



**Financial results
for the half year
ended 31
December 2018
Investor and
analyst briefing
speech**

19 February 2019

Andrew Mackenzie, CEO

Slide 1: Title slide

Today, Peter Beaven and I are pleased to present our 2019 interim results.

Before I begin, I would like to briefly reflect on the tragic incident at Vale's Brumadinho iron ore operation in Brazil last month.

The collapse of the dam is a tragedy, and we offer our heartfelt sympathy to all those affected.

At BHP, we are committed to learn from this. And, as an industry, we must redouble our efforts to make sure events like this cannot happen.

Slide 2: Disclaimer

As always, please note the disclaimer and its importance.

Slide 3: Title slide

Slide 4: BHP's investment proposition

At BHP our focus is clear. To maximise cash flow, maintain capital discipline and increase value and returns.

Our record shows that this is the right formula for our shareholders.

Since 2016 we have:

- Strengthened our balance sheet through a US\$16 billion reduction in net debt;
- Reinvested US\$20 billion into high-returning projects; and
- Returned more than US\$25 billion to shareholders.

Slide 5: H1 FY19 financial scorecard

In the December half, despite some unplanned outages, our simplified portfolio of world class assets delivered a solid performance. This is reflected in our financial scorecard for the period.

We generated Underlying EBITDA of US\$10.5 billion at a margin of 52 per cent. After disciplined investment, this was converted into free cash flow of US\$3.6 billion. This excludes the proceeds from the recently completed sale of our Onshore US assets of US\$10.8 billion. We further reduced net debt, and returned over US\$13 billion to shareholders, which includes a US\$5.2 billion special dividend paid in January.

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

Slide 6: Sustainability is one of our core values

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

So, it is with great sadness that, in December, our colleague Allan Houston died in an incident at BMA's Saraji Mine.

On behalf of everyone at BHP, I extend our deepest sympathies to Allan's family, friends and the team at Saraji.

A thorough investigation is underway, and we will share its findings.

This period, the frequency of our high potential injuries – a key metric we use to assess safety performance – fell 25 per cent. But we can, and will, always do more.

To strengthen our culture of safety, we have three key priorities.

- First, to embed a new contractor management framework to make sure our contractors, like our employees, are safe at work.
- Second, to actively promote a mindset of chronic unease – a state of constant vigilance and awareness that makes safety everyone's responsibility.
- Third, to utilise a new global tool that will make it easier to capture and report safety data and share lessons across the company.

At BHP, we have an extreme focus on the safe management of tailings facilities.

It is our responsibility to our employees, contractors and the communities where we operate.

We significantly increased the rigour of our assessment and management of tailings facilities since the failure of the Fundão dam at Samarco in 2015. Dam Safety Reviews have been performed at all significant active, inactive and closed tailings facilities across BHP, including a thorough evaluation of risks.

The Reviews identified that there were no significant deficiencies to the stability of the dams. The tailings dam monitoring and alarm systems at all sites were also reviewed and supplemented where new opportunities to improve were identified.

All our significant tailings facilities have emergency response and evacuation plans in place. And we have implemented regular monitoring and review processes as directed by the Canadian Dam Association guidelines – regarded as the most rigorous in the industry.

In total, over 400 actions were assigned from the Reviews. 93 per cent are complete, and those actions still in progress are considered low priority, such as administrative actions and long-lead items related to closure and climate change impacts. None of these actions are overdue.

The recent tragedy at Vale's iron ore operation shows we, as an industry, must act with even greater urgency to make sure these incidents do not happen.

We will review all the lessons of this failure as they emerge and apply them to further upgrade the construction and operation of our dams.

We will act with even greater care and attention to make sure our employees and communities are not in harm's way.

And we will continue, and accelerate, our work with the industry to advance the science and technology required to make tailings storage safe. This includes existing work streams such as early warning technologies, better models and monitoring of possible modes of failure, tailings dewatering options, and dry tailings storage viability at scale.

We will meet with a number of global bodies this month to expedite this work.

At BHP, we welcome a common, international and independent body to oversee the integrity of the construction and operation of all dams.

And we support the call for increased transparency in tailings dam disclosure. We will work with the industry to make sure the disclosure is consistently applied and will inform better tailings dam stewardship.

I will now hand over to Peter.

Peter Beaven, CFO

Slide 7: Title slide

Slide 8: Financial performance

Over the past six months, we delivered a solid financial performance, as strong results in Petroleum and Coal offset a lower contribution from Copper, demonstrating the effectiveness of our diversified portfolio.

Strategically, we've added early-stage options in our preferred commodities, and completed a timely exit from shale, for US\$10.8 billion.

Excluding Onshore US, we generated EBITDA of US\$10.5 billion, and maintained our margin of more than 50 per cent. Our Underlying attributable profit was US\$4 billion. And, we recorded two exceptional items, which largely offset each other.

- A US\$210 million charge, related to funding and the provision for Samarco; and
- A US\$240 million gain, related to global taxation matters resolved during the period.

Slide 9: Group EBITDA waterfall

The EBITDA waterfall chart shows the positive impact of the stronger US dollar, offset by several unplanned outages during the half.

These mask the underlying performance of the business, which contributed productivity gains of US\$215 million.

- Western Australia Iron Ore delivered a strong performance, with record volumes at Jimblebar.
- BMC benefited from record production at South Walker Creek.
- And, while Escondida recorded a negative movement in controllable cash costs, this was attributable to an expected fall in grade.

Unplanned outages had a negative US\$835 million EBITDA impact and we now anticipate productivity gains to be broadly flat for the full year.

With these issues and an elevated level of planned maintenance now behind us, we expect a strong second half performance.

Slide 10: Segment performance

Each of our commodities again made a significant contribution to our result.

Iron Ore generated EBITDA of more than US\$4 billion, at a margin of 59 per cent. Unit costs declined from the same period last year, despite the derailment. In the second half, we expect record volumes and full-year unit costs of below US\$14 per tonne.

In Petroleum, higher oil and gas prices and strong uptime performance supported a 38 per cent increase in EBITDA, to over US\$2 billion – representing 22 per cent of Group EBITDA. While unit costs rose 10 per cent due to planned maintenance and natural field decline, guidance for the full year remains unchanged at less than US\$11 per barrel, with volumes at the upper end of guidance now expected.

Coal also delivered a strong result, with EBITDA of US\$2 billion reflecting higher metallurgical coal prices and a solid operating performance. Queensland Coal costs were broadly flat, despite a 'maintenance-heavy' half and a 10 per cent increase in stripping.

Copper EBITDA decreased to US\$1.9 billion, with prices 18 per cent lower, and production outages at Olympic Dam and Spence. At Escondida, the 10 per cent increase in costs is largely due to the 11 per cent decline in grade, and payment of the labour negotiation bonus. Improved labour productivity and optimised maintenance strategies to increase equipment utilisation are expected to keep costs around US\$1.15 per pound over the full year.

Slide 11: Cash generation

Over the past six months, net operating cash flow was US\$6.7 billion and free cash flow was US\$3.6 billion. This included greater investment in high returning projects and increased taxes paid following last year's strong profits. This excludes the US\$7 billion in proceeds from the Onshore US sale received by the 31st of December.

Slide 12: Capital allocation

As we went through in detail last November, our capital allocation framework has been embedded throughout the organisation. It transparently directs cash to its value-maximising use – be that the balance sheet, investment, or returns to shareholders.

Slide 13: Striking the right balance to maximise value and returns

Today, after a further US\$1 billion reduction during the half, net debt sits at US\$9.9 billion. This is before the US\$5.2 billion special dividend paid at the end of January, and the US\$3.5 billion of deferred Onshore US proceeds to be received by the end of April. In the near term, net debt is expected to remain at the lower end of our US\$10 to US\$15 billion range.

Over the period, we invested US\$3.5 billion in maintenance and organic growth projects. Capital and exploration expenditure guidance for the 2019 and 2020 financial years remains below US\$8 billion. This includes the recently approved, high-returning Atlantis Phase 3 and West Barracouta projects.

And finally, over the past six months, we have returned more than US\$13 billion to shareholders. This comprises last year's US\$3.4 billion record final dividend, the US\$5.2 billion buy-back of BHP Group Limited shares (at A\$27.64 per share), and the US\$5.2 billion special dividend paid on the 30th of January – delivering on our commitment to return the entire Onshore US proceeds to shareholders in a timely manner.

Reflecting our strong balance sheet and cash flow, today, the Board announced an interim dividend of 55 US cents per share – which represents a payout ratio of 75 per cent. This includes 37 US cents per share under the 50 per cent payout ratio, and an additional amount of 18 US cents per share. In total, since February 2016, we have returned more than US\$25 billion to shareholders!

Slide 14: Return on Capital Employed

Over the half year, our return on capital employed was 15 per cent.

Our bulk commodity assets again provided exceptional returns – approximately 30 per cent – with increases at both Western Australia Iron Ore and Queensland Coal.

Conventional Petroleum also delivered higher returns as a strong operational performance meant we captured the benefit of higher prices.

Softer prices clearly weighed on returns at our copper assets, and this was compounded by unplanned outages at Olympic Dam and Spence.

While the underlying performance of these assets is sound, we must do more to improve the stability of our operations.

At Olympic Dam, progression into the Southern Mine Area is going well, with record underground development. Delivering the higher grade from this area and the Brownfields Expansion Project will unlock higher returns.

Jansen remains an important strategic option, and we continue to investigate multiple ways to maximise the value of the project – from progressing detailed engineering studies to improve capital efficiency, to trialling technology to minimise operating costs.

So, in summary, over the past six months, we delivered on several strategic priorities.

We exited shale cleanly, in a high oil price environment, and returned a record amount to shareholders within months of the transaction close.

We continue to add to our portfolio of options in copper and oil, and have settled a long-standing dispute with the Australian Taxation Office.

We have a very strong sense of where the next wave of productivity will come. This will continue to offset inflationary and resource pressures and allow all our assets to improve returns.

We remain confident that our plans will deliver, at 2017 prices, returns around 20 per cent in the medium term.

And, we will always remain focused on maximising cash flow, maintaining capital discipline, and increasing value and returns in accordance with our Capital Allocation Framework.

Thank you.

Andrew Mackenzie, CEO

Slide 15: Title slide

Thank you, Peter.

Our insights on economic and commodity markets inform our capital allocation decisions.

Slide 16: Market outlook

We operate in an uncertain world. Unfavourable policies demonstrated by recent shifts towards protectionism undermine confidence and disrupt trade. The free flow of capital, goods, services and ideas across the world sustain global growth and underpin the prosperity of companies, like BHP, and their host nations. We closely monitor the external environment amid current trade uncertainties and are somewhat cautious about the short-term outlook.

But our long-term view remains positive. Population growth and higher standards of living will generate demand for decades to come. And our Company is well placed for this future.

Slide 17: Our strategic framework

Our strategic framework provides the foundation for long-term value creation.

We've shaped our portfolio around the highest-quality assets in stable, low-risk jurisdictions. They supply premium commodities with attractive fundamentals. And we hold development options and exploration licences in the world's premier basins, with the potential to increase our exposure to copper, oil and potash.

This portfolio is unique in the sector. But our competitive advantage must extend beyond world-class assets and attractive commodities. It is our culture and capability that will truly set us apart.

That is why late last year we established a Transformation Office to deliver the next wave of value creation.

Through this systemic program we will take advantage of, and fully leverage, proven methods of continuous improvement, automation and our centres of excellence to make our operations more stable and predictable.

At the heart of this transformation are our people. It will build on our capability, strengthen our culture and empower our frontline to act on their ideas in real time, unfettered by bureaucracy.

I am confident our Transformation program will shape our destiny and position BHP for the next decade and beyond.

Slide 18: Our strategy in action

Over the past few years I have outlined our key drivers to increase the value and returns of BHP. They include cost efficiencies, technology, latent capacity, major projects, exploration and Onshore US.

I'll expand on some examples from across our businesses.

Slide 19: Minerals Australia

In Minerals Australia we made good progress.

At Queensland Coal we offset a sharply higher strip ratio with record stripping. We are confident to deliver a strong end to the year.

At Western Australia Iron Ore, Jimblebar's fully autonomous trucks are now amongst our safest and most productive. This success will guide a phased roll out across other operations.

And, through an innovative approach to maintenance and production, our new Operations Services team will bring more contractors in house to improve labour stability and accelerate productivity.

Slide 20: Minerals Americas

In Minerals Americas, Escondida's new labour agreement has triggered improvements in truck utilisation and labour productivity. Increased concentrator throughput has helped offset lower grades. Despite this grade decline and increased use of desalinated water, we will keep costs around US\$1.15 per pound this year and in the medium term.

At Spence, improved maintenance practices increased mill availability and throughput. Development of the hypogene resource is now over one third complete and remains on track to significantly increase output in 2021.

At Jansen, we reached target depth at both shafts during the period. And, we're excited about our copper exploration opportunities. We've increased our interest in SolGold and its highly-prospective Cascabel project in Ecuador. And, we've expanded our drilling campaign to appraise our recent discovery south of Olympic Dam.

Slide 21: Conventional Petroleum

And finally, to Conventional Petroleum, where our suite of almost thirty low-cost infill and improvement options offer average returns above 40 per cent.

We also have several high-return projects in execution. Mad Dog 2 is more than a third progressed. In December, we sanctioned the Bass Strait West Barracouta project. Just last week we approved Atlantis Phase 3. And we reached first production at Greater Western Flank B, with completion imminent.

Our exploration strategy also shows great promise. During the period we had drilling success in Mexico and Trinidad and Tobago, and we will now accelerate our appraisals in each region.

Slide 22: We expect to deliver on our plans in FY19...

So to conclude.

Our focus is simple and resolute. To maximise cash flow, maintain capital discipline and increase value and returns.

Over the past six months our long-term plans delivered solid results and we returned record amounts of cash to our shareholders.

I am confident our asset by asset plans will improve safety, unit costs and production in the second half. At current spot prices we expect full year free cash flow of more than US\$9 billion and return on capital employed of 20 per cent.

Slide 23: BHP's investment proposition

Beyond this, there is still more we can and will do.

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

Thank you.