



# Response to Elliott Proposals

12 April 2017



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## Forward-looking statements

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## Presentation of data

Unless specified otherwise, all data is presented on a continuing operations basis to exclude the contribution from assets that were demerged with South32 and references to Underlying EBITDA margin and Underlying EBIT margin exclude third party trading activities.

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# We are well placed to create value

**BHP Billiton makes decisions to optimise value in the long-term interests of all shareholders**

## Simplification

- Simplification journey well advanced: productivity, organisation structure and portfolio rationalisation
- Meaningful progress in substantially growing the base value of our operations and delivering results for shareholders

## Operating upside

- There is significant value still to come from assets and initiatives across the portfolio
- We are well placed to capitalise on these opportunities

## Petroleum is core

- Petroleum, including US Petroleum, is core to the Group
- We expect to deliver material value going forward

## Strong balance sheet and capital discipline

- We have a disciplined, rigorous approach to capital allocation in place
- We have strengthened our balance sheet, reducing net debt from US\$26.1 billion to US\$20.1 billion over the 6 months to 31 December 2016

# Elliott's proposals – our assessment

|                       | Elliott Proposal  | BHP Billiton Conclusions  |
|-----------------------|---|---|
| Unification           | <ul style="list-style-type: none"><li>• UK incorporated NewCo (Australian tax resident) to own 100% of both Limited and Plc</li><li>• Primary LSE listing</li><li>• Secondary listing of CDIs on ASX</li><li>• Fully fungible</li></ul> | <ul style="list-style-type: none"><li>• Costs significantly outweigh savings, no other material benefits</li><li>• Wastage of franking credits</li><li>• Off-market buybacks would be less attractive</li><li>• Unlikely to appeal to Limited shareholders</li><li>• Regulatory uncertainty</li></ul> |
| US Petroleum Demerger | <ul style="list-style-type: none"><li>• Demerger of the Group's Onshore US and Gulf of Mexico deepwater assets into separate NYSE-listed vehicle</li></ul>  | <ul style="list-style-type: none"><li>• Petroleum benefits the Group and vice versa</li><li>• Onshore benefits Conventional and vice versa</li><li>• Demerger has limited upside, significant downside risk</li></ul>   |
| Buybacks              | <ul style="list-style-type: none"><li>• Major discounted off-market buyback of at least US\$6 billion</li><li>• Series of subsequent buybacks based on a formula</li></ul>  | <ul style="list-style-type: none"><li>• Buybacks an important part of our capital allocation framework, but now is not the right time for a US\$6 billion buyback</li><li>• DLC is not an impediment</li><li>• Mechanistic approach is not appropriate</li></ul>                                      |

**Each of Elliott's proposals could be implemented independently and the merits of each should be assessed standalone**

# Our journey

**We have built a stronger, more resilient company with a simpler portfolio that is positioned well for future economic cycles**

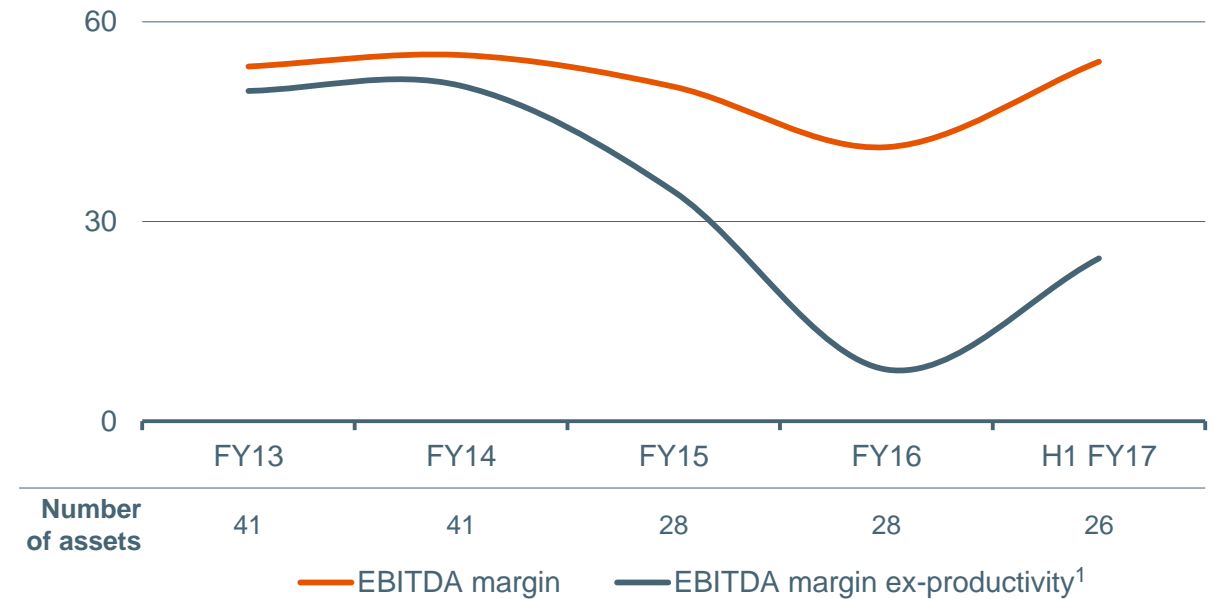
- ✓ Simplified portfolio
- ✓ Simplified operating model
- ✓ Productivity improvements
- ✓ Additional low-cost capacity
- ✓ Enhanced capital allocation framework
- ✓ Revised dividend policy
- ✓ Balance sheet continues to strengthen



# Productivity focus has delivered results

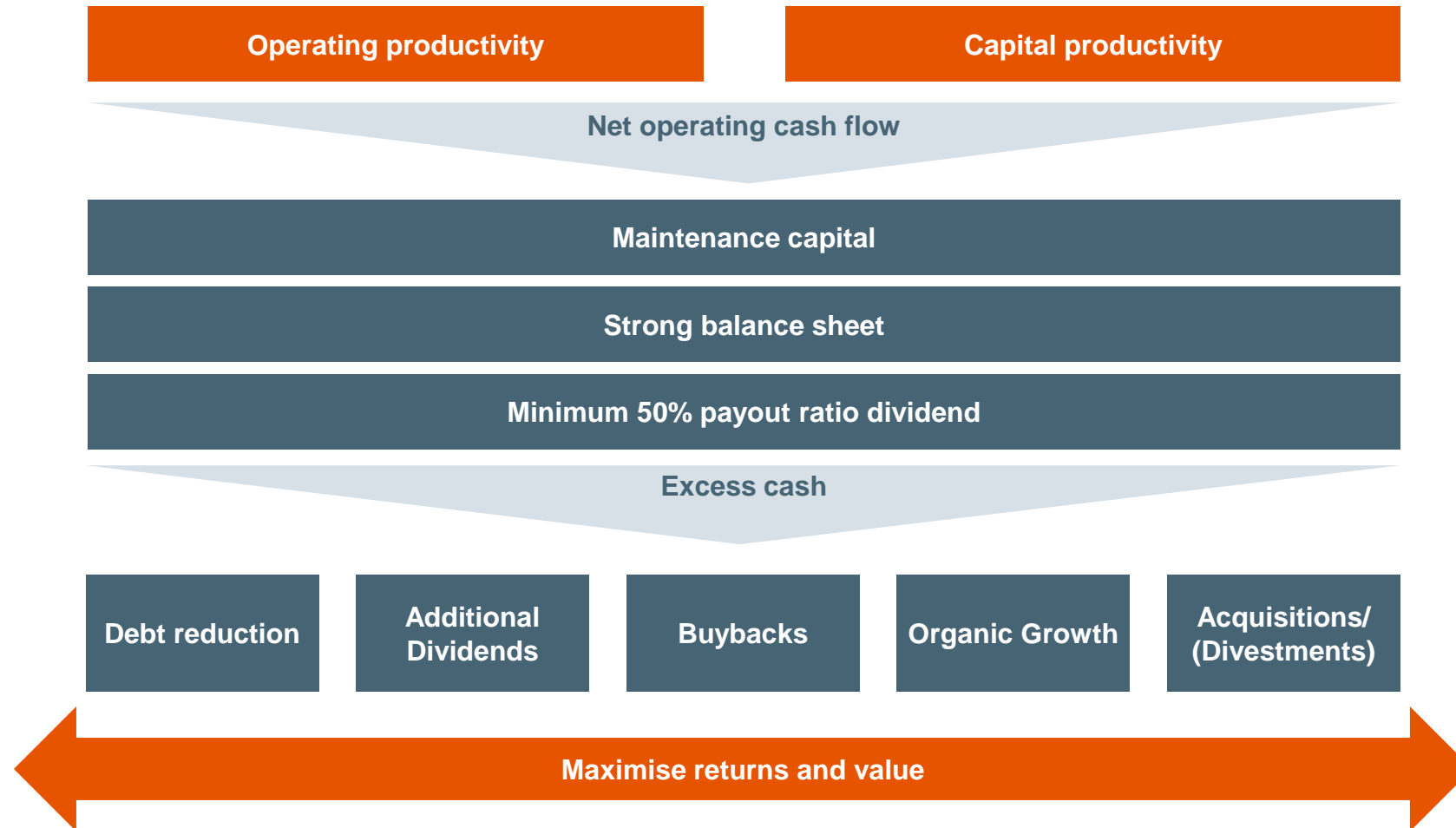
- Over US\$11 billion of productivity gains delivered over past four years
- Productivity improvements and streamlined portfolio have improved margins
- Onshore US expected to be free cash flow positive in FY17 and poised for growth as prices recover
- Strong cash flows and strengthening balance sheet

**Productivity improvements driving margins**  
(Underlying EBITDA margin, %)



1. Illustrative representation based on reported Revenue and Underlying EBITDA in each period less cumulative productivity gains since FY12.

# Disciplined, rigorous approach to capital allocation



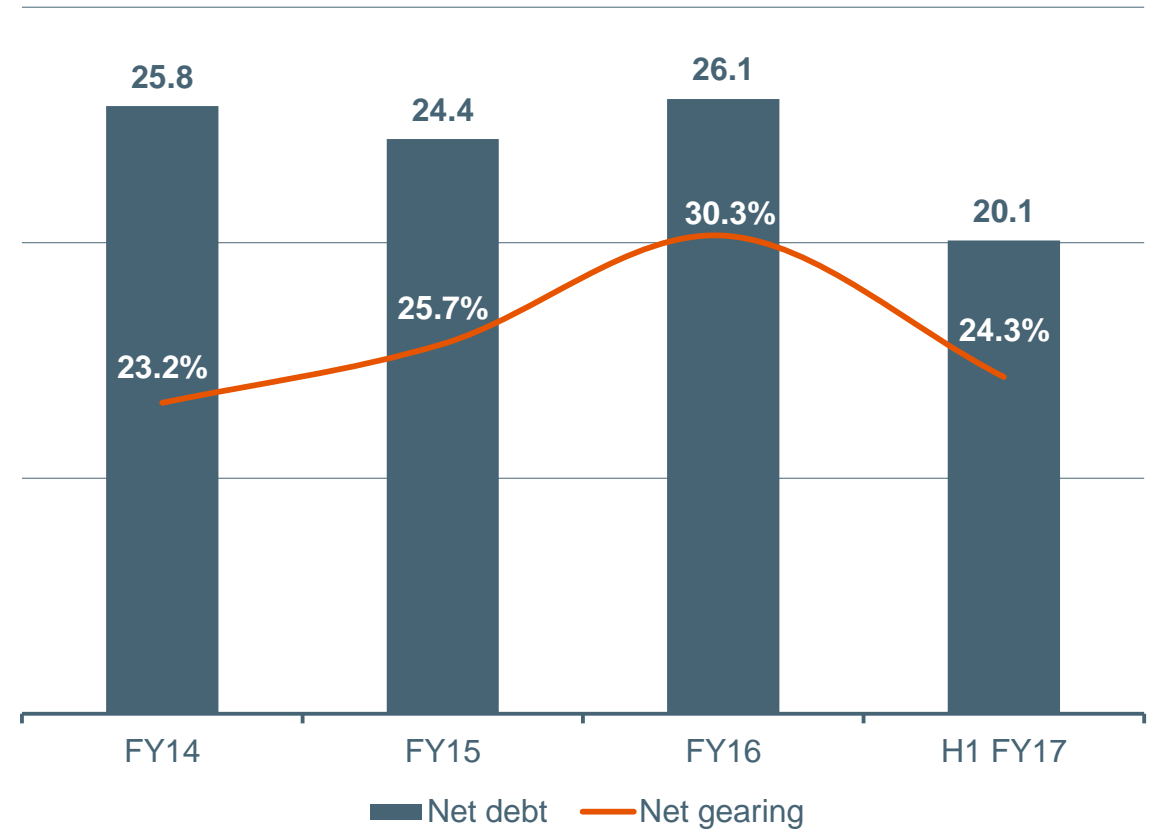
# We have strengthened the balance sheet

- Net debt of US\$20.1 billion at H1 FY17, down US\$6 billion since FY16 year end
- 'A' credit rating maintained through the cycle, recently raised to stable outlook
- Creating flexibility to
  - invest
  - pay additional dividends
  - return capital
  - maintain strength through the cycle

## Net debt has decreased and gearing has improved

(Net debt, US\$ billion)

(Gearing, %)







# 1. Our assessment of Elliott's proposals

**i. Unification**

ii. US Petroleum demerger

iii. Buybacks

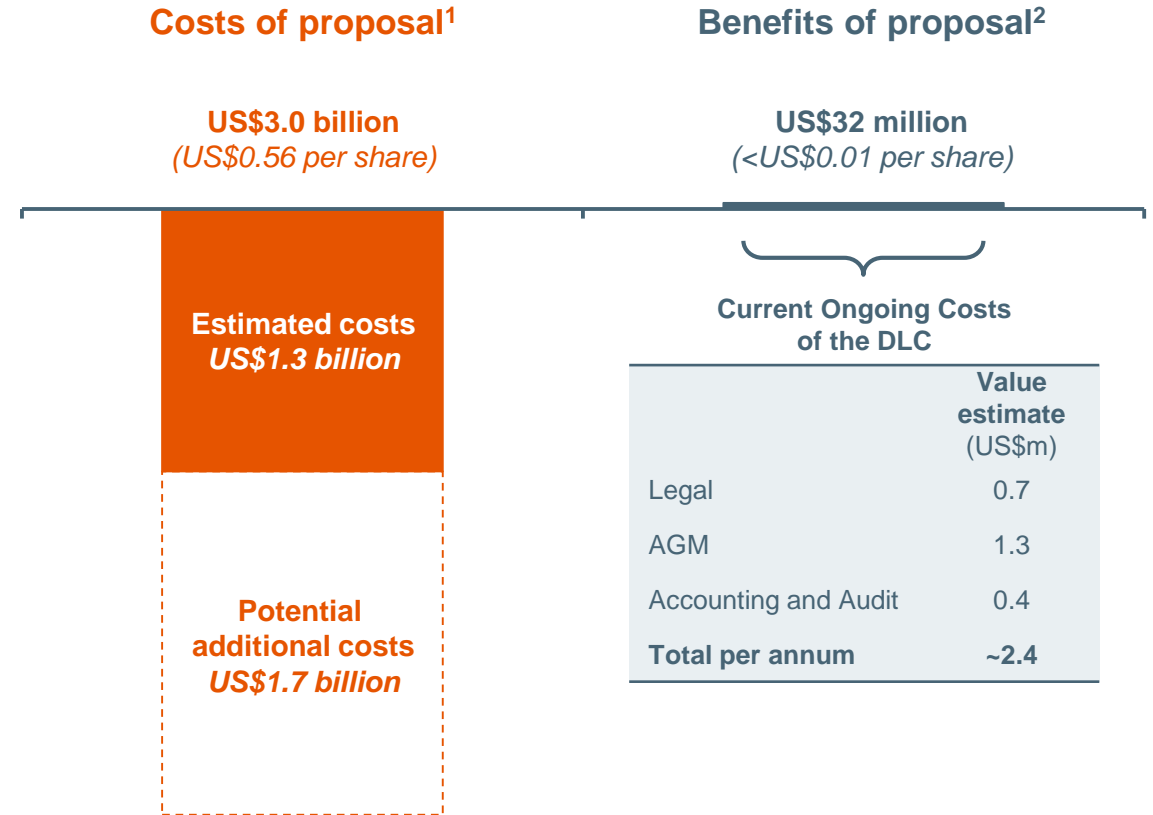
# The DLC is not an impediment and has some advantages

- Our corporate structure has not impeded our ability to manage the business effectively or return capital to shareholders
- The DLC involves modest incremental costs and is more complex than a single-headed structure
- However, the DLC offers benefits that a single-headed structure would not. The DLC:
  - enables efficient use of franking credits
  - provides flexibility to buy back shares at the lowest price, either on-market in Plc or off-market in Limited, to maximise value for all shareholders - the DLC does not limit our ability to undertake off-market buybacks
  - enables on-market buybacks of Plc shares via Limited without consuming distributable reserves of Plc
  - offers full primary domestic listings on both the LSE and ASX, with a secondary listing on the JSE (Plc) and a US ADR program (Plc and Limited)<sup>1</sup>
  - provides two acquisition currencies, in addition to cash

1. BHP Billiton Plc has a premium listing on the UK Listing Authority's Official List and its ordinary shares are admitted to trading on the LSE.

# Unification proposal would be costly

- We regularly review the DLC and have considered unification before
- Costs of unification outweigh the savings
  - net costs<sup>1</sup> of between US\$1.3 billion and US\$3.0 billion in value (US\$0.24 to 0.56 per share)
  - in addition, South African shareholders (17% of the BHP Billiton Plc register) will not obtain CGT roll-over relief and may need to pay tax
- No other material benefits
  - there is very little that a single headed company could do that the DLC cannot
  - any consideration of a US Petroleum demerger or buybacks not dependent on unification



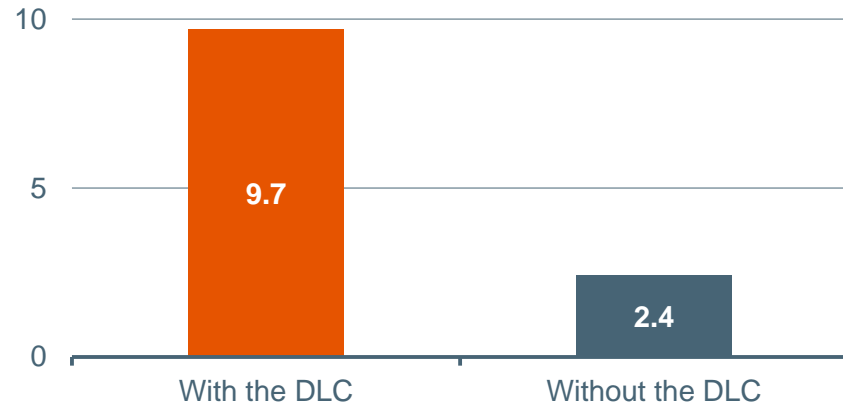
1. Based on preliminary analysis. Potential loss of value includes tax losses, capital gains tax, and stamp duty, in several countries including Australia and the UK. Not inclusive of transaction costs or potential wastage of franking credits.  
 2. Calculated based on annual costs of US\$2.4 million per annum, 2% inflation in perpetuity (based on implied inflation from US Treasuries) and 10% nominal WACC (based on broker consensus from available brokers).

# Proposal would result in wastage of franking credits

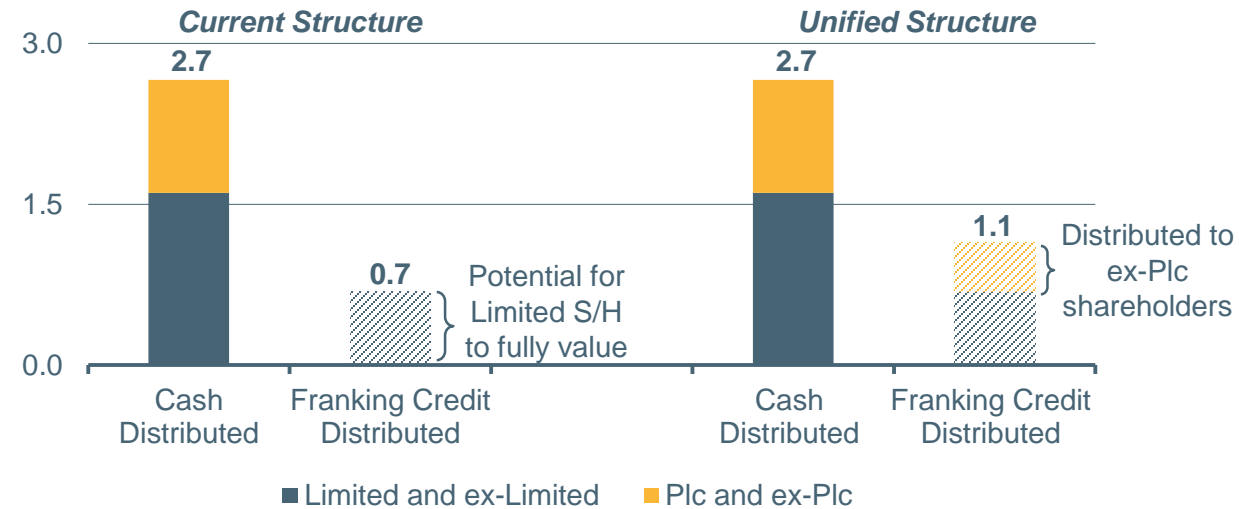
- All dividends would be fully franked under Elliott’s unification proposal, including to existing Plc shareholders – most of whom cannot use them

If BHP Billiton were a single-headed company, US\$7.3 billion of franking credits would have been paid to non-Limited shareholders since 2001 - most of whom cannot use them<sup>1</sup>

(FY16 Franking credit balance, US\$ billion)<sup>2</sup>



Under Elliott’s proposal, a US\$0.50 per share dividend would distribute US\$0.4 billion of franking credits to ex-Plc shareholders<sup>3</sup> (US\$ billion)



- The DLC structure includes a DDS<sup>4</sup> which uses franking credits, but any franking credit leakage via the DDS would be **materially less** than that expected under Elliott’s unification proposal

1. Assumes existing Limited shareholders are Australian tax resident and Plc shareholders are not Australian tax resident.

2. Franking Credit Balance as disclosed in the FY16 Financial Statements.

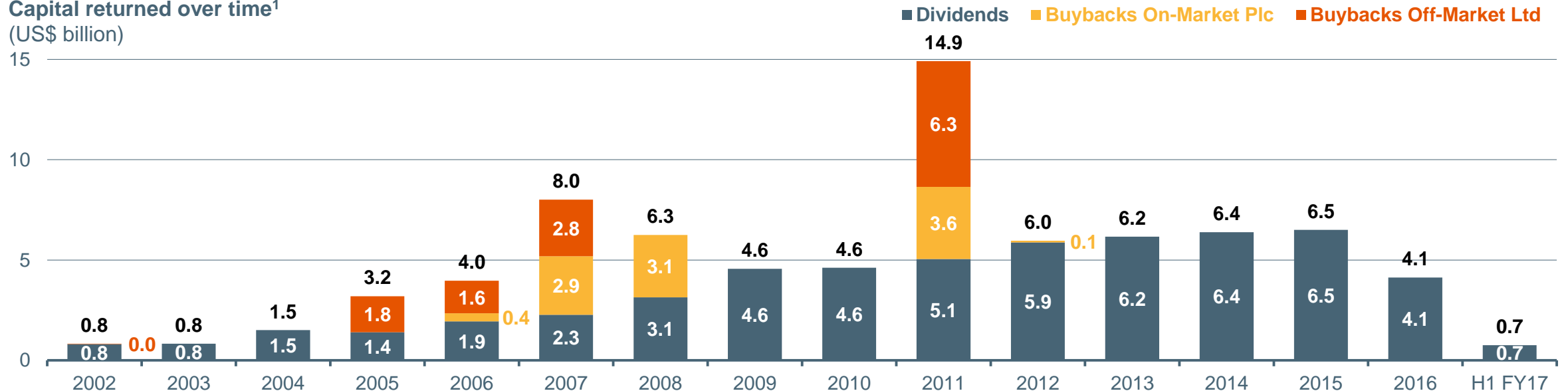
3. Analysis is illustrative only and does not represent actual dividends. “Current structure” assumes dividend to an existing Limited shareholder is fully franked; “unified structure” assumes all dividends are fully franked. Assumes existing Limited shareholders are Australian tax resident and Plc shareholders are not Australian tax resident. Assumes no DDS payment.

4. DLC Dividend Share.

# Unification is not required for off-market buybacks

- Since the DLC merger in 2001, the Group has returned ~50% of its underlying earnings to shareholders in the form of dividends and buybacks
  - ~US\$56bn in dividends
  - ~US\$23bn in buybacks (~US\$13bn in off-market Limited buybacks)

Capital returned over time<sup>1</sup>  
(US\$ billion)

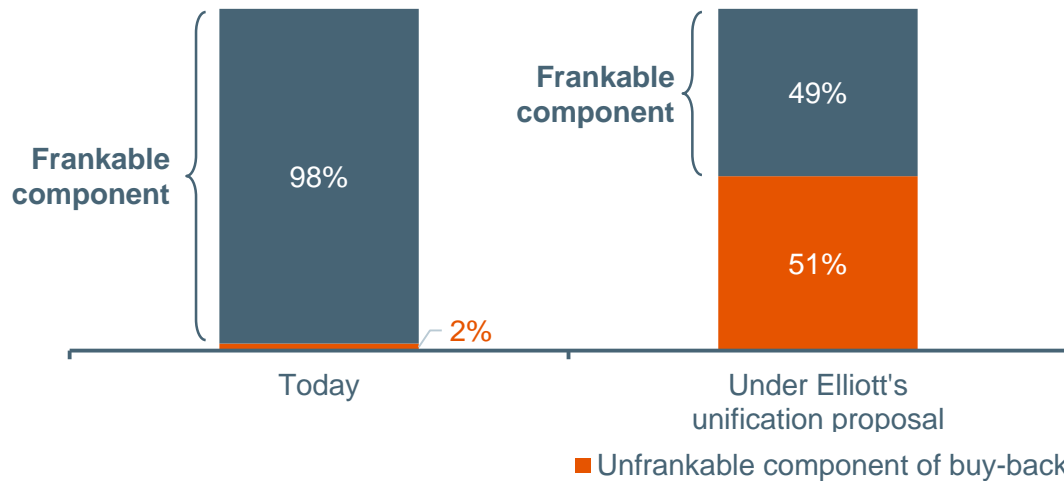


1. Cash returned to shareholders, as reported in each financial year. Excludes capital returns from demergers. Analysis does not include the interim dividend of 40 US cents per share paid on 28 March 2017, totalling c.US\$2.1bn

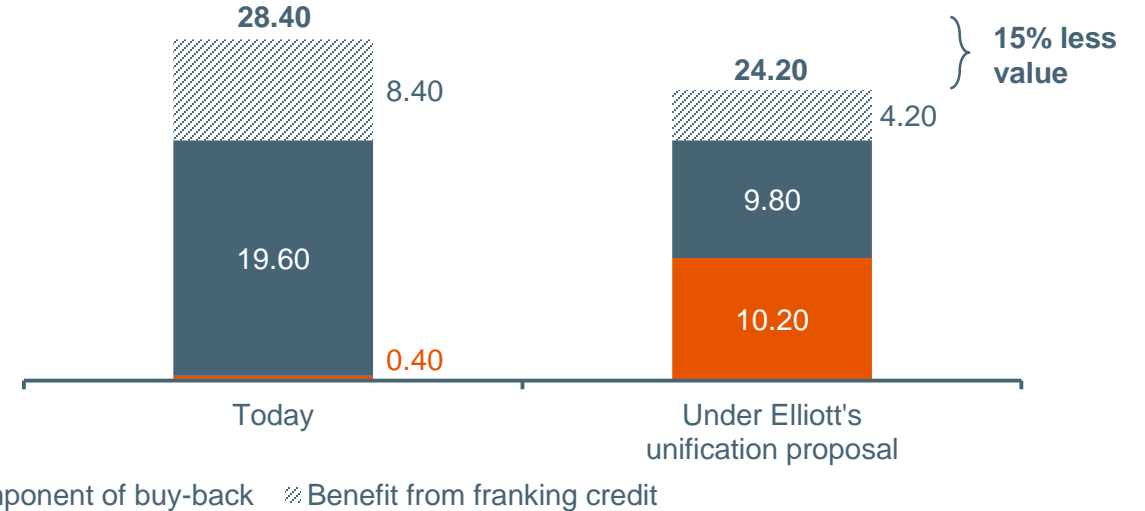
# Proposal would make off-market buybacks less attractive

- Elliott’s unification proposal could result in materially greater share capital and non-distributable profits that could not be distributed as franked dividends in off-market buybacks<sup>1</sup>
- This could significantly reduce the franked dividend component for any future off-market buybacks
- Future off-market buybacks could therefore diminish the value to participating shareholders

## Lower franked dividend component...<sup>1</sup> (%)



## ...means less attractive off-market buybacks<sup>2</sup> (US\$ per share – assumes buyback at US\$20 per share)

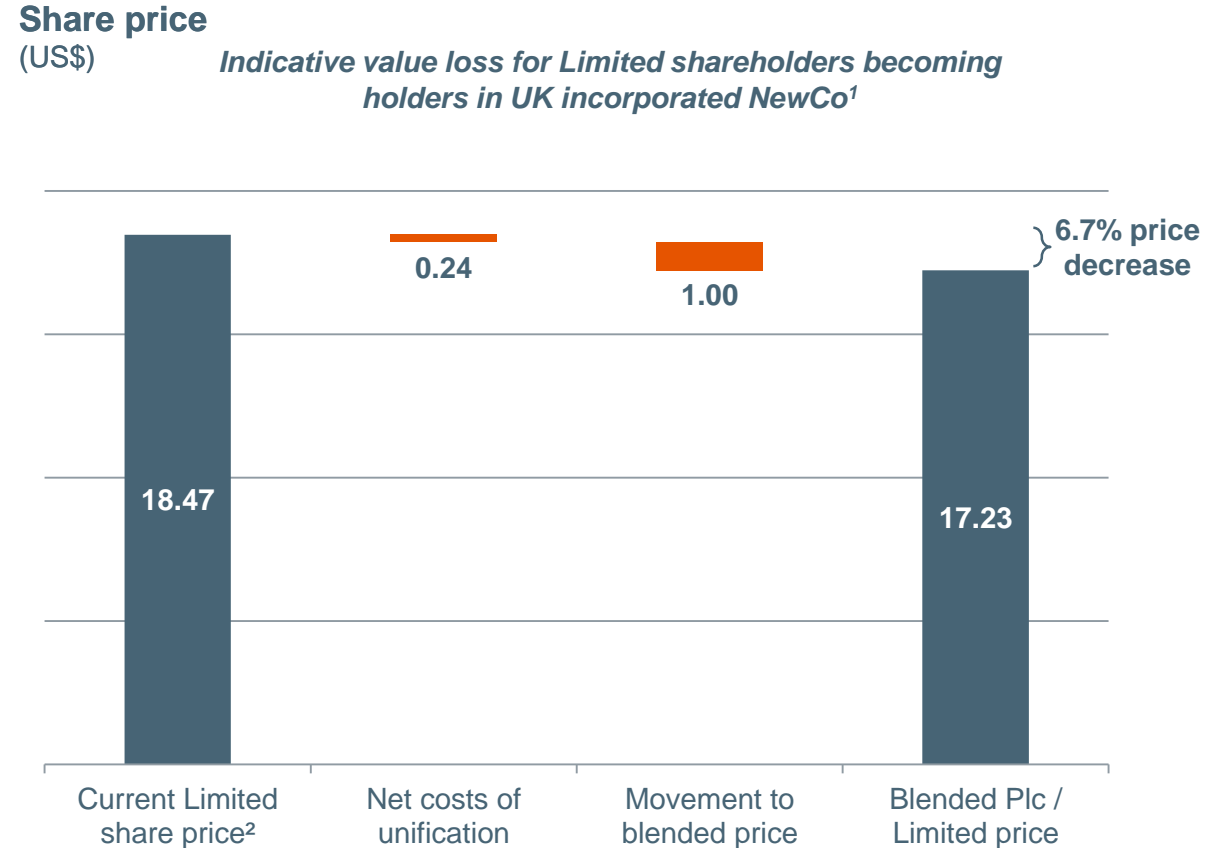


1. Analysis is based on certain tax and accounting assumptions. Accounting assumptions: **Today:** Based on 30 June 2016 share capital and capital reserves of Ltd. **Under Elliott’s unification proposal:** Assumes that (i) NewCo’s share capital and capital reserves reflect Limited and Plc’s net assets at 30 June 2016, (ii) all of Ltd and Plc’s retained earnings at 30 June 2016 is paid up to NewCo, (iii) dividend from each of Ltd and Plc to NewCo is paid in cash and this meets the requirements of Tech 2 /10 for qualifying consideration such that the dividend creates distributable profits for NewCo, and (iv) NewCo’s investment in each of Ltd and Plc is not impaired as a result of the payment of the dividends by Ltd and Plc to NewCo. Tax assumptions: (i) The share capital and capital reserves created in NewCo’s accounts are unfrankable, and (ii) analysis is a preliminary BHP Billiton internal estimate.

2. Analysis is a preliminary BHP Billiton estimate and is illustrative only. It does not represent an actual buyback and is based on certain tax and accounting assumptions. Analysis indicatively illustrates a buyback at the same US\$20 share price under the current DLC structure and post the Elliott unification proposal. Benefit from franking credit assumes an Australian tax resident shareholder that can capture all value associated with franking.

# Proposal unlikely to appeal to Limited shareholders

- Even if NewCo trades at a blended Plc/Limited share price (as assumed by Elliott)
  - UK incorporated NewCo would trade higher than current Plc share price
  - however, price of a NewCo CDI would be lower than the current Limited share price
- In addition, transaction costs, wastage of franking credits and reduced attractiveness of off-market buybacks could cause the NewCo shares/CDIs to trade below the blended Plc/Limited share price
- Long-term viability of the ASX listing is also a risk – trading could migrate to primary LSE listing meaning secondary trading of CDIs on ASX would diminish
- Each of Plc and Limited shareholders would need to separately approve Elliott’s unification proposal



1. Assumes NewCo trades at the blended Limited/Plc share price. Includes impact of midpoint of estimated net costs of unification (US\$1.3 billion). Not inclusive of transaction costs, impact of wastage of franking credits, or impact of reduced attractiveness of off-market buybacks.

2. Market data as at 7 April 2017.



# Proposal has regulatory uncertainty

- Under Elliott’s unification proposal, both Limited and Plc would become subsidiaries of a UK incorporated NewCo
  - would require a number of approvals, including approval by the Foreign Investment Review Board (“FIRB”)
- Elliott’s unification proposal is inconsistent with the existing FIRB conditions that apply to BHP Billiton, including:
  - Limited would no longer be the ultimate holding company of its Australian assets
  - Limited would no longer be listed on the ASX (replaced by a secondary CDI of its new UK incorporated holding company)
- The secondary listing of CDIs on the ASX introduces the risk that trading may migrate to the primary LSE listing and could decrease the liquidity and relevance of the ASX listing over time

i. Unification

**ii. US Petroleum demerger**

iii. Buybacks

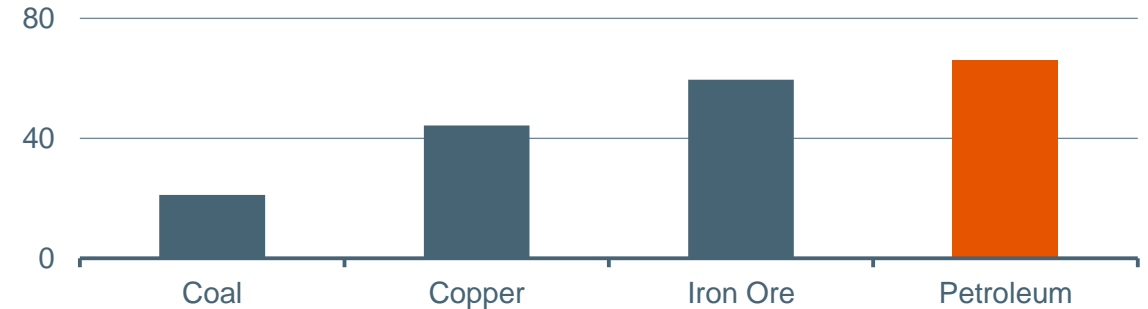
# Petroleum is core to our strategy

- Aligned with our strategy of owning the best commodities, assets and capabilities
- Petroleum growth portfolio expected IRR > 25%<sup>1</sup>
- 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

1. Ungeared, post-tax and nominal return, returns of projects from 1 Jan 17.  
 2. FY12 and FY13 data includes both Continuing and Discontinued operations. FY14, FY15 and FY16 data includes Continuing operations only.  
 3. Production estimates for FY18 onwards represents a scenario. Scenarios do not constitute guidance; actual production will be determined according to market conditions prevailing at the relevant time.

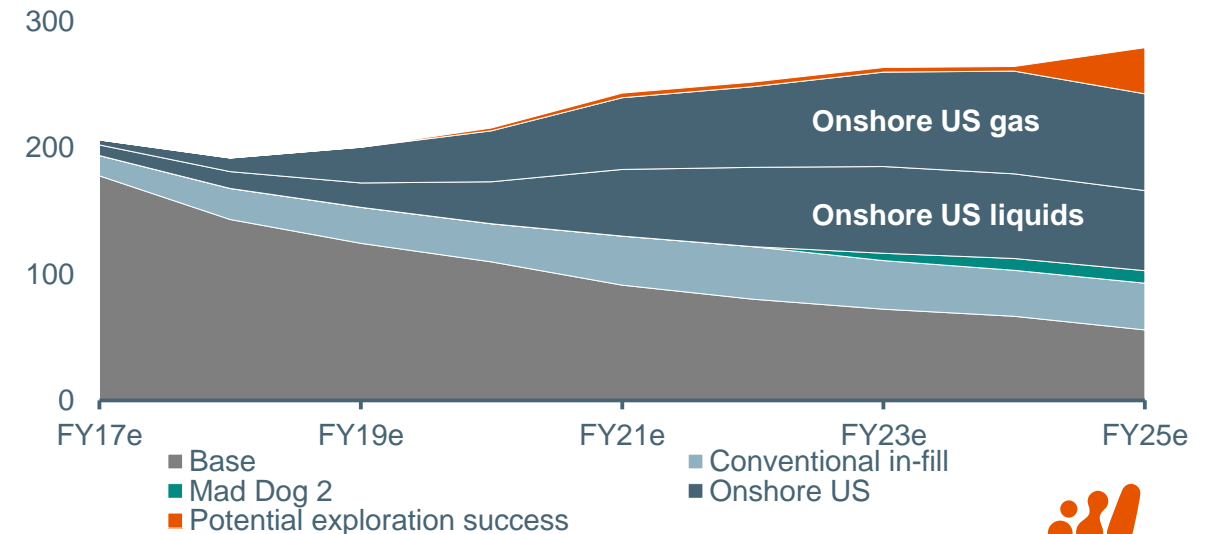
## Petroleum is a high-margin business

(Average underlying EBITDA margin over last 5 years<sup>2</sup>, %)



## Significant growth potential over the next decade<sup>3</sup>

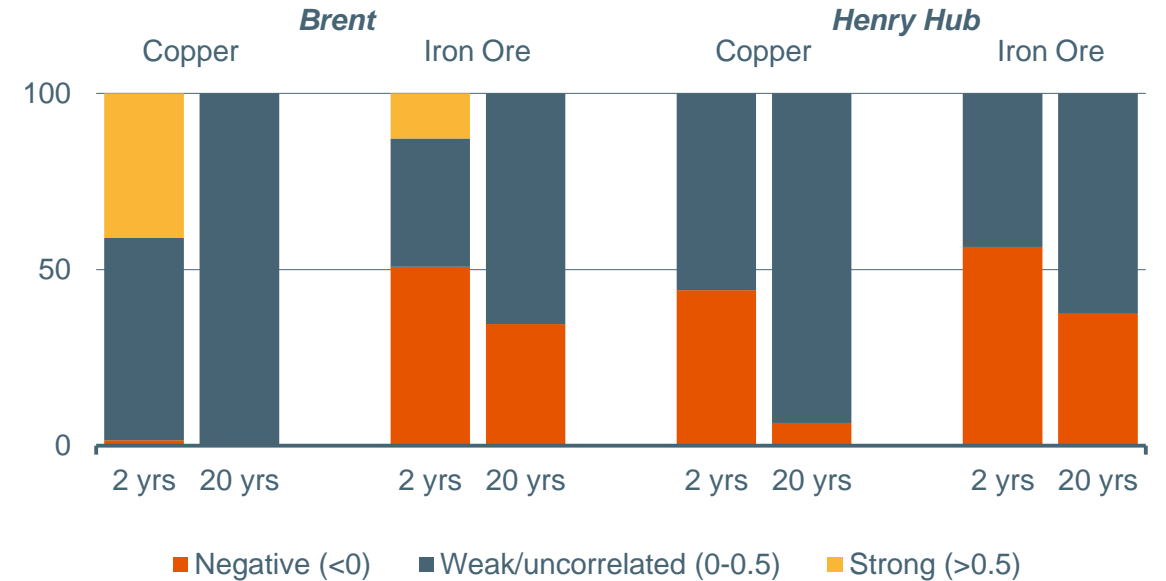
(BHP Billiton production, MMboe)



# Petroleum benefits from being a part of BHP Billiton

- BHP Billiton’s scale and financial strength a key competitive advantage for Petroleum
  - successful Trion bid in Mexico
  - major capital projects like Mad Dog 2
  - access to deepwater exploration position in Trinidad and Western Gulf to Mexico
  - ability to pursue value over volume approach in shale
  - economies of scale for general and administrative functions
  - global procurement model
  - Health, Safety and Environment operating discipline
  - talent, ideas and best practice flow across BHP Billiton

**Our major commodities experience largely weak or negative correlation**  
(Correlation frequency, %)

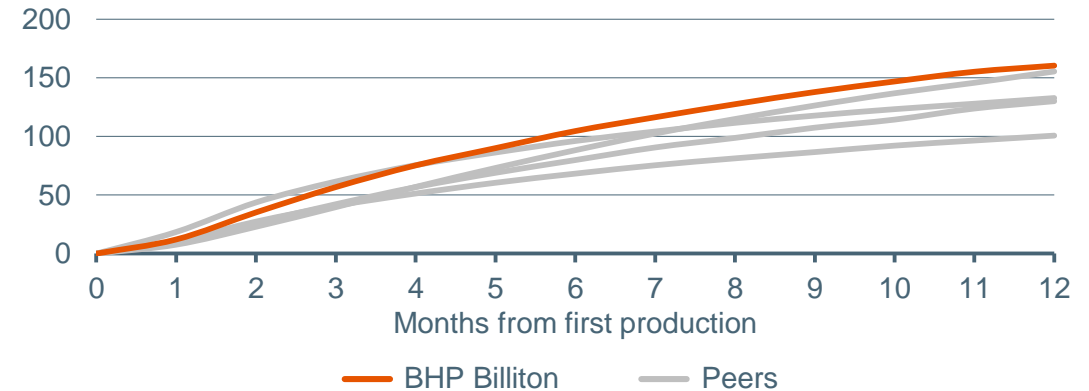


# Onshore US – Free Cash Flow positive and positioned for growth

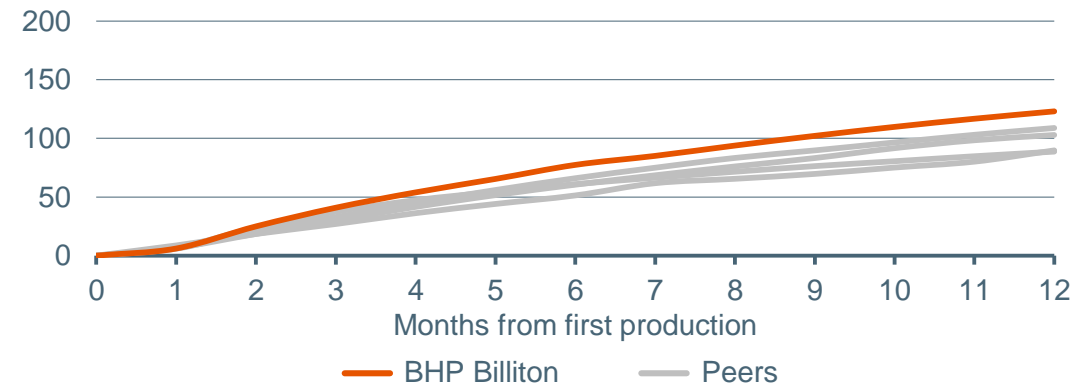
- Operating and capital productivity improvements continue to unlock value
  - increased investable inventory to >3,000 net wells delivering at least 15% IRR (at market prices >US\$70 oil per bbl and US\$4 gas per mcf)
  - secured Southern Delaware acreage before recent escalation in market (recent transactions at ~US\$40 k/acre)
  - Haynesville hedging has secured attractive returns between 25%-30% IRR at low risk
  - 64% reduction in Black Hawk drilling costs<sup>1</sup>
  - optimising Permian acreage ownership and midstream
  - asset trading to high grade positions and monetise long-dated options

1. Between FY13 and H1 FY17.  
 2. Cumulative production on single well basis calculated from total monthly production divided by well count for each operator. Peer selection based on well count, rig activity and offset acreage. Analysis excludes peers with less than five comparable wells.  
 3. Data normalised for 5,000 ft lateral length.  
 4. Peers are Conoco, EOG, Marathon and Pioneer.  
 5. Peers are Anadarko, Cimarex, EOG and RKI/WPX.

**Black Hawk well performance relative to peers<sup>2, 3, 4</sup>**  
 (cumulative production, gross condensate Mbbls)



**Permian Upper Wolfcamp well performance relative to peers<sup>2, 3, 5</sup>**  
 (cumulative production, gross condensate Mbbls)



Source: IHS, BHP Billiton analysis.

# Demerger proposal has limited upside, significant downside risk

- Demergers can create value, but not in this case:
  - our operating capabilities and capital allocation approach are competitive with any in the industry
  - demerger would not materially simplify BHP Billiton (unlike the demerger of South32)
  - the market has the information it needs to value the US Petroleum business
  - residual Petroleum business sub-scale
  - higher cost of capital for BHP Billiton and demerged business
- This proposed demerger would create significant risk for the demerged business:
  - would lose access to BHP Billiton's balance sheet
  - would incur new costs in order to stand alone
- NYSE listing for US Petroleum would not suit all BHP Billiton shareholders
  - could result in material flowback
  - would crystallise value at the low point in the cycle for those forced to sell

i. Unification

ii. US Petroleum demerger

**iii. Buybacks**

# Returns to shareholders are central to our capital allocation framework

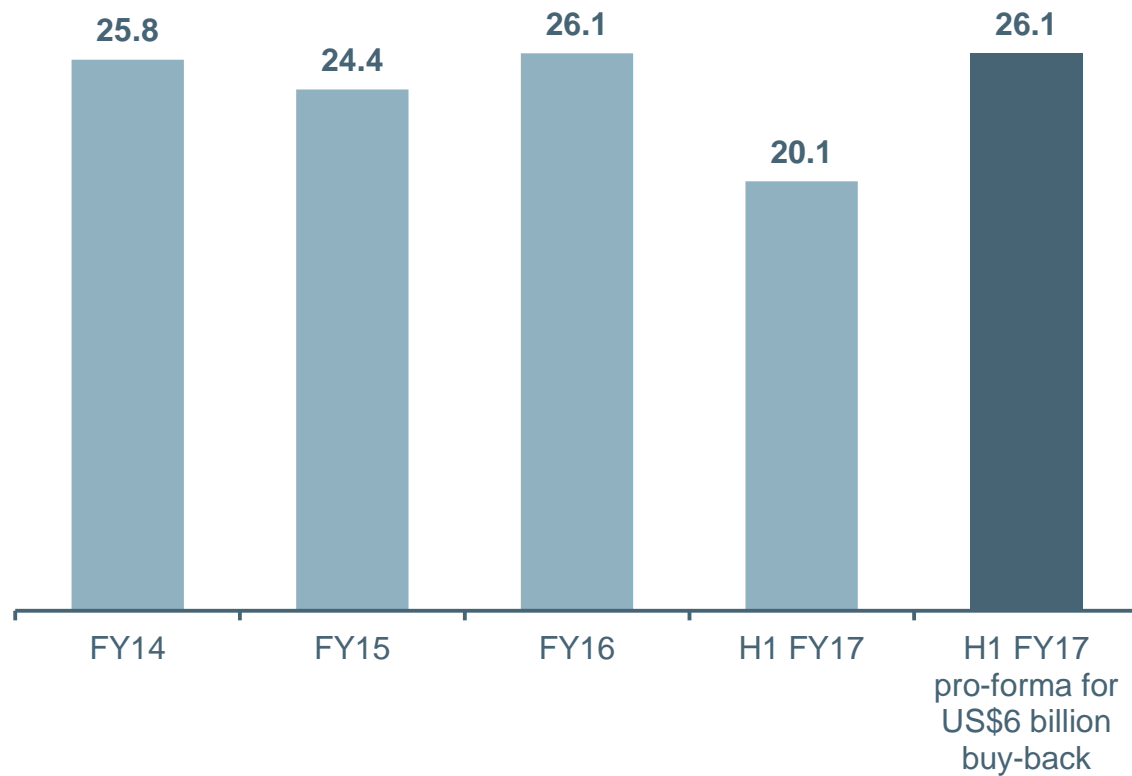
- We have returned almost the equivalent of our market capitalisation in dividends and buybacks<sup>1</sup>
- BHP Billiton continues to generate material cash flow as a result of our simplification efforts, which provides capital allocation optionality
- Capital allocation framework provides for debt reduction, incremental dividends, buybacks, growth and acquisitions to compete for excess free cash flow
- Buybacks have been, and will continue to be, a core element of this framework
- However, right now our balance sheet is a priority
  - counter-cyclical approach requires investment to maximise value
  - flexibility at the bottom of the cycle, and discipline at the top
  - now is not the right time to conduct a US\$6 billion buyback
- A mechanistic approach is inappropriate for a cyclical resources company

1. Since the formation of the DLC – refer to slide 14. Dividends includes distribution of shares in South32 to BHP Billiton shareholders.

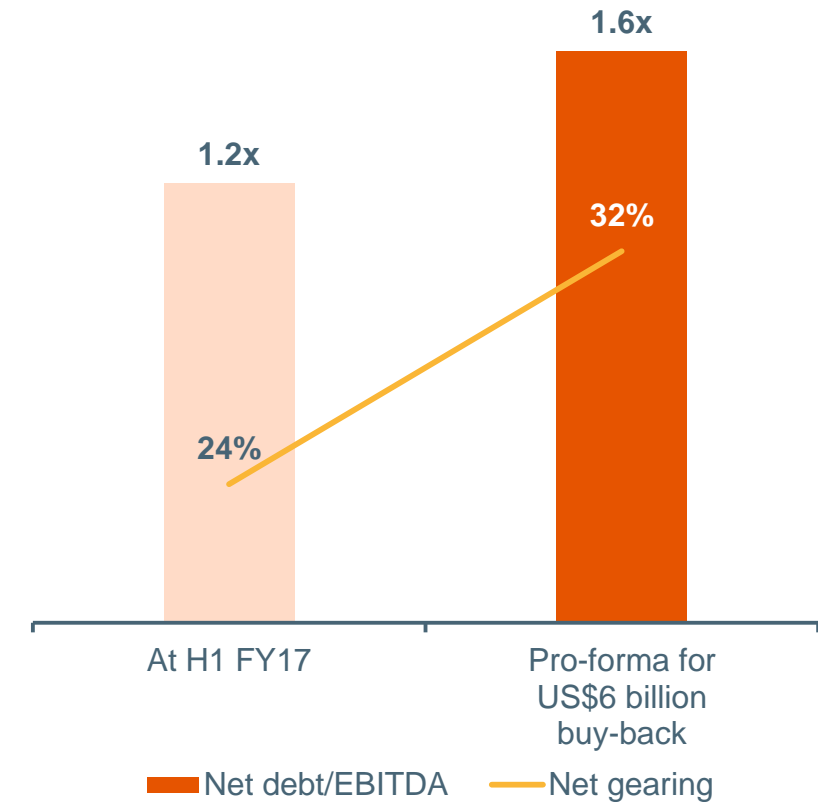


# Proposal would undo recent strengthening of balance sheet

**Buyback would return net debt to historical levels...**  
(Net debt, US\$ billion)



**...and negatively impact credit metrics and gearing**  
(Net debt / CY16 underlying EBITDA) (Net Gearing, %)



# A mechanistic approach to balance sheet management is inappropriate

- Elliott’s suggestion that BHP Billiton should target 1.3x net debt/EBITDA (or similar) – and conduct regular buybacks with excess cash – is not appropriate for a cyclical mining business
- Based on this, BHP Billiton could have conducted ~US\$20 billion of buybacks in FY12; however
  - no further buybacks would have been possible from FY13 onwards
  - debt (and net debt/EBITDA) would have reached unsustainable levels
  - credit metrics would have deteriorated placing the credit rating at risk
- This would also have resulted in buying back shares at the top of the cycle

Source: BHP Billiton Annual Reports, Standard & Poors.

Note: Analysis assumes a buyback conducted at the end of each financial year targeting 1.3x net debt / EBITDA based on reported LTM EBITDA at that date. If net debt / EBITDA exceeds 1.3x, assumes no buyback was conducted. Historical movements in net debt used as a proxy for cashflow in each period, adjusted for incremental interest cost on additional net debt.

1. Based on Elliott targeted 1.3x net debt/EBITDA.

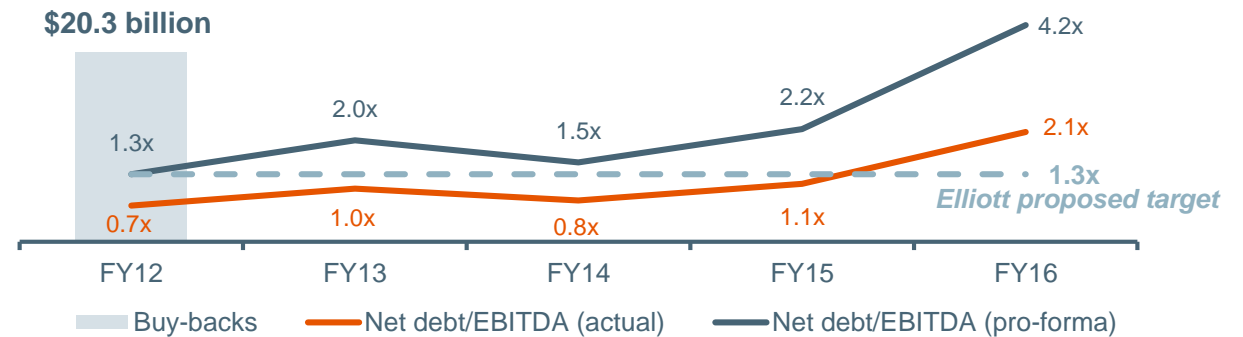
## Buybacks based on targeted 1.3x net debt / EBITDA

Pro-forma net debt (US\$ billion)

|      |      |      |      |      |
|------|------|------|------|------|
| 43.9 | 55.5 | 49.6 | 47.5 | 51.5 |
|------|------|------|------|------|

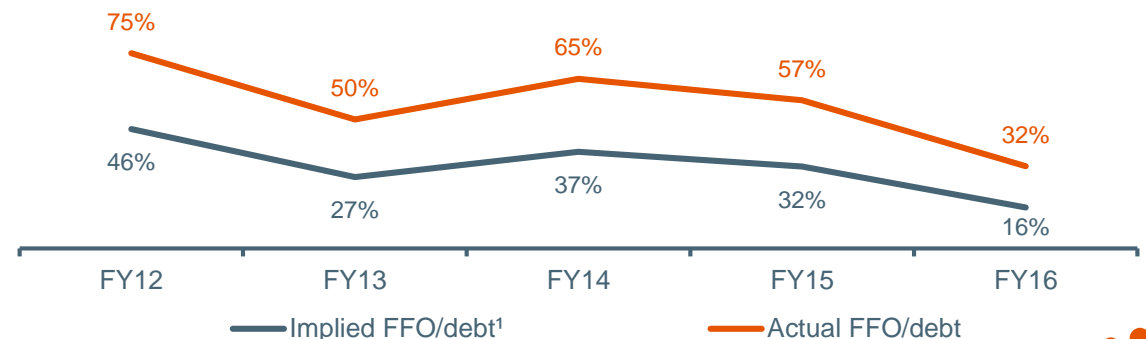
Actual net debt (US\$ billion)

|      |      |      |      |      |
|------|------|------|------|------|
| 23.6 | 29.1 | 25.8 | 24.4 | 26.1 |
|------|------|------|------|------|



## Implied credit metrics

(S&P Adjusted FFO/debt)





# 3. Conclusion

# We are on the right path

- ✓ BHP Billiton is now a stronger, simpler, more resilient company, well-positioned for the future
- ✓ We have been on a value-driven simplification journey for many years and this will continue in the years ahead
- ✓ We are well-positioned to deliver additional value to our shareholders, with a strong balance sheet and robust capital allocation framework
- ✓ We regularly review all opportunities to create value, including the proposals presented by Elliott, and we are confident we are on the right path



**bhpbilliton**