

**Financial results
for the year
ended
30 June 2019
Investor and
analyst briefing
speech**

20 August 2019

Andrew Mackenzie, CEO

Slide 1: Title slide

Hello everyone, and thank you for joining Peter Beaven and myself as we present BHP's 2019 financial year results.

Slide 2: Disclaimer

As always, please note the disclaimer and its importance.

Slide 3: Title slide

Today, we announce a strong set of results, built on our foundation of simplification, capital discipline and culture.

This underpinned record cash returns to shareholders and a return on capital employed of 18 per cent.

This is the product of our strategy, which over the past five years has seen us increase volumes by 10 per cent and reduce unit costs by over 20 per cent.

Slide 4: BHP's investment proposition

Our focus remains as strong as ever to: maximise cash flow, maintain capital discipline and increase value and returns.

And there are significant opportunities ahead to further transform our business and grow value and returns for our shareholders.

But first, a rundown of our full year results.

Slide 5: FY19 financial scorecard

Higher prices and solid operating performance contributed to Underlying EBITDA of US\$23 billion – at a margin of 53 per cent – and to strong operating cash flows.

We used this cash to progress attractive growth projects and after disciplined investment, we converted this into free cash flow of US\$10 billion.

We have announced a record final dividend of 78 US cents per share - a 73 per cent payout ratio, or ~US\$4 billion. This is on top of the US\$17 billion already distributed to shareholders this year.

We have also invested in our future. We have had further exploration success in copper and oil and with the approval of the Ruby oil and gas development this month, we now have six major projects under development. All of these are on schedule and budget, and they deliver average returns of around 20 per cent.

We apply the same discipline to our small projects as we do to our major ones.

Slide 6: Sustainability is one of our core values

We achieved these results through the hard work and ingenuity of our people. Their health, safety and wellbeing is and will always remain our highest priority.

It is with great sadness that last December, our colleague Allan Houston died at BMA's Saraji Mine in Queensland.

Allan's death impacts us all and serves as a stark reminder of why safety must always remain at the forefront of what we do.

After a thorough investigation, we could not determine the direct cause of the incident.

However, we have identified several areas for improvement.

We shared the findings of this investigation and redoubled our commitment to safety.

This reinforced our drive to improve our safety culture and strengthen the quality of our field leadership program.

This year our leaders again spent more time in the field and coached their teams to identify and speak up about safety risks.

While we saw a slight increase in Total Recordable Injury Frequency to 4.7 per million hours worked, we reduced the rate of events with potential to cause a fatality by 18 per cent. Though we are encouraged by this result, there is still more work to do.

Last year we reduced our scope 1 and 2 greenhouse gas emissions compared to our target baseline by 3 per cent.

A good result, but we have more to do. That is why just last month we committed US\$400 million to address emissions across our operations and value chain.

Safety, and our approach to global warming, are critical components of our overall focus on social value, which we will update you on later this year.

I will now hand over to Peter to take you through our financial performance in detail.

Peter Beaven, CFO

Slide 7: Title slide

Thank you Andrew.

Slide 8: Financial performance

A solid second half performance sustained our strong earnings and further strengthened our financial position in the 2019 financial year.

Excluding Onshore US, we generated Underlying EBITDA of US\$23 billion – with a margin of 53 per cent – and Underlying attributable profit of US\$9.5 billion.

These results are largely in line with last year, and demonstrate the consistency of our business – a product of our diversification and solid operational performance.

Including Onshore US, Underlying attributable profit was US\$9.1 billion, up 2 per cent. Underlying earnings per share increased by 5 per cent due to fewer shares on issue following the buy-back.

This year, we recognised an exceptional charge of US\$818 million. This consists of:

- A US\$240 million gain related to global taxation matters resolved during the first half; and
- A US\$1.1 billion charge related to Samarco. This is largely due to updated estimates for Renova's programs, and a provision for accelerated decommissioning of the Germano dam.

Including these, our attributable profit was US\$8.3 billion.

Slide 9: Group EBITDA waterfall

Higher prices and the stronger US dollar increased EBITDA, as shown on the waterfall chart.

We delivered underlying productivity improvements of US\$1 billion, with record throughput at our Chilean copper assets, and record volumes at several Australian operations.

However, these gains were offset by several factors. Significant resource headwinds, most notably copper grade decline, had an US\$800 million impact. Unplanned outages in the first half amounted to another US\$800 million. And we had higher unit costs in coal, due to a higher strip ratio.

Stable operations in the second half have locked in this year's underlying productivity gains.

Over the medium term, we expect grade and strip ratios to stabilise, and our transformation program to further improve operational performance.

Slide 10: Segment performance

Our results were underpinned by a significant contribution from each of our commodities.

Western Australia Iron Ore generated EBITDA of US\$11 billion at a margin of 65 per cent – the highest since 2012 when prices were double 2019 levels. Though an 18 per cent increase in prices clearly helped, this outstanding result can be attributed to our team's ongoing effort to realise cost and volume efficiencies. We finished the year with record volumes at Jimblebar and an exit run-rate above 290 million tonnes per annum. Despite the train derailment and cyclone, we continued our multi-year track record of reducing unit costs. For the full year, we delivered sector leading C1 costs of below US\$13. We will not only sustain but build on this strong performance in future years.

In Copper, optimised maintenance strategies produced record throughput at each of our Chilean operations. This helped offset a 12 per cent decline in concentrate grade at Escondida. Despite this, and payment of the end-of-negotiation bonus to the unionised workforce, Escondida's absolute costs remained flat year-on-year. However, with prices 13 per cent lower, overall copper EBITDA decreased to US\$4.6 billion. While Escondida's medium-term cost guidance remains unchanged at less than US\$1.15 per pound, guidance for next year reflects significantly lower by-product credits.

Our Coal business contributed EBITDA of US\$4.1 billion at a margin of 45 per cent. A solid operating performance – which included record production at BMC – helped offset a 10 per cent increase in strip ratio and the impact on unit costs.

And finally, in Petroleum, higher prices and strong uptime performance supported a 14 per cent increase in EBITDA to almost US\$4 billion. Total production increased by 1 per cent despite planned maintenance activities and natural field decline of around 5 per cent.

Slide 11: Cash generation

Even with fluctuations in prices and volumes over the past few years, our diversified portfolio has provided strong and stable cash flows.

Over the last year, net operating cash flow was US\$17 billion – in line with the previous two years.

After disciplined investment, free cash flow was US\$10 billion.

BHP has now generated US\$35 billion of free cash flow over the past three years. And this excludes the US\$10 billion in proceeds from the sale of Onshore US.

Slide 12: Capital allocation

Our capital allocation framework informs every financial decision we make. We use it to transparently guide capital between the balance sheet, investment and shareholders in order to maximise value and returns.

It has continued to work well. I will now step you through this.

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

Over the year, we maintained our strong balance sheet and reduced net debt by US\$1.7 billion to US\$9.2 billion.

Investment in maintenance, growth projects and exploration totalled US\$7.6 billion.

Guidance for capex remains below US\$8 billion for the 2020 financial year and at around US\$8 billion for 2021.

With our balance sheet strong, and capital expenditure at the optimal level, remaining cash has only one place to go. Over the past 12 months, we returned US\$17 billion to shareholders – a record amount. Today, we announced a further ~US\$4 billion in cash returns, with a record final dividend of 78 US cents per share. This includes 53 US cents under the 50 per cent payout ratio, and an additional amount of 25 US cents, or US\$1.3 billion.

We are acutely aware of the current trade tensions and consider downside scenarios in all our cash allocation decisions. With our strong balance sheet, solid operational performance, and a flexible dividend policy, we are well positioned to weather any future volatility.

Now, before I move on, let me remind you that under the new financial reporting standard on leases – IFRS 16 – approximately US\$2.3 billion of operating leases are brought onto the balance sheet from 1 July 2019. A change in our definition of net debt to include the fair value of debt-related derivatives will also increase net debt by US\$200 million. Had these changes been in effect at 30 June 2019, net debt would have been US\$11.7 billion. Additional new leases commencing in the 2020 financial year largely related to the desalination plant under construction at Spence, are expected to increase net debt by a further US\$1.3 billion.

Reflecting these impacts, which total US\$3.8 billion, we have revised our net debt target range to between US\$12 and US\$17 billion.

There is no change to our cash flows due to the application of IFRS 16. And we continue to expect net debt to remain at the lower end of this revised target range in the near term.

Slide 14: Return on Capital Employed

Over the year, our return on capital employed, excluding shale, was 18 per cent.

Our Western Australia Iron Ore business led the way, with a near 40 per cent return on capital. A strong operational performance, particularly in the second half, allowed us to capitalise on higher prices.

Queensland Coal again provided a strong return of around 30 per cent, despite the stripping and weather challenges over the period.

And Conventional Petroleum posted a significant year on year improvement, with a return of just below 20 per cent – up from 12 per cent in the prior year.

Our Copper assets had a tougher year from a returns perspective as softer prices, grade decline and unplanned outages at Olympic Dam and Spence weighed on returns. At Pampa Norte, returns on the existing business, so excluding SGO, are 16 per cent. While there are bright spots in underlying performance at Olympic Dam, the team there is focused on:

- delivering a multi-year program of work to improve stability; and
- growing production through access to higher grade ores and increased throughput.

Both are key to improving returns.

In summary, we delivered well against our plans.

We exited shale cleanly, invested in high-return projects, reduced net debt, and returned a record amount to shareholders – including the buy-back of Limited Shares at below A\$28.

With our operations stable over the past six months, we have delivered US\$1 billion of underlying improvements in productivity, building on the past few years.

And we are pressing ahead. Our transformation program and strong suite of options will offset inflationary and resource headwinds and set us up to deliver, at 2017 prices, returns around 20 per cent in the medium term.

We are ready for whatever the future holds. And we will 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.

Slide 16: Market outlook

We operate in an uncertain world. Unpredictable policies, trade volatility and a slowdown in global growth have weakened confidence and affected commodity markets. We remain cautious about the short-term outlook.

As we look ahead, we are positive about the long-term outlook.

We run scenarios and monitor strategic themes to guide our actions in order to create a portfolio of assets and options that thrives in any future. We are confident our portfolio is well positioned to seize the opportunities that will come from population growth and better living standards, and megatrends such as electrification and decarbonisation. All of which are likely to increase demand for our products for decades to come.

Slide 17: Our strategic framework

Our timely demerger of South32, and more than US\$18 billion of divestments, have shaped our portfolio around some of the world's best assets across commodities that have attractive fundamentals.

With our simplified portfolio, we made significant changes to our operating model to consolidate functions globally and embed common processes systems and practices. Since 2015, we have sustainably reduced overheads by more than US\$1.5 billion. The continuation of our Transformation programs, which includes World Class Functions, will remove an additional US\$500 million.

To further harness the power of our operating model and maximise efficiency, we invest in our people, our Centres of Excellence for Maintenance, Engineering, Projects and Geoscience, and in automation and other areas of innovation to create a culture and workforce that is more empowered and connected than ever and allow us to meet future challenges. This will drive greater operational and capital productivity and ultimately cash generation for years to come.

For example, our maintenance team at Daunia last year used new technology and the BHP Operating System to refine their work. This reduced truck downtime from one hour to just 20 minutes per week. Applied across all of Daunia's fleet, this equates to additional coal production of around 25 thousand tonnes each year. This is just one initiative, at one mine. Imagine the impact of these incremental improvements when applied across BHP.

We also know a diverse workforce that represents the fabric of our communities is safer, more innovative and more productive.

That's why we are focused on greater female and Indigenous representation across our global workforce. This includes our aspirational goals to achieve gender balance by 2025 and increase Indigenous employment in our Australian businesses by over 40 per cent by the end of 2020.

A strong, empowered, and inclusive culture, our simplified portfolio and world class assets increase our competitive advantage and set us up for long-term value and returns.

Let me now turn to our business performance. We had a strong year built on the improvements we've already made.

Slide 18: Minerals Australia

Over the past five years at Western Australia Iron Ore, we lifted plant and equipment performance to well above design capacity of 240 million tonnes a year. In total, we have increased production by 20 per cent and reduced costs by 50 per cent. We are now the lowest cost iron ore producer and have plans to go lower, as we work towards 290 million tonnes per year on a sustainable basis.

Over the past five years at Queensland Coal, despite a 14 per cent increase in strip ratios, we have increased production and reduced unit costs by over 15 per cent.

At Olympic Dam, while the surface operations have experienced challenges, underground development has progressed well with record kilometres drilled. We have made good progress to catch up on maintenance, and our plans are firmly focused on asset stabilisation and medium term growth.

And finally, over the past five years, at Nickel West, the team has reset the cost base and created options to increase annual production to well above the current 90 thousand tonnes. Increased exploration has already delivered positive results, with contained nickel reserves now more than 75 per cent above 2018 levels. This is a valuable asset to hold as we monitor the expected growth in battery markets.

Across our Australian assets, our new Operations Services model will reduce our reliance on external contractors and mitigate skilled labour shortages. While in the early stages of roll out at the most established sites, we have already seen improvements in labour productivity of 20 per cent and a reduction in injury rates of 50 per cent.

As part of our Transformation program, we expect the gradual deployment of autonomous trucks at our Australian coal and iron ore sites to unlock further efficiencies. A decision to proceed with our first deployment at Queensland Coal's Goonyella Mine is expected to be made by the end of next month.

Slide 19: Minerals Americas

Over the past five years at Escondida, despite grade decline of 35 per cent and higher power and water costs, a 50 per cent lift in concentrator throughput and 10 per cent higher site-wide recoveries have maintained annual production at approximately 1.1 million tonnes, and kept costs flat at just over US\$1 per pound.

We have achieved this while improving the sustainability of our assets.

Across our Chilean operations, we made large early investments in desalination to reduce our reliance on the aquifer.

In the medium term, we aim to source most of our power from renewables at significantly lower cost than current carbon-based sources.

At Spence, we deployed new leaching technology, which increased throughput and improved recoveries in two years by 14 per cent. The growth project to unlock the hypogene resource is on budget. We now expect first copper production, ahead of schedule, in the first half of the 2021 financial year. Together with the current operations, total annual copper production over the first four years will reach 300 thousand tonnes.

At Jansen, final lining is being installed in the shafts. We expect this to be completed by early calendar year 2021 as we finalise the feasibility study in parallel.

And in copper exploration, we added to our set of options in Ecuador, Canada and Mexico.

Slide 20: Petroleum

In Petroleum, over the past five years, our operating performance and high-return in-field drilling programs have stemmed field decline, delivered strong margins and reduced unit costs by 25 per cent.

Mad Dog Phase 2 and Atlantis Phase 3 are on schedule and on budget. And this month, we approved the Ruby project in Trinidad and Tobago. In the medium term, the combined volume produced from these major projects will more than offset field decline and lift our total production.

During the 2019 financial year, we discovered hydrocarbons at seven of our nine wells, with drilling success in Mexico, the US Gulf of Mexico and Trinidad and Tobago. Over the past two years, our petroleum exploration strategy has increased our 2C contingent resources by more than 55 per cent - a lead indicator for future production.

This excludes our evaluation of the successful phase three drilling campaign in Northern Trinidad and Tobago. And the latest well at Trion which was drilled in July. This well did not encounter a gas-oil contact, which indicates more oil than previously expected.

Slide 21: We expect to deliver on our plans in FY20...

So to recap.

Over the 2019 financial year, our disciplined execution of plans and simplified portfolio of world-class assets delivered a strong performance.

We will carry this momentum into the 2020 financial year as we remain focused on cash flow; capital discipline; and value and returns.

We expect:

- Volume growth of two per cent;
- Disciplined investment in our quality set of options; and
- A further increase in return on capital employed at spot prices to 19 per cent.

Slide 22: Broad suite of attractive opportunities

Though we are well positioned for the future, there is still more we can and will do to maximise the value of our assets.

Our Transformation programs will standardise the way we work, lift our workforce capability, establish innovative partnerships and create more stable and predictable operations.

Our future prosperity also depends on our ability to cultivate more opportunities.

We have a strong set of options to grow value. They span various stages of development and cover a range of commodities. They are also spread across each quadrant of the risk-return matrix, which allows us to balance:

- Return on capital employed;
- Value growth; and
- Cash returns to shareholders.

Our disciplined framework makes sure we deploy capital to the right project, at the right time.

Slide 23: BHP's investment proposition

To conclude, BHP is set up to deliver strong returns over the short, medium and long term.

We have a solid outlook for both volume and cost.

The quality of our assets, our strong balance sheet, empowered culture and capable workforce will grow value for decades to come.

BHP is positioned for a great future.

Thank you.