Calling a Halt to Chronic Underperformance at BHP

May 16, 2017
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Reaffirming the Clear Value Enhancement Opportunity

- On April 10, 2017, we presented public thoughts on a number of inefficiencies which we believe have impaired optimum value for BHP's first-class portfolio of assets. Our Value Unlock Plan, as presented, was put forward as a pathway to unlock significant value for shareholders – US$46bn in total across the following key elements:
  - Demerger of the US petroleum business (+ US$15bn)
  - Capital Return – accretion from enhanced capital management (+ US$20bn)
  - Franking Credits – optimizing the value to shareholders of BHP’s significant balance of stranded franking credits via the unification of its legacy DLC structure (+ US$11bn)
- The alternative – maintaining current management’s existing strategy of no change to BHP’s structure, portfolio or approach to capital allocation – will not rectify BHP’s chronic underperformance
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Management’s Value-Destructive Moves Have Contributed to the Company’s Significant Underperformance

Calling a halt to chronic underperformance at BHP – constructive engagement from BHP’s management on the issues highlighted by the Value Unlock Plan is the first step

- BHP Billiton Group operates in a business sector where proper financial, strategic and operational discipline is key to building and delivering optimal shareholder value – and avoiding value destruction. Unfortunately, BHP’s management has undertaken a number of significantly value-destructive initiatives, including:
  - c.US$23 billion destroyed through the ill-fated foray into the US onshore petroleum sector;
  - c.US$8 billion spent on petroleum exploration activities with no apparent value created;
  - c.US$9 billion destroyed in share buybacks made at inflated market prices

- BHP has also significantly underperformed its peers over the long term:

| % BHP Total Shareholder Return Relative to Key Comparable Peers\(^{(1)}\) |
|-----------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
|                             | YTD          | 1 Year        | 2 Year        | 3 Year        | 4 Year        | 5 Year        | 6 Year        | 7 Year        | 8 Year        |
| Rio Tinto                   | (4%)         | (6%)          | (19%)         | (22%)         | (33%)         | (27%)         | (20%)         | (29%)         | (46%)         |
| Comparable Portfolio        | (2%)         | 1%            | (17%)         | (19%)         | (30%)         | (30%)         | (25%)         | (29%)         | (44%)         |
| Comparable Pure-Play Portfolio | (3%)         | (43%)         | (43%)         | (27%)         | (24%)         | (12%)         | (14%)         | (22%)         | (52%)         |
| Diversified Miners Proxy Peers | (9%)         | (43%)         | (22%)         | (15%)         | (14%)         | (5%)          | N/A           | N/A           | N/A           |
| Diversified Petroleum Proxy Peers | (2%)         | 20%           | (25%)         | (25%)         | (36%)         | (49%)         | (56%)         | (60%)         | (46%)         |
| ASX200                      | (9%)         | 19%           | (29%)         | (38%)         | (35%)         | (59%)         | (62%)         | (73%)         | (112%)        |
| FTSE100                     | (13%)        | 20%           | (20%)         | (34%)         | (45%)         | (63%)         | (73%)         | (84%)         | (97%)         |
| S&P500                      | (10%)        | 15%           | (43%)         | (75%)         | (95%)         | (130%)        | (150%)        | (165%)        | (217%)        |

Source: Market data
(1) Refer to note and footnotes 1 to 4 (inclusive) of slide 11
Rather Than Take Positive and Proactive Steps to Improve Performance, Management Prefers the Status Quo

- Current management’s response to our Value Unlock Plan has been inflexible and defensive, showing instead that they prefer to do nothing new to improve performance and to optimize shareholder value from BHP’s first-class portfolio of assets.

- Meanwhile, our interactions with a significant quorum of shareholders holding BHP shares worth tens of billions of US$ have revealed extremely broad and deep-rooted support for:
  - Pro-active steps to be taken by management to achieve an optimal value outcome for BHP’s petroleum business; and
  - An in-depth, open and truly independent review of that business, to be overseen by a committee which includes management, shareholder representatives and outside experts, with full disclosure of all results on a timely basis.

- Current management’s response to the Value Unlock Plan is unconvincing and misses the point. Shareholders deserve better than a negative campaign by management seemingly designed to avoid taking positive or proactive steps. To make matters worse, management have based their position on a series of unsupportable claims, including:
  - c.US$1.1 billion of phantom dual-listed company (DLC) unification costs;
  - That our conservative and illustrative post-unification BHP share price level would be a loss of value for Limited’s shareholders – ignoring market precedent and the significant value unlock potential of our proposals; and
  - That unification would somehow lead to franking credits being less efficiently monetized.

- Unification can be achieved with a unified BHP incorporated in Australia – as well as remaining, per our original proposals, Australian headquartered and Australian tax resident, and retaining full primary ASX and premium LSE share listings – addressing the regulatory concerns which have been raised and in keeping with market precedents.
Initiate an In-Depth, Open and Truly Independent Review of BHP’s Petroleum Business

As an immediate first step, we call on management and the board to initiate an in-depth, open and truly independent review of BHP’s petroleum business, to be overseen by a committee which includes management, shareholder representatives and outside experts, with full disclosure of all results on a timely basis.

BHP’s Value Destruction in US Onshore

<table>
<thead>
<tr>
<th>Year</th>
<th>FY 2012 Writedown</th>
<th>FY 2013 Writedown</th>
<th>FY 2015 Writedown</th>
<th>FY 2016 Writedown</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Investment</td>
<td>$29.2 billion</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Negative Cash Flow</td>
<td>$9.4 billion</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Petrohawk</td>
<td>$15.1 billion</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fayetteville</td>
<td>$4.8 billion</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- $2.84 billion
- $2.79 billion
- $266 million
- $7.18 billion

US$29.2 billion total investment
US$6.5 billion consensus valuation

78% of value destroyed (-29% IRR)
Unifying BHP and Returning Excess Capital

**Unifying BHP**

- There is at least one alternative structure which is a solution to the regulatory concerns which have been raised in recent public feedback on unification: unified BHP could be incorporated in Australia - as well as remaining, per our original proposals, Australian headquartered and Australian tax resident, and retaining full ASX and LSE listings.

- Shareholders have expressed strong support for the clear shareholder value benefits of unification, including the ability of a unified BHP to allocate capital in a much more flexible, efficient and value-impactful manner, whether through capital returns to shareholders, acquisitions paid for in newly issued unified BHP shares, or the increased monetization of BHP’s accumulated c.US$9.7 billion of franking credits.

**Returning Excess Capital**

- Current management also claim that our capital returns proposal is “mechanistic” – when in fact it is designed to provide a key yardstick against which all other potential uses of BHP’s significant levels of future surplus capital should be assessed – to ensure disciplined and optimal capital allocation in the future whilst also safeguarding a conservative balance sheet position.

- Shareholders have also expressed strong support for a renewed focus on capital returns – to instill greater discipline and to avoid further value destructive acquisitions and projects.

- We and other BHP shareholders now look to current management, with appropriate oversight from the BHP Board, to provide real leadership to actively address BHP’s underperformance issues with the kinds of positive and constructive proposals from management which have been conspicuously absent so far in this debate.
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2. Underperformance at BHP

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4. Unifying BHP and Returning Excess Capital

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Ongoing Underperformance Despite BHP’s Best-In-Class Assets

The status quo is clearly not working

<table>
<thead>
<tr>
<th>% BHP Total Shareholder Return Relative to Key Comparable Peers</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Rio Tinto</strong></td>
</tr>
<tr>
<td>----------------</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Comparable Portfolio(^{(1)})</td>
</tr>
<tr>
<td>Comparable Pure-Play Portfolio(^{(2)})</td>
</tr>
<tr>
<td>Diversified Miners Proxy Peers(^{(3)})</td>
</tr>
<tr>
<td>Diversified Petroleum Proxy Peers(^{(4)})</td>
</tr>
<tr>
<td>ASX200</td>
</tr>
<tr>
<td>FTSE100</td>
</tr>
<tr>
<td>S&amp;P500</td>
</tr>
</tbody>
</table>

Source: Market data

Note: Total shareholder return assumes net dividends are reinvested and converted to US$ at daily foreign exchange rates. TSR for BHP is weighted in proportion to the current number of shares in issue for each of Plc and Ltd. TSR for Rio Tinto is weighted in proportion to the current number of shares in issue for each of Rio Tinto Plc and Rio Tinto Ltd

\(^{(1)}\) Comparable Portfolio comprises Rio Tinto and a basket of oil and gas equities designed to replicate BHP’s petroleum exposure (as determined by BHP’s current disclosed split of net operating assets), comprising Hess, Apache, Anadarko, EOG and Woodside

\(^{(2)}\) Comparable Pure-Play Portfolio comprises Fortescue, Antofagasta, Whitehaven, Hess, Apache, Anadarko, EOG and Woodside (as determined by BHP’s current disclosed split of net operating assets)

\(^{(3)}\) Diversified Miners Proxy Peers is average of Rio Tinto, Vale and Glencore; data not available for 6 year, 7 year and 8 year time periods as Glencore only began trading on May 20, 2011

\(^{(4)}\) Diversified Petroleum Proxy Peers is average of Woodside, BP, Shell, Chevron, Exxon, Total and Eni
Ongoing Underperformance Despite BHP’s Best-In-Class Assets (cont.)

Australian retail shareholders would have been better off holding any top Australian listed superfund stock other than BHP Ltd – on average, BHP Ltd’s total shareholder return is a chronic 174% less over the last eight years.

% BHP Ltd Total Shareholder Return Relative to Other Superfund Stocks(1)

<table>
<thead>
<tr>
<th></th>
<th>YTD</th>
<th>1 Year</th>
<th>2 Year</th>
<th>3 Year</th>
<th>4 Year</th>
<th>5 Year</th>
<th>6 Year</th>
<th>7 Year</th>
<th>8 Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commonwealth Bank</td>
<td>(5%)</td>
<td>22%</td>
<td>(26%)</td>
<td>(44%)</td>
<td>(57%)</td>
<td>(117%)</td>
<td>(150%)</td>
<td>(139%)</td>
<td>(251%)</td>
</tr>
<tr>
<td>Westpac</td>
<td>(3%)</td>
<td>21%</td>
<td>(24%)</td>
<td>(34%)</td>
<td>(39%)</td>
<td>(105%)</td>
<td>(129%)</td>
<td>(118%)</td>
<td>(163%)</td>
</tr>
<tr>
<td>ANZ</td>
<td>(2%)</td>
<td>5%</td>
<td>(17%)</td>
<td>(29%)</td>
<td>(36%)</td>
<td>(87%)</td>
<td>(114%)</td>
<td>(109%)</td>
<td>(192%)</td>
</tr>
<tr>
<td>Telstra</td>
<td>9%</td>
<td>51%</td>
<td>4%</td>
<td>(22%)</td>
<td>(23%)</td>
<td>(72%)</td>
<td>(143%)</td>
<td>(152%)</td>
<td>(146%)</td>
</tr>
<tr>
<td>National Australia Bank</td>
<td>(9%)</td>
<td>13%</td>
<td>(26%)</td>
<td>(43%)</td>
<td>(48%)</td>
<td>(102%)</td>
<td>(115%)</td>
<td>(125%)</td>
<td>(163%)</td>
</tr>
<tr>
<td>Wesfarmers</td>
<td>(10%)</td>
<td>24%</td>
<td>(27%)</td>
<td>(42%)</td>
<td>(40%)</td>
<td>(92%)</td>
<td>(106%)</td>
<td>(123%)</td>
<td>(184%)</td>
</tr>
<tr>
<td>Woolworths</td>
<td>(16%)</td>
<td>12%</td>
<td>(20%)</td>
<td>(6%)</td>
<td>(5%)</td>
<td>(34%)</td>
<td>(58%)</td>
<td>(49%)</td>
<td>(50%)</td>
</tr>
<tr>
<td>CSL</td>
<td>(38%)</td>
<td>9%</td>
<td>(72%)</td>
<td>(126%)</td>
<td>(146%)</td>
<td>(269%)</td>
<td>(369%)</td>
<td>(383%)</td>
<td>(407%)</td>
</tr>
<tr>
<td>Woodside Petroleum</td>
<td>(9%)</td>
<td>8%</td>
<td>(18%)</td>
<td>(16%)</td>
<td>(23%)</td>
<td>(37%)</td>
<td>(25%)</td>
<td>(18%)</td>
<td>(7%)</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td>(9%)</td>
<td>18%</td>
<td>(25%)</td>
<td>(40%)</td>
<td>(46%)</td>
<td>(105%)</td>
<td>(134%)</td>
<td>(135%)</td>
<td>(174%)</td>
</tr>
</tbody>
</table>

“And we also have a large number of members who are quite long in the tooth who were very jaundiced shall we say about BHP’s ability to pick mergers and acquisitions over the years. We’ve seen a lot of essentially investments wasted and many of the members think that we could invest better than you guys…”

Australian Shareholders’ Association Member at BHP’s Retail Shareholder Presentation, May 4, 2017
Ongoing Underperformance Despite BHP’s Best-In-Class Assets (cont.)

Total Shareholder Return – BHP Has Significantly Underperformed Both Rio and a Comparable Portfolio\(^{(1)}\)

- 128% under-performance vs. Rio Tinto
- 127% under-performance vs. Comparable Portfolio

Note: Comparable Portfolio comprises Rio Tinto and a basket of oil and gas equities designed to replicate BHP’s petroleum exposure (as determined by BHP’s disclosed split of net operating assets over time), comprising Hess, Apache, Anadarko, EOG and Woodside. BHP and Rio Tinto are weighted in proportion to the current BHP numbers of shares in issue for each of Plc and Ltd. Total return index (net dividends) converted to US$ at daily foreign exchange rates.

\(^{(1)}\) Since the next business day following the date on which BHP withdrew its bid for Rio Tinto.
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There Is Extremely Broad and Deep-Rooted Shareholder Support for BHP to Review Its Entire Petroleum Strategy

“BHP’s entire oil portfolio is non-core for a mining company and should be offloaded. The company should take the bold decision rather than suffer death by a thousand cuts.”

Paul Gait, Bernstein, April 26, 2017

- In petroleum alone, BHP’s management has destroyed a significant amount of shareholder value:
  - c. US$23 billion through the ill-fated foray into the US onshore petroleum sector;
  - c. US$8 billion spent on petroleum exploration activities with no apparent value created; and
  - There are worrying signs that the more recent “strategy” of trading US onshore acreage is both flawed and value destructive

- Management’s arguments as to the supposed benefits of diversification via the petroleum business are wholly unfounded

- There are a number of obvious possible solutions to unlock the latent value of BHP’s petroleum business, including a sale or demerger of the US petroleum business and a sale or ASX listing for the Australian and other remaining petroleum assets. Our preferred approach is a full or partial demerger of the petroleum business, in pursuit of the kind of significant value re-rating achieved by a successfully demerged South32

- Whilst BHP has provided a significant level of information to the market on the petroleum business, management have clearly missed the point – disclosure alone will not remove the continuing and substantial valuation discount suffered by the petroleum business as a result of being bundled with BHP’s other assets

Our interactions with a significant quorum of other shareholders holding BHP shares worth tens of billions of US$ have revealed extremely broad and deep-rooted support for pro-active steps to be taken by management to achieve an optimal value outcome for BHP’s petroleum business following an in-depth, open and timely independent review, with full disclosure of the review results – it is time for management, with appropriate oversight from the BHP Board, to do the right thing: initiate the independent review, call a halt to value destruction and reverse the trend of chronic underperformance
US Onshore – a Painful Case Study of Value Destruction

BHP’s c.US$19.9 billion of US onshore acquisitions has led to US$13.1 billion of write-downs, and negative pre-tax free cash flow(1) since purchase of US$9.4 billion for an asset currently valued by brokers at c.US$6.5 billion

- BHP’s management have offered no more than the possibility of a sale of their most challenged asset, Fayetteville, at a potential 85% loss(2), as a means of somehow “rescuing” shareholder value
- Instead, a demerger and separate listing of BHP’s US petroleum business(3) is a rational way of recovering some of the shareholder value which has been destroyed over time in BHP’s ill-fated foray into the US onshore petroleum sector

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(1) Free cash flow means EBITDA minus capex
(2) Assumes a sale at current analyst consensus valuations for Fayetteville
(3) The “US petroleum business” means BHP’s US onshore petroleum assets and its Gulf of Mexico assets
Clear Value Destruction Through Failed Petroleum Investment

Management’s misguided and failed attempts to diversify risk through its involvement in the petroleum sector have destroyed significant shareholder value.

- In aggregate, despite more than doubling the average portion of BHP’s annual free cash flow that is allocated to investing and re-investing in petroleum to 57%, both reserves and production have continued to decline.
- In addition to their failures with US onshore petroleum, management’s exploration initiatives have been equally bad – c.US$8 billion spent since inception of the DLC and with not a single asset to which analysts assign any material value.

Source: Company filings

(1) Asset values based on analyst consensus
(2) Based on the average value ascribed to both discovered assets and exploration assets within the sum-of-the-parts valuations of major international brokers
Current BHP Management Have yet to Acknowledge that They Are Not the Right Custodians of the US Onshore Assets

Worrying signs of value destruction appear to demonstrate a flawed approach to recent US onshore acreage trading

“The team has done a terrific job trading assets along the way.”
Jac Nasser, Chairman, May 4, 2017

... we remain unconvinced:

- Management’s apparent “strategy” of piecemeal sales of US onshore petroleum assets cannot be a viable alternative to a properly thought-out plan to demerge or otherwise divest BHP’s petroleum assets. Sadly, this approach might be better characterized as the commercial equivalent of “death by a thousand cuts”

- We offer as an example management’s ill-fated decision to divest 44,000 net acres in Reeves County in the Permian basin to Silverback Exploration LLC in 2014 for US$75 million. Less than two years later, Silverback sold a package of 35,000 net acres, estimated to have at least a 60% overlap with that originally divested net acreage, to Centennial Resources for US$855 million. Even if we assume no value for those acres retained by Silverback, BHP suffered a loss of 86% when compared to the value that management could have subsequently realized.

Transaction Price Comparison

<table>
<thead>
<tr>
<th>Sale Price (US$ / Acre)</th>
<th>WTI Price (US$ / bbl)</th>
</tr>
</thead>
<tbody>
<tr>
<td>BHP to Silverback (2014)</td>
<td>Up to 86% of value foregone</td>
</tr>
<tr>
<td>Silverback to Centennial (2016)</td>
<td></td>
</tr>
</tbody>
</table>

Sources:
(1) Source: Industry data
(2) Source: PLS Global M&A Database

Silverback Acreage Map

- Purchased from BHP and sold to Centennial
- Purchased from BHP but not included in the Centennial package
- External acreage sold to Centennial
Petroleum Offers No Real Operational Synergies or Risk Diversification

Management’s synergy arguments are weak and unconvincing – claims of synergies for BHP’s conventional petroleum assets are clearly unfounded

BHP Suggests That Its Petroleum Business Offers “Stability”

Petroleum is core to our strategy

- Aligned with our strategy of owning the best commodities, assets and capabilities
- Petroleum growth portfolio expected IRR > 25%¹
- Large, quality shale resource delivers attractive returns and substantial option value
- Provides significant diversification benefits
  - superior margins and cash flow stability
  - lower cost of capital for BHP Billiton
  - greater competition for capital across the portfolio
- Fewer market share constraints when assessing growth options
- Talent, ideas and best practice flow across a more diverse Group

EBITDA(1) Growth Comparison with Rio Tinto

Standard Deviation
BHP Billiton: 32.9%
Rio Tinto: 27.5%

BHP claims its petroleum business provides unique risk-mitigation diversification benefits. Over the last ten years, however, BHP’s EBITDA trend has shown noticeably higher volatility than Rio Tinto’s – the precise opposite of what diversification should provide

Source: Company filings
(1) Numbers shown on the basis of a June 30 year end. BHP is shown pro forma as if South32 had never been demerged in 2015. Rio Tinto is shown pro forma through the entire period as if Rio Tinto had owned Alcan throughout the entire period
BHP Does Not Operate the Vast Majority of Its Petroleum Assets

How can BHP’s petroleum assets be considered “core” to the Company’s portfolio if they only operate 29% of the business unit’s assets?

Source: Company filings
(1) By CY 2017 production
Value Remains Obscured and Management’s Attempts to Improve Investor Understanding Are Not the Solution

“The market has all the information it needs to value our petroleum business.”

Andrew Mackenzie, CEO, April 12, 2017

- Management claims that the market has all the information it needs to value the US petroleum business. They have totally missed the point.
- Providing more information to the market on the US petroleum business will not increase its market valuation without the benefit of more holistic change.
- In fact, following management’s last major information release as part of the October 2016 Petroleum Day, analysts’ average valuations of BHP’s US onshore business actually fell by c.9.1%.

- The intrinsic value of BHP’s US petroleum business is obscured by bundling it with BHP’s other assets within an overly complex group structure while managed from a great distance, with insufficient focus.
- Current brokers’ valuations of BHP’s Haynesville assets are a case in point – comparable transactions show a valuation for these assets of up to four times analysts’ consensus valuation levels could be achieved(1).

(1) Only three of the major international brokers include a separate Haynesville valuation in their sum-of-the-parts valuations.
Our Proposed Solution – Unlocking the Latent Value of BHP’s Petroleum Business via a Full or Partial Demerger...

“[We] have decided to reshape our company and stay true to our strategy. We plan to simplify BHP Billiton’s portfolio with a demerger and unlock value for shareholders as we focus even more on our largest businesses, reduce costs and improve productivity more quickly....”

Andrew Mackenzie, CEO, February 18, 2014

- Despite management’s claims to the contrary, and as evidenced by their recent track record, having access to a balance sheet that allows BHP to inappropriately outbid petroleum majors is more likely to be a recipe for further value destruction than a source of accretive growth.

- Rather, we believe that a more nimble and focused independent petroleum business, with a more disciplined approach to capital allocation, would have avoided significantly overpaying for BHP’s US onshore portfolio.

- South32 – a demerger of assets which, unlike petroleum, actually had some level of synergy with core BHP – is an obvious and highly relevant precedent for the significant value that can be released for shareholders through a demerger.

The South32 demerger is a clear precedent for success. Management should embrace this next and natural “simplification” of BHP via a full or partial demerger of the petroleum business.
Our interactions with a significant quorum of other shareholders holding BHP shares worth tens of billions of US$ have revealed extremely broad and deep-rooted support for pro-active steps to be taken by management to achieve an optimal value outcome for BHP’s petroleum business following an in-depth, open and timely independent review, with full disclosure of the review results.
1. Executive Summary
2. Underperformance at BHP
3. Optimizing the Value of BHP’s Petroleum Businesses
4. **Unifying BHP and Returning Excess Capital**
5. Conclusion
There Is Strong Shareholder Support for BHP to Return Excess Capital to Shareholders – with Those Returns Optimized Through Unification

- Current management’s approach in reviewing the unification and capital return aspects of our Value Unlock Plan has been disappointingly negative and deeply flawed

- Management has apparently chosen to ignore the fact that our capital return proposal is designed to be a key yardstick against which all other potential uses of BHP’s surplus capital should be measured, to ensure disciplined and optimal capital allocation – it is not a “mechanistic” or “formulaic” approach; rather that would be a description better reserved for management’s recently-abandoned policy of paying a progressive dividend regardless of the market cycle

- Shareholders remain deeply concerned that BHP’s future excess capital will be wasted on further value-destructive acquisitions and other pet projects – when, as an alternative, discounted share buybacks, undertaken at sensible long-term valuations and tailored to ensure stable, long-term gearing ratios could be highly value-accretive without incurring additional strategic or operational risk

- Shareholder returns could be further enhanced through DLC unification – which could be achieved by means of an Australian-incorporated unified BHP – a solution to the regulatory concerns which have been raised, and in keeping with market precedent

We and other shareholders would like to see management take a constructive and transparent approach to the return of excess capital and the delivery of the clear strategic and shareholder value benefits of unification
BHP has sufficient capacity to return excess capital to shareholders without disrupting the balance sheet or future growth
Returning Excess Capital to Shareholders Will Not Put the Balance Sheet at Risk

Significant excess capital could be returned to shareholders without disrupting the balance sheet or the future growth of BHP’s business

- Analysts’ consensus forecasts are clear: BHP is expected to have significant free cash flow for the foreseeable future.
- Future capital allocation should be disciplined by comparing potential investments with the returns which can be achieved through post-unification discounted off-market buybacks. Instead of continuing to destroy significant value in non-core petroleum projects, excess capital should be returned to shareholders while maintaining a healthy balance sheet.

(1) Note: Free cash flow from operations less free cash flow from investing and dividends, assuming 50% payout ratio of net income. Figures are the average of those produced by analysts at major international investment banks.
Share Buybacks – Clear Scope for BHP to Improve

- Management’s track record in conducting share buybacks is abysmal;
  - Average P/B multiple paid: 4.56x
  - Range P/B multiple paid: 4.07x-6.23x
  - Value destroyed as compared to buying shares at current prices: c.US$9 billion

- We have proposed a sensible and more disciplined approach to buying back shares that could start with a US$6 billion buyback in 2018. Assuming the current valuation remains unchanged, this would maintain both the Company’s A-grade credit rating and result in US$2.4 billion of value accretion – equivalent to more than 12x our expected costs of unification.

**BHP Buyback History**

- As an example, if BHP’s c.US$10 billion of buybacks in 2010-2011 were done today, the same number of shares could be bought back 64% cheaper, saving US$6.4 billion.

Management’s claims that buybacks are a core element of their capital allocation framework are hard to credit, when (i) the last buyback of any scale was made as long ago as 2011 – when BHP rather unfortunately spent c.US$10 billion buying back shares at peak cycle prices; and (ii) they are seemingly unwilling to consider buybacks at the current P/B of 1.55x – 63% lower than the average multiple paid in 2011.

Note: BHP share price is weighted in proportion to the numbers of shares in issue for each of Plc and Ltd. Book value per share for Ltd buybacks is the last reported value at the time of the applicable buyback.

(1) Note: The P/B for each on-market Plc buyback is calculated by dividing the price per share (i.e. the total cost of the applicable buyback divided by the number of shares purchased over the corresponding buyback period) by the book value per share (i.e. the average of the last reported book value per share at the start and end of the buyback period).
Management appears to be exaggerating the potential costs of unification
BHP’s US$1.3 billion Unification Costs Estimate Is Fundamentally Flawed, Misleading and Ignores the Clear Benefits of Unification

Management’s claims of illusory benefits of the DLC structure and phantom costs of unification are not the way to deal with a value-distorting and obsolete group structure – we see c.US$200 million as the real cost of unification – at a minimal cost for such a large value-unlocking opportunity.

- We struggle to credit as “costs”:
  - Accumulated tax losses which we see as having highly questionable value within the DLC structure. In fact, based on tax advice from a Big 4 accounting firm and applying reasonable assumptions, not only may these tax losses never be used, it is also possible that they could be maintained post-unification; and
  - The Singapore-based marketing structure (even though it would not help BHP to avoid tax after unification) – given recent developments showing that it is not sustainable in any event.

Spurious Unification Costs Claimed by Management
- The claimed value of:
  - Accumulated but stranded tax losses: c.US$600-US$800 million
  - BHP’s unsustainable Singapore-based marketing structure by which it seeks to avoid tax: c.US$300-US$500 million

Actual Unification Costs
- c.US$158 million UK stamp duty – being 0.5% of Plc market cap
- c.US$39 million Australian stamp duty – being landholder duty payable on assets in (i) New South Wales (at 0.55%), (ii) South Australia (at 0.37%), and (iii) Victoria (at 0.55%)

Ignored Unification Benefits
- M&A flexibility
- More accretive buybacks
- An end to economic asymmetry: structural simplification

Source: Company filings and Elliott’s estimates
BHP’s US$1.3 billion Unification Costs Estimate Is Fundamentally Flawed, Misleading and Ignores the Clear Benefits of Unification (cont.)

The unsustainable Singapore-based marketing structure by which BHP seeks to avoid tax

- BHP is currently in dispute with the Australian Taxation Office (ATO) regarding the amount of tax which the group’s Australian entities should pay in connection with their sales of Australia-sourced commodities which have been deliberately channeled through BHP’s principal marketing entity in Singapore, BHP Billiton Marketing AG.
- This bespoke Singapore-based marketing structure by which BHP seeks to avoid tax is under heavy fire from the ATO, with BHP reportedly facing an **ATO tax assessment of over A$1 billion**. Our assessment is that the tax benefits and the aggressive marketing margins which BHP was seeking in using this structure are unsustainable.
  - Rio Tinto was recently handed a significant additional ATO tax bill in connection with similar arrangements.
  - Glencore has announced that it will voluntarily disband its version of this type of tax-avoidance structure.
- We ascribe **no value** to this structure, in contrast to management who appear to consider it to be worth c.US$300-US$500 million (analysis which we assume is unadjusted for any further potential ATO-related charges).
- A properly managed termination of this heavily scrutinized structure in combination with unification would end the perceived additional BHP value discount associated with shareholders’ ESG concerns over the Singapore structure. It would also be in line with BHP’s recent efforts to gain the trust of its various stakeholders.

**Structure Overview**

**BHP’s Aggressive Marketing Margins for Its Singapore Structure – an Attempt to Reduce the Amount of Australian Tax Paid by BHP**

Source: Company filings and press articles

(1) Note: Fiscal year ended December for Glencore and June for BHP.
Claims of Transparency are Disingenuous – Attempted “Tax Avoidance” Continues to Generate Damaging Press

“Tax transparency is important to engender the trust and understanding of the communities in which we operate.”

Peter Beaven, CFO, March 14, 2016

“In light of the tenacious endeavors of well-resourced multinationals to resist disclosing their tax arrangements, the committee is of the view that more should be done to place stronger disclosure obligations on them.... BHP exemplified this approach when Mr. Cudmore [BHP’s then-President of Corporate Affairs] refused to answer a question in a public forum about the profit made on the Singapore marketing hubs.... Such attitudes, particularly from Australian multinationals that see themselves as good corporate citizens and taxpayers, are particularly disappointing.”

Senate Inquiry into Corporate Tax Avoidance, April 22, 2016
The Key Benefits of Unification are Clear

“The merger also will allow the combined firm to issue shares to pursue potential acquisition targets. Having a single stock to make acquisitions is a ‘tool we didn’t have before….’”

BHP Director Malcolm Brinded when Royal Dutch Shell unified its DLC structure in June 2005 (while Brinded was a director at Royal Dutch Shell)

The key benefits of unification are clear:

- The enhancement of BHP’s market value by c.US$5 billion as a result of the share price of unified BHP being in line with or better than Limited’s share price (consistent with precedent unifications)

- The ability to monetize franking credits more quickly and more efficiently via off-market buybacks. All shareholders can benefit from the incremental accretion and share demand resulting from more franking credits being released

- Acquisitions in return for newly issued BHP shares finally being possible – regardless of management’s bogus claims that BHP currently has “two acquisition currencies”, when in fact no acquisitions using BHP shares as consideration have ever occurred during the DLC period, despite there being deals where paying in shares rather than in cash would have been vastly preferable
Alternative Ways to Unify are Available

- There is a solution to the regulatory concerns which have been raised in recent public feedback on the unification aspect of the Value Unlock Plan:
  - In line with market precedent, unified BHP would be incorporated in Australia – with BHP remaining, per our original proposals, Australian headquartered and Australian tax resident
  - Unified BHP would retain full primary ASX and premium LSE share listings

- Existing stock index inclusions could under an Australian-incorporated unified BHP still remain unaffected – in the case of the UK nationality requirements for the UK FTSE indices, there are clear FTSE 100 examples of the management teams of non-UK incorporated listed companies with merged international businesses having been successful in retaining UK FTSE index eligibility

- We look to management and BHP’s Board to work positively and constructively towards achieving unification, and as a result greatly enhanced future capital returns, as an important part of its self-professed commitment to BHP’s “value-driven simplification journey”
A Unified BHP Can Be Fully Expected to Appeal to Limited Shareholders

BHP’s management has incorrectly claimed that our conservative and illustrative post-unification BHP share price level would be a loss of value for Limited’s shareholders – ignoring market precedent and the significant value unlock potential of our proposals

“[U]nification will reduce complexity and costs, provide greater strategic flexibility, enhance Brambles’ position as a leading company on the ASX and eliminate the differential between the share prices of Brambles Industries Limited on the ASX and Brambles Industries plc....”

Don Argus while Chairman of Brambles (Jac Nasser was a Director of Brambles at that time), November 29, 2005

- Brambles was a former Plc-Ltd DLC which prior to unification had Plc share price discount issues similar to BHP. There is no evidence of unification leading to underperformance by BIL/Ltd shares. In fact, BIL/Ltd shares outperformed the ASX200 – with which it had been highly correlated prior to unification(1) – both during and immediately after the unification process.

- Extending our analysis to all comparable unification transactions which have occurred since the creation of BHP’s DLC structure indicates that BHP’s share price performance following announcement of a unification is likely to be at least in line with Ltd’s pre-announcement trading price.

(1) Based on 6 month weekly share price correlation of c.82% up to the unification announcement date.
management’s “preliminary internal” analysis of the anticipated share capital of unified BHP was strikingly unhelpful and represents a seemingly deliberate attempt to bolster their unsupportable current position – seeking to resist unification at any cost and at shareholders’ expense.

Our tax and accounting advice from a Big 4 accounting firm shows that after unification BHP can, in fact, maintain its existing share capital size – and therefore the current franked dividend component of share buybacks should remain materially unaltered after unification.

Post-unification discounted off-market share buybacks are the clear gateway to greater franking credit usage and the increased shareholder value which can be delivered in that way for the benefit of all of BHP’s shareholders. Our proposal would enhance the level of franking credits distributed via share buybacks by approximately 65%.

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Instead, Current Management Prefer a Path of Wastage and Denial

BHP’s management have been careful not to highlight that the existing DLC structure itself currently wastes a significant amount of valuable franking credits through the Dividend Share Mechanism, rather than putting those valuable tax credits into the hands of BHP’s owners.

- Management’s current path – to destroy franking credits via usage of the Dividend Share Mechanism (DSM) just to ensure that Plc has sufficient funds to cover its own dividend – makes no economic sense.

- Management have misleadingly suggested that unification will somehow lead to a wastage of franking credits. In our view, this is wrong – and **US$853 million** in franking credits have already been destroyed. Instead, these could have been attached to a c.**US$2 billion** post-unification buyback that could deliver an increase in value of **15.9%** for tendering shareholders.¹

- Based on our analysis – by comparing the likely weighting of Australian shareholders pre and post-unification and with the DSM terminated – it is clear that, even in the case of dividends (and setting aside the vast improvement in franking credit release through buybacks), franking credits can be released at an enhanced rate and with equivalent efficiency as between Australian and non-Australian shareholders.²

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¹ Assumes tendering shareholders are Australian tax residents with average tax rate of 15% and cost base being average share price in the past twelve months. Includes the value of CGT benefits.

² Assumes the number of Australian tax resident institutional shareholders increases to reflect unified BHP’s increased index weighting. Assumes that credits are wasted on any shares not held by Australian tax resident shareholders.
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Conclusion

- Current management’s response to the Value Unlock Plan has been misconceived, wholly unconvincing and a disservice to BHP’s owners – underestimating the groundswell of dissatisfaction among shareholders on:
  - Chronic underperformance;
  - The fear of further large-scale value destruction; and
  - The need for constructive engagement on unlocking the true value of BHP’s first class assets

- Our interactions with a significant quorum of shareholders holding BHP shares worth tens of billions of US$ have revealed extremely broad and deep-rooted support for pro-active steps to be taken by management to achieve an optimal value outcome for BHP’s petroleum business following an in-depth, open and timely independent review, with full disclosure of the results

- Shareholders have also expressed strong support for:
  - A renewed focus on capital returns – instilling greater management discipline and avoiding further value-destructive acquisitions and projects; and
  - The clear shareholder value benefits of unification, including the ability of a unified BHP to allocate capital in a much more flexible, efficient and value-impactful manner, whether through capital returns to shareholders, acquisitions paid for in newly-issued unified BHP shares, or the increased monetization of BHP’s accumulated c.US$9.7 billion of franking credits

- Unification can be achieved with a unified BHP incorporated in Australia – as well as remaining Australian headquartered and Australian tax resident, and retaining full primary ASX and premium LSE share listings – addressing the regulatory concerns which have been raised and in keeping with market precedents – we and other BHP shareholders await positive and constructive steps by management towards unification

- As an immediate first step, we call on management and the Board to initiate an in-depth, open and truly independent review of BHP’s petroleum business, to be overseen by a committee which includes management, shareholder representatives and outside experts, with full disclosure of all results on a timely basis