, you have talked positively in recent times about electrification. One metal that comes to mind is lithium, where there are probably more opportunities than in cobalt, for instance. Conceptually, is that an avenue BHP could consider? Thank you.

ANDREW MACKENZIE: Okay, let me try to remember all three. I will try to do them in order. I do not have anything specific to add about, if you like, supply chain inflation. We are seeing pockets where prices are up a little bit, but we have a new and globalised supply organisation. There are obvious things, of course – the flow through of higher oil prices, some of the, if you like, margin reset that we have seen in the steel business – but we feel, with our productivity agenda and the way that we buy the goods and services to do our business, that we are able to quench the small amounts of inflation we are seeing and continue to drive our unit costs down through our productivity agenda.

I did not quite understand your question on Escondida, but what has changed from last year to this year is we now have three concentrators. We now have our new desalinated water supply working. We have relatively unconstrained sources of electricity and so we are able to substantially ramp up the amount of ore that we can process. While grade has remained reasonably constant, this is resulting in a much higher production of copper and that is why they continue. Of course, with more of the ore going to the concentrators, the tank house is no longer full and we will be looking at ways in which we can fill that to possibly increase even more the production of copper from Escondida. As I said in the talk, we have invested majorly and we do not really have to invest again now, in a significant way, to ramp up production and hold it at around 1.2 million tonnes per annum, for about 10 years.

SYLVAIN BRUNET: Sorry, Andrew, to be clear, my question was really on the parameters of the wage negotiations. I should have been clearer.

ANDREW MACKENZIE: Ah, okay. Well, these are things that we still have to talk about with our union and I am not wanting to negotiate at that level of detail in public. In my answer to Paul's question you heard roughly where we are heading: to maintain, in the long run, a competitiveness at Escondida that makes it investable in 10 years' time when it is more of a 0.7-0.8% operation.

What was your third question?

SYLVAIN BRUNET: On lithium.

ANDREW MACKENZIE: I have been very clear: we do believe in the trend towards electrification, but our best way of benefiting from that, we feel, is growing our copper business. The copper market, even when you look for all the increases that are likely to happen and certainly compared to lithium, is at least 10 times the scale and, for a company like BHP, that is our best way of participating in electrification and, where we have it, we get a small kicker as well from nickel.

SYLVAIN BRUNET: Thanks, Andrew.

ANDREW MACKENZIE: Thanks, Sylvain.

JASON FAIRCLOUGH, BANK OF AMERICA MERRILL LYNCH: Thanks for the call. Two quick ones from me: first, just on the productivity gains, you have talked about \$2 billion. Just to clarify that this is going to be before uncontrollable factors, such as oil and currency. Given what is happening with oil, with Aussie dollar, to what extent do we see anything drop through to the bottom line here?

Secondly, there were some passing references to potash in today's presentation. Could you please remind us of the sunk capital in Jansen and maybe frame your current thoughts about that market and the project?

ANDREW MACKENZIE: Let me give the first question to Peter, because he will tell you the detail of the productivity calculations.

PETER BEAVEN: As you say, how we calculate the productivity gains is before prices for inputs and that is foreign exchange and so on. To the extent that those things come through, that obviously has an impact, but as we have said a few times before, in the event that we have a high oil price, of course, that is, net-net, a very good thing for us. FX will do what it does, but it tends to, as you know, flow through everybody's results and, of course, that then has an impact on price. More or less, the most important thing is, correctly, we call out what is controllable and, as we said earlier, we are on track for an additional \$2 billion through the course of the next financial year. As we have

done in the past, and you can touch it and feel it with the \$12 billion, we would expect that we would be able to touch and feel it in the form of cash.

ANDREW MACKENZIE: Peter will give you the detail on the potash capital, but let me remind you that we have been clear that we are not going to make a decision on potash for at least another year. While we are continuing to sink the shaft, that work is going well; it is about 85% complete and we are through all the technically difficult areas now. We are well below the freeze level where the ground is frozen and our excavating technology is working well, so we are on track, probably quite shortly into this year, to get into the orebody. Then we have to think about permanently lining the shafts, so they are ready to be developed when we choose to do so and that is a decision that is at least a year, probably more, away, and we signalled that recently.

In terms of the capital, we have spent most of the capital that was sanctioned for building the shafts, but Peter will give you the detail of the numbers.

PETER BEAVEN: We have \$3.5 billion sitting on our balance sheet and that is what you see in the ROCE chart. I am happy to take any questions offline on that.

JASON FAIRCLOUGH: Just to be clear though, Peter, as a statement of the obvious, maybe, if we start looking at decisions on whether to invest more into this project, we take that \$3.5 billion as sunk and so it is an NPV from here calculation.

PETER BEAVEN: That is what the corporate finance theory will tell you and that is probably absolutely the right thing. Unfortunately, in many ways, it is what it is, but in the fullness of time this will be a good option. It is, conceptually, a good business and industry to be in, but we have to work really hard to make this thing make sense. There is no doubt about that and it will have to go through the capital allocation framework. We have said this many times and will continue to say it. We have demonstrated it on many other types of projects in other commodities. There is not going to be any exception to this one and we have our work cut out, but we have good teams; we have options. However, if it does not make it, it does not make it.

JASON FAIRCLOUGH: There is \$3.5 billion on the balance sheet today. To get it to the point where you even think about the next investment, what do you think the sunk capital is going to be? Is it going to have a five in front of it?

ANDREW MACKENZIE: We continue to work the project, Jason. At the moment, we are looking at something relatively modest, but which will deliver a project on a cash basis that will operate at the bottom of the cost curve and it will use very much the orebody very close to the shafts we are sinking. This is something we work all the time while we wait to think about our decision, as we do with many projects, to see what is the right thing for this company. I refer to your own conference when we presented a while back, so I think it was in August results. We laid out in some detail the optionality we are considering and when we make some choices around that, we will obviously be completely transparent with the market about the cost involved.

JASON FAIRCLOUGH: Okay, thank you very much. Thanks, both.

MYLES ALLSOP, UBS: I have three quick questions, please. First of all, with the iron ore business in the Pilbara, do you think you can creep it beyond 290 million tonnes or are you going to be constrained by the licences now?

Secondly, can you give a quick update on Samarco? What needs to fall into place before we can see a restart? Is a restart possible during calendar year 2018? Is it likely?

Thirdly, just going on to the onshore process, clearly it has been a bit of a slow start, but it looks like we have good momentum. If you get \$10-12 billion coming in, will you consider out of cycle capital returns or will you wait until this time next year before deciding what to do with the cash? Thank you.

ANDREW MACKENZIE: I should write these things down. Just give me the three headlines again, because I have answers for them all.

MYLES ALLSOP: Two-ninety iron ore, Samarco –

ANDREW MACKENZIE: Oh yes, 290, Samarco and then obviously the cash from shale. We just got the 290 approved and we are confident that by the end of the next financial year we can produce at that level. That is all I would want to comment on at the moment. This is a system that we continue to work in the way we can creep its productivity by. We have done a great job on rail, we are now very much applying ourselves to the port operation and trying to do that with a minimum amount of capital. Once we get closer to 290, in a year's time, we will talk some more then. I would rather not go beyond that at the moment.

On the restart of Samarco, there are a number of things that we have to get right. If I might just back up a little bit, where we are right now, I talked about it very briefly on my presentation. We now have all the parties sitting together working on something that we call 'Framework 1.1'. Framework Agreement 1.1 is an agreement which we hope to

reach, the target is April, but certainly by the middle of this year, with all the parties on progress towards settling all the outstanding civil claims and the data that will be sought from that, the consultations that will be required in order to get what we call 'Framework 2.0'. It is very important that we iron that out first, so that we understand what everybody wants and what we agree to provide in terms of the restitution of the damage and, in many cases, the social disruption that was caused by the failure of the dam. Certainly once we get to Framework 1.1, we can start thinking then beyond and to what is the likely state, if you like, of the Samarco operation. We want restart to happen, as I mentioned in the talk, but there are several things that we need to get right. We need to get the economics right. We need to understand the best way to run that business. We, for sure, are not likely to go back to the independent, non-operating joint venture that we had before; Vale and BHP are very much agreed on that. The exact look of that is something that we still have to discuss as restart becomes more likely, because we do not yet have all the approvals that would be required to restart. We also need to get an appropriate settlement with the bondholders, who have yet to come to some sort of compromise with us, as the equity holders, on what part of the, if you like, cost of cleaning up Samarco they should bear. There are quite a few things that need to come together and they need to come together in a way that makes economic sense for restart to occur. Of course, we would like that to happen and we will be working with that intent, but as with all things, we will be looking at it through the capital allocation framework.

Peter might want to add to this, but as to the proceeds from shale, again I would say one thing at a time, Myles. The important thing is that we need to get these transactions done. We will need to then, as usual, do our long-term plans, look at our cash flows and, when we come back in August, of course, we will have a little more certainty around that, possibly not then on the sale. I take slight issue with your comment that it is off to a slow start. We always said we would give ourselves two years to maximise value. Against that timetable, we are doing very well. All the data rooms will be open in a matter of months, the flyers are already out, we expect to receive bids by the middle of the year. There are a lot of things that need to come together before we would want to give you the more firm guidance that you seek and we need to put it in the context of how the world's markets look in six months or a year's time, as we normally do, in a more fundamental way, around August. By then, we probably will not have exact certainty on how the sales are going, but much more than we have today.

I do not know if there is anything you want to add to that, Peter.?

PETER BEAVEN: It is a matter of weeks, not months, Andrew, on opening of the data rooms.

ANDREW MACKENZIE: Sorry, I misspoke. Yes, it will be open by March, for sure.

MYLES ALLSOP: Out of cycle returns are one of the options you have.?

ANDREW MACKENZIE: We will talk to you about that when we have more certainty around what our cash flows are.

MYLES ALLSOP: Okay.

MENNO SANDERSE, MORGAN STANLEY: Good morning, gents. Some questions around the targets: the company remains exceptionally confident in the \$2 billion efficiency savings despite what most people would argue is two out of ten in the first half of the financial year. Could you give us a bit more detail why you are so confident? Especially in met coal, you are still targeting \$54 cost, for instance, which is far, far away from where you are today, so are these ambitions now more aspirational or do you still think you can genuinely get there?

Secondly, on free cash flow, it is clearly a very good number for the full year, over \$12 billion. Are there any big swing factors in the second half versus the first half, for instance, working capital or taxes that inflate that number a little bit for the full year? Thank you.

ANDREW MACKENZIE: To the second part of your question, I do not believe so, but I will double check with Peter after I have answered your question.

Two out of ten is a little harsh. I always said that as we find it the harder territory on productivity, delivery was not going to be monotonic, it was going to be a bit lumpy. We were very clear that we were going to face a one-off hit from the Olympic Dam shutdown and that some of the other things were going to be a bit slower in coming to compensate for that. Obviously, we have added to that some of the difficulties that we face in coal; they are partly geotechnical, but they are partly down to the long impact of cyclone Debbie. But four out of the six BMA mines are beating their targets; they are just held back by geotechnical problems at Broadmeadow and Blackwater, which we are more or less through right now. It is a bit better than aspirational and, if you look at some of the other businesses, there are a lot of things going in the right direction. We did 284 million tonnes iron ore in the second quarter; quarter-on-quarter, we took about a dollar out of unit costs at iron ore. On the \$54 a tonne for coal that is in the future, we have guided to \$66 for the full year and, of course, we had the difficult first year, which was at \$71. You heard a lot of the answers to the questions on Escondida. The ramp up of OGP1 and obviously joined by the desalinated water has gone well and that is unquestionably creating the potential for further increases in both

recovery and throughput, to maximise the capacity of that system. That is something we will see later on, into financial year 2019, but in time, I would say, to secure strong delivery of those productivity targets.

I could go on. Obviously, Olympic Dam, now into the Southern Mine area, gives us an opportunity to chase productivity in that area as well. We have had good results, even though we are selling the business, from our trials in the shale business on different wells; they are being more productive than we had expected. We continue to work at pushing availability, reducing the number of shuts we have to take and there are not many in the back half of the year, so that partly answers the second part of the question. We are extending the time between shuts, which means we have more producing time and it means that we are spending less money on shuts. There are a lot of things and I could probably go on, but the list is very long, in order to give us the security that we really are still very much driven to drive further productivity benefits, including reaching the \$2 billion target.

I will just double check with Peter that I have not missed any one-off. I do not think I have. I think the second half is much cleaner than the first half.

PETER BEAVEN: No, there is nothing unusual coming in the second half that we know of at this point in time. We have our work cut out; there is no doubt about that. The second half has to be better than the first half, we always expected that, but we have the operations running where they are today and we are thoughtful about maintaining that guidance. Of course, if we make \$7 billion in the second half, it is price and price will be important whichever way. We are not making that as guidance; it is just the way it is with spot prices today.

MYLES ALLSOP: Certainly. Thank you.

ANDREW MACKENZIE: Thanks, Myles.

GLYN LAWCOCK, UBS: Good morning, Andrew. Going back to WA iron ore and the 290, you have answered a lot of questions on it, but just a couple of things: firstly, you are not far off 290; you are within sight of it, but how do you think about that with respect to the market? Is there anything you have to do to get to 290 material?

My other question is on slide 17, which I found quite interesting. You are obviously balancing cash and returns and, on top of that, there is an extra bit that is missing, which is you are paying down debt. Once you are at the bottom end of your debt range, which is where you say you want to get to given the current environment, how should that chart look? Is that the new BHP where you are going to be balancing or will we see that swing the other way, where that net line moves more into the return? I am just thinking how you think that chart looks a couple of years out, once your balance sheet is where you want it to be. Thanks.

ANDREW MACKENZIE: I will come back on the iron ore question in a moment, but we make these decisions on the basis of our capital allocation framework. This is not some kind of new metric around balancing, but it has become more balanced, because we have brought our debt, as of 31 January, into the \$10-15 billion range. We do not want to go outside that range, but we do want to drive to the bottom part of the range, so it does mean the majority of the free cash is either going to be invested in the business or it is going to be returned to shareholders. We have been very clear that we are not going to allow capital to go above \$8 billion out to 2020, \$6.9 billion for this year. It is not really targeting at balance, it is just illustrating that it is more balanced, if I could put it that way, and that was the purpose of that chart.

Is there anything you want to add to that, Peter?

PETER BEAVEN: No. Glyn, when we get there, guess what I am going to say. We are going to run it through the capital allocation framework and come up with the right balance between the balance sheet, the return to shareholders and investment. Clearly, as we get our balance sheet to where it needs to be, and we are there, inside of our medium term range today, guidance on capex is unchanged. We want and need to give more cash back to shareholders. There is no doubt about that. That line will take care of itself.

GLYN LAWCOCK: Can I just ask, then, if an opportunity comes along would you move outside the debt range?

ANDREW MACKENZIE: Do you mean back up again?

GLYN LAWCOCK: Yes. Is that now a very hard ceiling for you?

PETER BEAVEN: You can probably predict what I am going to say. It will depend on the opportunity. We do think about our balance sheet on a stress-tested basis. We do two things on our balance sheet when we think about what is strong. First of all, we need to make sure it buffers the downside, so of course we stress test it for prices and so on that we have seen in the recent past, which in our modelling extends for an extended period of time. In addition to that, we also model a counter-cyclical investment. We want to make sure that we can both buffer and be offensive, if you like, and counter-cyclical in acquiring something, some unknown asset, that may just come to market in the

event that everybody else became distressed. We think we are good on both parts. This is really the basis to the \$10-15 billion range that we have provided. We would therefore be able to make an acquisition and retain a strong balance sheet, which, for convenience's sake only, will always have an 'A' in front of it.

ANDREW MACKENZIE: On iron ore, I cannot add much to what I have already said, Glyn. Clearly some of the discussions I had about extending shut down apply to iron ore. We have used a lot of work in tightening the way we run our rail systems, improving its maintenance, shortening turnaround times, increasing throughput. We are doing all of the same work on the port, to creep towards 290. There are then lots of little small things as we orientate so much of our workforce to make them sell, and the equipment that they operate more productive, more available and with higher utilisation. We get there with minimal amounts of capital.

GLYN LAWCOCK: Sorry, Andrew, maybe I will rephrase my question. What is the first priority for iron ore? Is it 290? Is it return on capital? Is it margin? I am just trying to understand whether the 290 is a must achieve.

ANDREW MACKENZIE: The first priority is obviously return on capital or, if you like, shareholder value. In the case of iron ore, through the ability to add tonnes at almost no additional capital and no additional cost, then that correlates perfectly with boosting the return on capital employed.

LYNDON FAGAN, JP MORGAN: My questions are on costs. The first one is in relation to iron ore. I am just trying to understand the cost increase a little more clearly half on half. You have reported about a dollar a tonne increase in Australian dollar costs half on half, which compares to a bit of cost out from Fortescue and Rio. When you benchmarked against the key peer group, why have costs gone up? It would be good to understand that better. On met coal, you have retained your \$40 a tonne medium term cost target. You are in the 70s now. I am struggling to work out how you get to that \$40.

ANDREW MACKENZIE: There are quite a lot of numbers in there. I am looking at Peter, but I think our medium target is now \$54 a tonne and not \$40. Is that right?

PETER BEAVEN: That is correct. New South Wales Energy Coal is \$40 in the medium term. Queensland Coal is a little higher than that. I will stop there. Andrew, you can take the rest.

ANDREW MACKENZIE: On iron ore, there is some detail in there for a one-off on the half on half. On the full year to full year we have reduced costs, I think by about 2-3%, if we take calendar year to calendar year. From memory, I also think that we have reduced costs from Q1 to Q2 by about a dollar a tonne. There can be one-offs and it can be a bit lumpy, but our trajectory is down and we are confident, in the medium term, of getting below 13.

LYNDON FAGAN: That was my mistake on the \$40. I have a quick follow up in relation to South Flank: you have spoken about what happens to the weighted average Fe content and lump proportion after bringing that on. I was wondering if you could share how it influences costs. I imagine it is a higher cost asset than Yandi, yet you still have your costs going down to \$13 in iron ore. I was wondering how that sits in there if costs potentially go up from 80 million tonnes of ore coming in.

ANDREW MACKENZIE: There is a lot of detail in there I would rather handle with you offline and possibly through the IR team. We have not actually agreed the definition that will be moved into execution on South Flank. We are a few months away from that. At the point at which we do that will be very clear in laying all of these things out for you, Lyndon.

GRANT SPORRE, MACQUARIE: I have a follow-up question on Samarco, if I may, please. Earlier this year, Vale indicated that they would look to wanting to own 100% of the asset. I want to know, from your perspective, what sort of milestones you would like to see in place before you contemplate the sale of your 50% to Vale, if indeed you were to consider that.

ANDREW MACKENZIE: I think that is a very high-level specificity. There are many ways, other than running things through a non-operated joint venture, that we might run Samarco, were we to achieve a restart. Of course, we are engaged and always are with Vale. We have had a good relationship since the terrible disaster happened, and we go backwards and forwards on the best way to make it work. We are really not at the point of getting to final stages. We are looking at all options. As I said earlier, the most important thing we need to do now is complete framework agreement 1.1, which puts us on a trajectory to get a full settlement of all the remaining civil claims. Once we have that and we start to see the approvals become apparent in Samarco, and we think a bit more about how we deal with the bondholders, then we will continue to work with Vale on what is the best way to run the operation, and, from the perspective of BHP, what the best way would be for us to retain influence over that operation and, most importantly, on the ongoing clean-up of the environment and the resettlement of the affected communities, whilst also dealing

with a lot of the compensation issues through the Renova Foundation. It is a complex set of things on which we have to work together. We have to have our influence felt and we also have to look after the return on capital employed for the BHP shareholder, and that will be pre-eminent. There are so many moving parts that the level of specificity you are asking from me now is, I think, a little bit premature.

FRASER JAMIESON, JP MORGAN: My first question is an extension on that question on Samarco and non-operated JVs more generally. I think you previously spoke about feeling that those were probably unsustainable in the long-term. You have a couple of others in the portfolio other than Samarco. Can you maybe give us your latest thoughts on that structure in general, and how we might see that developing over the medium to long term?, And the second one, if we assume a successful sale of the US on-shore assets, your volume profile will look much more limited at a group level than it does now. I was wondering how comfortable you are with that dynamic. Do you think this is a business that needs to grow in volume terms, or can you still drive enough earnings growth through other means? I am thinking about that particularly in the context of cost inflation returning, adverse FX moves etc.

ANDREW MACKENZIE: On the non-operated joint ventures, there is not much more to report. We have been very clear that we will never enter into one of them again. We have also been clear that we do not believe that the independent non-operated joint venture structure could be blamed for having caused the dam failure. These are things that were set up a long time ago. I think with the modern sense of accountability that we would feel, they are not the right thing to do in the future. However, unwinding the existing ones where there is not the impetus which I have been talking a little bit about with the Samarco restart, and the knowledge and sense that we have between ourselves and Vale, is not straightforward. Our other shareholders are perhaps less motivated to make changes to the arrangements than we might be, and through all of these things we obviously have to protect value for the BHP shareholders. Long-term, I do not think you will ever see another one like it within the BHP portfolio, and we would hope that by then we would have reformed to something different, at best more in line with a joint venture where there is a nominated operator from one of the major companies that is commonplace in petroleum. Other than Samarco, I think this will take time for reasons that you can understand, because of the different motivations of the other shareholders. Sorry, I should write these things down. What was your second question? I did have an answer.

FRASER JAMIESON: The second question was around volume growth for the group post a sale of US on-shore.

ANDREW MACKENZIE: I have it. You have heard me on this before. We do not have volume targets either for the company or individual commodities. We assign capital, through the capital allocation framework, to the projects which offer the most competitive returns and compete effectively with returns to shareholders. We want to create options that can compete for that capital across our portfolio, but we are not driven to simply replace volume as a result of decline at a higher level than driven to get returns, or even to increase volumes. It can be, at the company level, a reasonable surrogate for growth in free cash flow and growth in value, but we would rather measure the dollar than the tonnes or the barrels. That is basically the answer. We have looked at that from a number of angles, including the climate change angle and how that may change the demand for our products. We always feel that there are several ways we can grow value and cash flow, and therefore grow volume, with different mixes of commodities, depending on how the markets for those commodities evolve. That is part of the benefit of the diversification that we offer within BHP. In oil I think we are clear that we have pivoted back towards conventional and we would like to create a few more options that could compete for capital within those constraints. That is why we do have a fairly significant exploration programme, why we went for and won our bid for Trion and why we are interested in a number of brown field operations within our existing footprint, but they have to compete within the capital allocation framework.

HAYDEN BAIRSTOW, MACQUARIE: I have a quick question on met coal and the issues you are having at Broadmeadow. Most of the longer term growth optionalities appear to be similar large top coal caving underground. Is it specific to the type of mining that you are doing or a lot of faulting in that specific mine that is causing the instability in the operational performance?

ANDREW MACKENZIE: The answer to your question is that the second part is right. We have had greater geotechnical challenges in that mine than we had hoped to have. I think top coal caving, as we go deeper in there, will become more important over time. There have been periods in the past when Broadmeadow has probably been the best top caving operation in the world. We have a lot of knowledge about how to run these operations well. We actually transferred some of that from the San Juan mine before we sold it. The current manager of Broadmeadow was one of the previous managers of San Juan in North American Coal, which we have sold. We have learned, we will become better with time and some of the geotechnical challenges will be easier for us to overcome, all other things being equal, as a result of that knowledge. You are right that it is an important part of the future development of coal, and we are absolutely determined to be leading exponents of top coal caving and have an ability to handle ever increasing geotechnical problems than less disruption than we suffered in this case.

As you can see, over the past six months our long-term plans have delivered solid results, despite several one-off issues that Peter referred to, and they are largely behind us. I think this sets us up very well for a strong second half, with higher volumes and lower costs expected right across the portfolio. That is particularly in iron ore, Escondida, Olympic Dam and Queensland Coal. The questions have allowed us to give a bit more colour around that. This momentum in our operations, coupled with the further gains in capital productivity – about which we have maybe said a little bit less – will support free cash flow. If spot prices persist, that should be more than \$12 billion for the 2018 financial year. With this kind of cash, which is effectively the same as we had in the last full year, we will continue to reduce debt and increase shareholder returns as we have done in this period. I hope you feel that our plans are consistent and clear, that we have built a solid base, that we are applying the plans consistently and are building momentum. I look forward to talking you through our continued progress when we meet again for the full year results in August.

I should close on one thing. I apologise for the technical difficulties early on. I hope that did not spoil your enjoyment of this call and that we recovered appropriately. I will see you all soon. Thank you.