

BHP BILLITON LTD
Form 20-F
September 28, 2017
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20-F

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED 30 JUNE 2017.

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES AND EXCHANGE ACT OF 1934

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report

For the transition period from to

Commission file number: 001-09526
BHP BILLITON LIMITED
(ABN 49 004 028 077)
(Exact name of Registrant as specified in its charter)
VICTORIA, AUSTRALIA
(Jurisdiction of incorporation or organisation)
171 COLLINS STREET, MELBOURNE,

VICTORIA 3000 AUSTRALIA

(Address of principal executive offices)

Commission file number: 001-31714
BHP BILLITON PLC
(REG. NO. 3196209)
(Exact name of Registrant as specified in its charter)
ENGLAND AND WALES
(Jurisdiction of incorporation or organisation)
NOVA SOUTH, 160 VICTORIA STREET

LONDON, SW1E 5LB

UNITED KINGDOM
(Address of principal executive offices)

Securities registered or to be registered pursuant to section 12(b) of the Act.

Title of each class	Name of each exchange on which registered	Title of each class	Name of each exchange on which registered
American Depositary Shares*	New York Stock Exchange	American Depositary Shares*	New York Stock Exchange
Ordinary Shares**	New York Stock Exchange	Ordinary Shares, nominal value US\$0.50 each**	New York Stock Exchange

* Evidenced by American Depositary Receipts. Each American Depositary Receipt represents two ordinary shares of BHP Billiton Limited or BHP Billiton Plc, as the case may be.

** Not for trading, but only in connection with the listing of the applicable American Depositary Shares.

Securities registered or to be registered pursuant to Section 12(g) of the Act.

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

	BHP Billiton Limited	BHP Billiton Plc
Fully Paid Ordinary Shares	3,211,691,105	2,112,071,796

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes No

Note Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or an emerging growth company. See the definitions of large accelerated filer, accelerated filer, and emerging growth company in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer
Non-accelerated filer	Emerging growth company

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP	International Financial Reporting Standards as issued by the International Accounting Standards Board	Other
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If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17 Item 18

If this is an annual report, indicate by checkmark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Table of Contents

BHP

Our Charter

**We are BHP,
a leading global resources company.**

Our Purpose

Our purpose is to create long-term shareholder value through the discovery, acquisition, development and marketing of natural resources.

Our Strategy

Our strategy is to own and operate large, long-life, low-cost, expandable, upstream assets diversified by commodity, geography and market.

Our Values

Sustainability

Putting health and safety first, being environmentally responsible and supporting our communities.

Integrity

Doing what is right and doing what we say we will do.

Respect

Embracing openness, trust, teamwork, diversity and relationships that are mutually beneficial.

Performance

Achieving superior business results by stretching our capabilities.

Simplicity

Focusing our efforts on the things that matter most.

Accountability

Defining and accepting responsibility and delivering on our commitments.

We are successful when:

Our people start each day with a sense of purpose and end the day with a sense of accomplishment.

Our teams are inclusive and diverse.

Our communities, customers and suppliers value their relationships with us.

Our asset portfolio is world-class and sustainably developed.

Our operational discipline and financial strength enables our future growth.

Our shareholders receive a superior return on their investment.

Andrew Mackenzie

Chief Executive Officer

May 2017

BHP Billiton Limited. ABN 49 004 028 077. Registered in Australia. Registered office: 171 Collins Street, Melbourne, Victoria 3000, Australia. BHP Billiton Plc. Registration number 3196209. Registered in England and Wales. Registered office: Nova South, 160 Victoria Street, London SW1E 5LB, United Kingdom. Each of BHP Billiton Limited and BHP Billiton Plc is a member of the Group, which has its headquarters in Australia. BHP is a Dual Listed Company structure comprising BHP Billiton Limited and BHP Billiton Plc. The two entities continue to exist as separate companies but operate as a combined Group known as BHP.

Table of Contents

The headquarters of BHP Billiton Limited and the global headquarters of the combined Group are located in Melbourne, Australia. The headquarters of BHP Billiton Plc are located in London, United Kingdom. Both companies have identical Boards of Directors and are run by a unified management team. Throughout this publication, the Boards are referred to collectively as the Board. Shareholders in each company have equivalent economic and voting rights in the Group as a whole.

In this Annual Report, the terms BHP , Group , BHP Group , we , us , our and ourselves are used to refer to BHP Billiton Limited, BHP Billiton Plc and, except where the context otherwise requires, their respective subsidiaries. Cross references refer to sections of the Annual Report, unless stated otherwise.

All references to websites in this Annual Report are intended to be inactive textual references for information only and any information contained in or accessible through any such website does not form a part of this Annual Report.

Table of Contents**Contents**

1	<u>Strategic Report</u>	1
1.1	<u>Chairman's Review</u>	1
1.2	<u>Chief Executive Officer's Report</u>	2
1.3	<u>Performance summary</u>	3
1.4	<u>BHP At a glance</u>	4
1.5	<u>Our strategy</u>	13
1.6	<u>Our performance</u>	17
1.7	<u>Samarco</u>	26
1.8	<u>Our operating environment</u>	30
1.9	<u>People</u>	50
1.10	<u>Sustainability</u>	54
1.11	<u>Our businesses</u>	65
1.12	<u>Summary of financial performance</u>	88
1.13	<u>Performance by commodity</u>	115
1.14	<u>Other information</u>	135
2	<u>Governance at BHP</u>	137
2.1	<u>Governance at BHP</u>	137
2.2	<u>Board of Directors and Executive Leadership Team</u>	141
2.3	<u>Shareholder engagement</u>	148
2.4	<u>Role and responsibilities of the Board</u>	151
2.5	<u>Board membership</u>	154
2.6	<u>Chairman</u>	155
2.7	<u>Renewal and re-election</u>	155
2.8	<u>Director skills, experience and attributes</u>	156
2.9	<u>Director induction, training and development</u>	159
2.10	<u>Independence</u>	161
2.11	<u>Board evaluation</u>	163
2.12	<u>Board meetings and attendance</u>	165
2.13	<u>Board committees</u>	166
2.14	<u>Risk management governance structure</u>	187
2.15	<u>Management</u>	189
2.16	<u>Business conduct</u>	190
2.17	<u>Market disclosure</u>	191
2.18	<u>Remuneration</u>	191
2.19	<u>Directors' share ownership</u>	191
2.20	<u>Conformance with corporate governance standards</u>	192
2.21	<u>Additional UK disclosure</u>	193
3	<u>Remuneration Report</u>	194
3.1	<u>Annual statement by the Remuneration Committee Chairman</u>	196
3.2	<u>Remuneration policy report</u>	200
3.3	<u>Annual report on remuneration</u>	213
4	<u>Directors' Report</u>	240

4.1	<u>Review of operations, principal activities and state of affairs</u>	240
4.2	<u>Share capital and buy-back programs</u>	240
4.3	<u>Results, financial instruments and going concern</u>	242
4.4	<u>Directors</u>	242
4.5	<u>Remuneration and share interests</u>	243

Table of Contents

4.6	<u>Secretaries</u>	244
4.7	<u>Indemnities and insurance</u>	244
4.8	<u>Employee policies</u>	245
4.9	<u>Corporate governance</u>	245
4.10	<u>Dividends</u>	245
4.11	<u>Auditors</u>	246
4.12	<u>Non-audit services</u>	246
4.13	<u>Political donations</u>	246
4.14	<u>Exploration, research and development</u>	247
4.15	<u>ASIC Instrument 2016/191</u>	247
4.16	<u>Proceedings on behalf of BHP Billiton Limited</u>	247
4.17	<u>Performance in relation to environmental regulation</u>	247
4.18	<u>Share capital, restrictions on transfer of shares and other additional information</u>	247
5	<u>Financial Statements</u>	249
6	<u>Additional information</u>	250
6.1	<u>Information on mining operations</u>	250
6.2	<u>Production</u>	278
6.3	<u>Reserves</u>	283
6.4	<u>Major projects</u>	301
6.5	<u>Legal proceedings</u>	302
6.6	<u>Glossary</u>	308
7	<u>Shareholder information</u>	320
7.1	<u>History and development</u>	320
7.2	<u>Markets</u>	320
7.3	<u>Organisational structure</u>	320
7.4	<u>Material contracts</u>	323
7.5	<u>Constitution</u>	324
7.6	<u>Share ownership</u>	330
7.7	<u>Dividends</u>	334
7.8	<u>Share price information</u>	335
7.9	<u>American Depositary Receipts fees and charges</u>	336
7.10	<u>Taxation</u>	337
7.11	<u>Government regulations</u>	346
7.12	<u>Ancillary information for our shareholders</u>	350
8	<u>Exhibits</u>	355

Table of Contents

Forward looking statements

This Annual Report contains forward looking statements, including statements regarding trends in commodity prices and currency exchange rates; demand for commodities; production forecasts; plans, strategies and objectives of management; closure or divestment of certain assets, operations or facilities (including associated costs); anticipated production or construction commencement dates; capital costs and scheduling; operating costs; anticipated productive lives of projects, mines and facilities; provisions and contingent liabilities; and tax and regulatory developments.

Forward looking statements can be identified by the use of terminology such as intend , aim , project , anticipate , estimate , plan , believe , expect , may , should , will , continue or similar words. These statements discuss f expectations concerning the results of assets or financial conditions, or provide other forward looking information.

These forward looking statements are not guarantees or predictions of future performance and involve known and unknown risks, uncertainties and other factors, many of which are beyond our control and which may cause actual results to differ materially from those expressed in the statements contained in this Annual Report. Readers are cautioned not to put undue reliance on forward looking statements.

For example, our future revenues from our assets, projects or mines described in this Annual Report will be based, in part, on the market price of the minerals, metals or petroleum products produced, which may vary significantly from current levels. These variations, if materially adverse, may affect the timing or the feasibility of the development of a particular project, the expansion of certain facilities or mines, or the continuation of existing assets.

Other factors that may affect the actual construction or production commencement dates, costs or production output and anticipated lives of assets, mines or facilities include our ability to profitably produce and transport the minerals, petroleum and/or metals extracted to applicable markets; the impact of foreign currency exchange rates on the market prices of the minerals, petroleum or metals we produce; activities of government authorities in the countries where we are exploring or developing projects, facilities or mines, including increases in taxes, changes in environmental and other regulations and political uncertainty; labour unrest; and other factors identified in the risk factors set out in section 1.8.3 of this Annual Report.

Except as required by applicable regulations or by law, BHP does not undertake to publicly update or review any forward looking statements, whether as a result of new information or future events.

Past performance cannot be relied on as a guide to future performance.

Table of Contents**Form 20-F Cross Reference Table**

Item Number	Description	Report section reference
1.	Identity of Directors, Senior Management and Advisors	Not applicable
2.	Offer Statistics and Expected Timetable	Not applicable
3.	Key Information	
A	Selected financial data	1.12
B	Capitalization and indebtedness	Not applicable
C	Reasons for the offer and use of proceeds	Not applicable
D	Risk factors	1.8.3
4.	Information on the Company	
A	History and development of the company	1.4, 1.12, 1.13, 6.4, 6.5, 7.1 to 7.4 and 7.12
B	Business overview	1.4 to 1.5, 1.8, 1.11 to 1.13, 7.3, 7.4, 7.11
C	Organizational structure	7.3 and Note 28 to the Financial Statements
D	Property, plant and equipment	1.11.1 to 1.11.3, 1.13, 6.1 to 6.3 and Note 10 to the Financial Statements
4A.	Unresolved Staff Comments	None
5.	Operating and Financial Review and Prospects	
A	Operating results	1.6, 1.8, 1.11 to 1.13, 7.11
B	Liquidity and capital resources	1.12.3, 5.1.4 and Notes 21 and 32 to the Financial Statements
C	Research and development, patents and licenses, etc.	1.5, 1.8.2, 1.11, 1.12, 4.14 and 6.3
D	Trend information	1.8.1, 1.11.1 to 1.11.3, 1.13
E	Off-balance sheet arrangements	1.14 and Notes 32 and 33 to the Financial Statements
F	Tabular disclosure of contractual obligations	1.14 and Notes 32 and 33 to the Financial Statements
6.	Directors, Senior Management and Employees	
A	Directors and senior management	2.2
B	Compensation	3
C	Board practices	2.2 and 2.13
D	Employees	1.9, 1.9.4 and 1.9.5
E	Share ownership	2.19, 3.3.18, 3.3.19 and Note 23 to the Financial Statements
7.	Major Shareholders and Related Party Transactions	
A	Major shareholders	7.6
B	Related party transactions	3.4 and Notes 22 and 31 to the Financial Statements
C	Interests of experts and counsel	Not applicable
8.	Financial Information	
A	Consolidated statements and other financial information	1.7, 5.1, 5.6, 6.5, 7.7 and the pages beginning on F-1 in this Annual Report

B	Significant changes	Note 34 to the Financial Statements
9.	The Offer and Listing	
A	Offer and listing details	7.8
B	Plan of distribution	Not applicable
C	Markets	7.2
D	Selling shareholders	Not applicable

Table of Contents

Item Number	Description	Report section reference
E	Dilution	Not applicable
F	Expenses of the issue	Not applicable
10.	Additional Information	
A	Share capital	Not applicable
B	Memorandum and articles of association	7.3, 7.5, 7.11 and 7.12
C	Material contracts	7.4
D	Exchange controls	7.11
E	Taxation	7.10
F	Dividends and paying agents	Not applicable
G	Statement by experts	Not applicable
H	Documents on display	7.5.14
I	Subsidiary information	Note 28 to the Financial Statements
11.	Quantitative and Qualitative Disclosures About Market Risk	1.8, Note 21 to the Financial Statements
12.	Description of Securities Other than Equity Securities	
A	Debt securities	Not applicable
B	Warrants and rights	Not applicable
C	Other securities	Not applicable
D	American Depositary Shares	7.9
13.	Defaults, Dividend arrearages and Delinquencies	There have been no defaults, dividend arrearages or delinquencies
14.	Material Modifications to the Rights of Security Holders and Use of Proceeds	There have been no material modifications to the rights of security holders and use of proceeds since our last Annual Report
15.	Controls and Procedures	2.13.1 and 5.6
16A.	Audit committee financial expert	2.8, 2.13.1
16B.	Code of Ethics	2.16
16C.	Principal Accountant Fees and Services	2.13.1 and Note 36 to the Financial Statements
16D.	Exemptions from the Listing Standards for Audit Committees	Not applicable
16E.	Purchases of Equity Securities by the Issuer and Affiliated Purchasers	4.2
16F.	Change in Registrant's Certifying Accountant	Not applicable
16G.	Corporate Governance	2
16H.	Mine Safety Disclosure	Exhibit 95.1
17.	Financial Statements	Not applicable as Item 18 complied with
18.	Financial Statements	The pages beginning on page F-1 in this Annual Report
19.	Exhibits	8

Table of Contents

1 Strategic Report

About this Strategic Report

This Strategic Report provides insight into BHP's strategy, operating and business model, and objectives. It describes the principal risks BHP faces and how these risks might affect our future prospects. It also gives our perspective on our recent operational and financial performance.

This disclosure is intended to assist shareholders and other stakeholders to understand and interpret the Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards (IFRS) included in this Annual Report. The basis of preparation of the Consolidated Financial Statements is set out in section 5.1. We also use alternate performance measures to explain our underlying performance; however, these measures should not be considered as an indication of, or as a substitute for, statutory measures as an indicator of actual operating performance or as a substitute for cash flow as a measure of liquidity. To obtain full details of the financial and operational performance of BHP, this Strategic Report should be read in conjunction with the Consolidated Financial Statements and accompanying notes. Underlying EBITDA is the key measure that management uses internally to assess the performance of the Group's segments and make decisions on the allocation of resources.

This Strategic Report meets the requirements of the UK Companies Act 2006 and the Operating and Financial Review required by the Australian Corporations Act 2001.

Section 1 of this Annual Report 2017 constitutes our Strategic Report 2017. References to sections beyond section 1 are references to sections in this Annual Report 2017. Shareholders may obtain a hard copy of the Annual Report free of charge by contacting our Share Registrars, whose details are set out in our Corporate Directory at the end of this Annual Report.

1.1 Chairman's Review

Dear Shareholder,

It is an honour and a privilege to be able to write this letter as the new Chairman of BHP. At the outset, I want to acknowledge the contribution of my predecessor, Jac Nasser, who has led the Board for the past seven years. I thank Jac for his outstanding service to the Board and the Group during his tenure. While we will miss his strong leadership and wise counsel, he leaves a lasting legacy at BHP.

As incoming Chairman, I spent much of the past three months engaging with shareholders and other stakeholders around the world in order to better understand their perspectives. I plan to engage with investors on a regular basis.

Since I joined the Board in September last year, I have also taken the opportunity to visit many of our locations around the world to gain a better understanding of BHP from the front line. I have visited Western Australia Iron Ore in the Pilbara, coal operations in Queensland, the Jansen Potash Project in Canada, Onshore and Offshore petroleum operations in the United States and copper assets in Chile. This has been a rewarding experience and has reinforced to me the strength and potential of BHP to create long-term value for our shareholders.

BHP's first-class assets generate significant amounts of cash in almost all phases of the commodity cycle, and the way we allocate that cash going forward is going to be an important determinant of how much shareholder value is created. The Board strongly supports the capital allocation framework that your CEO, Andrew Mackenzie, established at the beginning of 2016. It is however a framework, and since its inception, the Board and management team have been

working together to strengthen its application. This work is ongoing.

Table of Contents

Your Board recognises the importance of cash returns to shareholders. The dividend policy provides for a minimum 50 per cent payout of Underlying attributable profit at every reporting period. For FY2017, the Board determined a final dividend of 43 US cents per share, which is covered by free cash flow generated in the current period. The final dividend comprises the minimum payout per share plus an additional amount of 10 US cents per share. Strict adherence to our capital allocation framework balances value creation through capital investment, cash returns to shareholders and balance sheet strength in a transparent and consistent manner.

The Board has continued to focus on responding to the tragedy at Samarco. A review of the non-operated minerals joint ventures was conducted in FY2017 and we have implemented a number of actions identified as part of that review. We have developed a global standard which defines the requirements for managing BHP's interest in our non-operated minerals joint ventures. These minimum requirements include a framework for identification and management of risks to BHP from the non-operated joint ventures, which is consistent with the risk management framework for identifying and managing risks across BHP. More information can be found in section 1.7.

We take a structured and rigorous approach to Board succession planning, having regard to the skills, experience and attributes required to effectively govern and manage risk within BHP, so that we have the right balance on the Board and the Board continues to be fit-for-purpose.

During the year, John Schubert and Pat Davies retired from the Board. In addition, Malcolm Brinded and Grant King have decided that they will not stand for election at the 2017 Annual General Meetings. I thank all of these retiring directors for their service to BHP and wish them the very best.

In line with our planned approach to Board succession, Terry Bowen and John Mogford were appointed to the Board as Non-executive Directors with effect from 1 October 2017. Both have extensive executive experience which will enable them to make significant contributions to the BHP Board.

After several years of considered and deliberate effort, BHP is stronger, simpler and more productive. BHP has a world class management team, led by Andrew Mackenzie, and I look forward to supporting them in our pursuit of long-term value creation for all our shareholders.

Thank you for your continued support of BHP.

Ken MacKenzie

Chairman

1.2 Chief Executive Officer's Report

Dear Shareholder,

To meet the challenges of today, we must think in decades and generations. BHP's ability to plan, work and invest for the long term has always been our competitive advantage.

Over the past five years, we have laid the foundations to significantly improve returns and grow value. The benefits of this deliberate path are clear in our FY2017 results.

Safety is, and always will be, our highest priority. In the last 12 months, tragically, two of our colleagues died at work one at our Escondida mine in Chile in October 2016 and one at the Goonyella Riverside mine in Australia in August

2017. I offer my sincere condolences to the families, friends and colleagues of the two team members who lost their lives.

The most important job our people have, myself included, is to make sure our team goes home safe at the end of each day. While our safety performance has improved in terms of total recordable injury frequency (down to 4.2 per million hours worked), we have renewed our efforts to help our people understand the risks and critical controls that must be in place to protect the health and safety of everyone who works with BHP.

Table of Contents

Our new five-year sustainability performance targets came into effect 1 July 2017. These targets are a public statement to our stakeholders about our commitment to sustainability and are consistent with our commitment to the Paris Agreement and the United Nations Sustainable Development Goals. They are also at the heart of how we work at BHP – we are determined to make a positive difference through our performance.

Our FY2017 financial and operational results were strong. All our operated assets were free cash flow positive and delivered a total free cash flow of US\$12.6 billion. We used this cash to strengthen the balance sheet and return US\$4.4 billion to you, our shareholders.

We have achieved a great deal over the past year, but we will not stand still. We are committed to maximising cash flow, maintaining capital discipline and improving value and returns.

We will deliver consistent and transparent application of our capital allocation framework, which includes cash returns to shareholders.

Our strong performance in FY2017 was achieved thanks to the hard work and passion of the people of BHP. It is a testament to what we can all achieve when we come together as a team of teams.

We know that the most diverse teams are those who perform the best – our data tells us this. That’s why we were proud to announce at last year’s Annual General Meetings our aspirational goal to achieve gender balance by FY2025. BHP has made great progress in 12 months, but we know we still have a long way to go.

The past financial year has taught us many things, but especially this – the world needs people who think boldly, think creatively and bring the best of themselves to what they do. It needs people who think big. For corporations like BHP, it is up to us to shape change for the better, through innovation, productivity and technology. It is our responsibility to have a voice and be transparent.

Thank you to our people, shareholders, suppliers, customers and host communities who work with us. Together, we work to improve the lives of millions of people across the world and drive global economic growth.

I also extend my thanks to outgoing Chairman Jac Nasser, who has been a source of strength and leadership for BHP, and to me personally, over the last decade. His remarkable legacy and contribution will be felt for years to come.

BHP is well-positioned for the future with our incoming Chairman, Ken MacKenzie. Together with the Board, I look forward to FY2018 and beyond as we grow shareholder value and increase returns.

Andrew Mackenzie

Chief Executive Officer

1.3 Performance summary

Not required for US reporting. Refer to sections section 1.12 and 1.13.

Table of Contents

1.4 BHP At a glance

Key facts

BHP is a world-leading resources company. We extract and process minerals, oil and gas, with more than 60,000 employees and contractors, primarily in Australia and the Americas. Our products are sold worldwide, with sales and marketing led through Singapore and Houston, United States. Our global headquarters are in Melbourne, Australia.

We operate under a Dual Listed Company structure with two parent companies (BHP Billiton Limited and BHP Billiton Plc) operated as if we were a single economic entity, which we refer to as BHP. We are run by a unified Board and management.

Table of Contents

What we do

5

Table of Contents

Our purpose and strategy

Our corporate purpose is to create long-term shareholder value through the discovery, acquisition, development and marketing of natural resources. We do this through our strategy: to own and operate large, long-life, low-cost, expandable, upstream assets diversified by commodity, geography and market.

Table of Contents

1.4.1 Who we are

Our Operating Model

We have a simple and diverse portfolio of tier one assets around the world, with low-cost options for future growth and value creation. This allows us to apply our values and culture, emphasise safety and productivity, deploy technology and exert capital discipline to extract the most value and the highest returns from our assets.

Our Operating Model allows us to leverage our expertise across our business, with multifunctional teams that connect across the organisation to share best practice, make us safer and solve problems together.

Assets: Assets are a set of one or more geographically proximate operations (including open-cut mines, underground mines and onshore and offshore oil and gas production and processing facilities). We safely produce a broad range of commodities through these assets. Our operated assets include assets that are wholly owned and operated by BHP and assets that are owned as a joint operation and operated by BHP. Our non-operated assets include interests that are owned as a joint venture but not operated by BHP.

Asset groups: We group our assets into geographic regions in order to provide effective governance and accelerate performance improvement. We do this through sharing and replicating best practices, combining efforts to take advantage of our scale and through common improvement initiatives. Our oil and gas assets are grouped together as one global Petroleum asset group, reflecting the operating environment in that sector. This allows us to share best practice and promote new technology across our portfolio.

Table of Contents

Marketing and Supply: Our commercial businesses optimise our working capital and manage our inward and outward supply chains. Our Marketing business sells our products, gets our commodities to market and supports strategic decision-making through market insights. Supply sources the goods and services we need for our business, sustainably and cost effectively.

Functions: Functions operate along global reporting lines to provide support to all areas of the organisation. Functions have specific accountabilities and deep expertise in areas such as finance, legal, governance, technology, human resources, corporate affairs, health, safety and community.

Leadership: Our Executive Leadership Team (ELT) is responsible for the day-to-day management of the Group and for leading the delivery of our strategic objectives. The Operations Management Committee (OMC) has responsibility for planning, directing and controlling the activities of BHP, including key Group strategic, investment and operational decisions, and recommendations to the Board.

We disclose financial and other performance primarily by commodity. This provides the most meaningful insight into the nature and financial outcomes of our business activities and facilitates greater comparability against industry peers.

Table of Contents

What we produce

We are among the world's top producers of major commodities, including iron ore, metallurgical coal and copper. We also have substantial interests in oil, gas and energy coal.

- (1) For more information on the reconciliation of alternate performance measures to our statutory measures, including from Profit after taxation from Continuing and Discontinued operations to Underlying EBITDA (and Underlying EBITDA margin), refer to section 1.12.4. For more details on commodity performance, refer to section 1.13.
- (2) Percentage contribution to Group Underlying EBITDA, excluding Group and unallocated items.

Table of Contents

How we contributed in FY2017

Figures are rounded to the nearest decimal point. For more information refer to the Economic Contribution Report 2017.

- (1) Calculated on an accrual basis.
- (2) Social investment target is one per cent of pre-tax profits invested in community programs, including cash and administrative costs, calculated on the average of the previous three years pre-tax profit. Priorities and focus areas are outlined in our Social Investment Framework, detailed in our Sustainability Report 2017. Additional social investment of US\$7.2 million (BHP Share) was made by our Equity Accounting Investments for a total social investment of US\$80.1 million.

The resources we produce help build cities, produce energy and provide developing nations with the resources they need to grow.

We are proud of the value we generate and how this contributes to building trust with the communities in which we operate.

The economic contribution we make is important. We bring capital and high-paying jobs to the communities in which we work, both within our assets and throughout the supply chain. We also create value for our shareholders, lenders and investors. In FY2017, our total direct economic contribution was US\$26.1 billion, including payments to suppliers, wages and employee benefits, dividends, taxes and royalties.

The taxes we pay enable governments to provide essential services to their citizens and invest in their communities for the future. We paid US\$4.7 billion globally in taxes, royalties and other payments to governments in FY2017. Our statutory effective tax rate was 39.7 per cent and our global adjusted effective tax rate was 34 per cent. Including royalties, this increases to 44 per cent.

For more information, refer to section 1.12.4.

Table of Contents

1.4.2 Where we are

BHP locations (includes non-operated)

Table of Contents

(1) Non-operated joint venture.

12

Table of Contents

1.5 Our strategy

Our strategy is to own and operate large, long-life, low-cost, expandable, upstream assets diversified by commodity, geography and market.

Our plan to grow value

Consistent with our strategy, we have a plan to create long-term shareholder value. This plan is focused on six key areas:

1. Cost efficiencies *focused on further gains*

Since FY2012, we have reduced unit costs across BHP by more than 40 per cent. Our simple portfolio, standardised systems and greater connectivity across our assets and commodities, position us to further improve productivity.

2. Latent capacity *attractive returns, limited risk*

We have further opportunities to optimise and debottleneck our existing mine, rig, port, rail and processing facilities. That means we can get more production, or replace production, from our existing infrastructure for lower cost. For example, we plan⁽¹⁾ to increase capacity at our Western Australia Iron Ore asset during FY2019 to a record 290 million tonnes per annum, by improving our rail signalling system and better utilising our equipment and infrastructure. This will help make full use of the port, rail network and mines we've already built.

3. Major projects *timed for value and returns*

We have a pipeline of potential growth projects that could create significant shareholder value over the long term, in particular in conventional oil, copper and coal. This includes the Mad Dog Phase 2 project, which has the potential capacity to produce up to 140,000 gross barrels of crude oil per day, and the Spence Growth Option. In the first 10 years of operation, incremental production from the Spence Growth Option is expected to be approximately 185 ktpa of payable copper in concentrate and 4 ktpa of payable molybdenum, with first production scheduled for the 2021 financial year. We are also continuing to investigate one of the best undeveloped potash resources in the world in Jansen in Canada. There are many ways we could realise the value of this project, but Board approval will be sought only if the project passes our strict investment hurdles and is in the best interests of our shareholders.

4. Exploration *positive results reduce risk for future wells*

We are focused on finding new oil and copper deposits through targeted exploration. Production of these commodities is declining, while demand is forecast to increase. Exploration is the lowest cost way to add these resources to the portfolio, and investing now means we can take advantage of lower exploration costs. We recently had positive drilling results at Wildling in the US Gulf of Mexico following the discovery of oil in multiple horizons. Together with the successful bid for Trion and positive drilling results in the Caribbean, this provides us with additional confidence.

5. Technology *improves safety, lowers cost and unlocks resource*

We will continue to develop and introduce new technology that increases efficiency, improves safety and unlocks resource. Our diverse portfolio enables us to adapt technology developed for one commodity to other areas of our business: for example, a tool that has been developed for assaying iron ore is now being trialled for use in our copper assets.

6. Onshore US *value and flexibility*

Our regular portfolio review has concluded that the Onshore US assets are non-core and we are pursuing options to exit our quality acreage. This will take time, which we will use productively to maximise the value of our acreage through disciplined development, larger completions, acreage swaps, gas hedging and divestments.

(1) Assumes all internal and third party approvals received.

Table of Contents

1.5.1 Focus areas

Three critical focus areas underpin our strategy: safety, culture and productivity.

Safety

We achieve nothing if we do not do it safely.

We seek to prioritise the health and safety of our people, our host communities and the environment.

We know that we can never take the safety of our people for granted. We reassess our safety risks and controls regularly. If anything changes (for example, new technology is developed, new risks emerge or we gather new information), then we adapt our approach as needed to make sure our people are as safe as possible.

The performance of all of our people is measured by how safe our workplaces are. We have a goal of zero fatalities, and our total recordable injury frequency (TRIF) is a key performance indicator throughout BHP.

For more information on our approach to safety and our safety performance, see section 1.10.3 and our Sustainability Report 2017 at bhp.com.

Culture

We focus on our culture as it enables performance.

We believe it is important for every employee to understand how their work contributes to achieving our strategy, work in an environment where it is safe to speak up and be able to take up their full accountability. Our Employee Perception Survey (EPS) results serve to guide us on areas where we have performed well, and areas that require further attention.

In FY2017, our leaders put in place tailored plans to increase care and trusted relationships within our teams attributes we have identified as critical in making the most of our Operating Model. These plans include local and BHP-wide priorities, including new leadership development programs focused on the identification and realisation of value and the management of risk. This work builds on years of investment in developing our leaders capabilities to engage and develop their teams and to lead change.

For more information on our culture and the actions we are taking to support it, see section 1.9.1.

Productivity

We have achieved significant productivity gains in recent years, helping us to produce our resources at significantly lower cost and achieve strong cash flows, even while commodity prices were low.

There is considerable value still to come from our assets and initiatives across BHP. The simplicity of our portfolio, the scale and quality of our ore bodies and oil and gas fields and our standardised systems and processes are all important attributes. When combined with a newly streamlined corporate structure, and centres of excellence in maintenance, projects and geoscience, we are well positioned to reduce costs and improve production even further.

For more on productivity, see section 1.6.

Table of Contents

1.5.2 Managing performance and risk

Corporate planning

Our corporate planning process is designed to deliver long-term, sustainable shareholder value.

The Board sets the long-term strategy for BHP, considering all our opportunities for the creation of long-term shareholder value. The long-term strategy is developed by integrating portfolio, commodity and asset-level outlooks and is underpinned by our strategic objectives.

Our corporate planning process is an annual process that is fundamental to creating alignment across the organisation; it guides the development of plans, targets and budgets to help us decide where to deploy our capital and resources. The process starts with planning to maximise opportunities for the long-term creation of shareholder value by understanding our strategic options, then focuses on medium and short-term plans to deliver against these objectives.

Plans are assessed at the Group level to balance the goal of maximising the value of our individual assets with the goal of creating value and mitigating investment risks at the portfolio level. We evaluate the range of investment opportunities and aim to optimise the portfolio based on our assessment of risk and returns. We then develop a long-term capital plan and guidance for the Group.

Assessment and monitoring

We review our strategy against a constantly changing external environment, to capture and manage emerging risks and opportunities and cascade them through our planning processes. Long-term scenario planning is used to evaluate our portfolio of assets and to help us identify new opportunities and test the robustness of our strategy over a range of possible outcomes.

We also use signals tracking to monitor near-term trends and events that may give an early indication of threats and opportunities identified from evaluating the long-term scenarios. Signals also support actions to position BHP to mitigate or benefit from these threats and opportunities, while helping to inform major portfolio investment decisions.

Risk management

Identifying and managing risk and opportunity are central to achieving our corporate purpose of creating long-term shareholder value.

We embed risk management in our critical business activities, functions, processes and systems through the following mechanisms:

Risk assessments we regularly assess known, new and emerging risks.

Risk controls we put controls in place over material risks, and periodically assess the effectiveness of those controls.

Risk materiality and tolerability evaluation we assess the materiality of a risk based on the degree of financial and non-financial impacts, including health, safety, environmental, community, reputational and legal impacts. We assess the tolerability of a risk based on a combination of residual risk and control effectiveness.

Table of Contents

We apply established processes when entering or commencing new activities in high-risk countries. These include risk assessments and supporting risk management plans to ensure potential reputational, legal, business conduct and corruption-related exposures are managed and legislative compliance is maintained.

For information on our principal risks, refer to section 1.8.3. For information on our risk management governance, refer to sections 2.13.1 and 2.14.

Capital management

Our Capital Allocation Framework aims to maximise the potential value of every dollar we earn for our shareholders.

We start by aiming to earn as much as we can through the safe and productive operation of our assets. We then put this capital to work to:

maintain our plant and equipment to enable safe and efficient operations over the long term;

keep our balance sheet strong, to give us stability and flexibility through good times and tough times;

reward our shareholders by paying out at least 50 per cent of our Underlying attributable profit in dividends at every period.

We then look at what would be the most valuable use for any excess capital that remains after these three priorities are met, and decide whether to:

further reduce our debt;

return more cash to shareholders through additional dividends or share buy-backs;

invest in growth, either through projects within our assets or through exploration or acquisitions, provided it will create more value than a share buy-back.

This disciplined and rigorous approach helps us to maximise the value of every dollar for our shareholders.

Table of Contents

1.6 Our performance

Key performance indicators

Our key performance indicators (KPIs) enable us to measure our sustainable development and financial performance.

These KPIs are used as direct and indirect measures in the short-term or long-term incentive remuneration arrangements for senior executives. Certain KPIs (Total recordable injury frequency, Greenhouse gas emissions, Underlying attributable profit, Underlying EBITDA and Total shareholder return) are used directly to calculate incentive outcomes (subject to certain adjustments as described in section 3) and the remainder (Community investment, Net operating cash flows and Long-term credit rating) are considered more broadly in determining final overall results.

Our Remuneration Report is contained in section 3 and provides information on our overall approach to executive remuneration, including remuneration policies and remuneration outcomes.

1.6.1 Non-financial KPIs

Sustainability KPIs

Total recordable injury frequency ⁽¹⁾

Definition

Total recordable injury frequency (TRIF) is an indicator in highlighting broad personal injury trends and is calculated based on the number of recordable injuries per million hours worked. TRIF includes work-related events occurring outside our operated assets from FY2015. In FY2015, we expanded our definition of work-related activities to include events that occur outside our operated assets where we have established the work to be performed and can set and verify the health and safety standards: such as an employee driving between two sites for work, in a BHP vehicle. TRIF does not include events at non-operated assets.

Link to strategy

We are committed to ensuring the safety and health of our people and this is supported by *Our Charter* value of Sustainability.

FY2017 performance

Tragically one of our colleagues, Rudy Ortiz, died at Escondida in Chile in October 2016.

Our TRIF performance in FY2017 was 4.2 per million hours worked, a two per cent decrease on the previous financial year. This represents a decrease of nine per cent over five years.

For information on our approach to health and safety and our performance, refer to section 1.10.3.

- (1) Includes data for Continuing and Discontinued operations for the financial years being reported.

Table of Contents

Greenhouse gas emissions ⁽¹⁾ (6)

Definition

Greenhouse gas (GHG) emissions are measured according to the World Resources Institute/World Business Council for Sustainable Development Greenhouse Gas Protocol. This data covers our operated assets (including, until 8 May 2015, assets that now form part of South32).

Link to strategy

The global challenge of climate change remains a priority for BHP and is core to our strategic decision-making. Our operational GHG emissions are monitored and our performance is tracked against our target.

FY2017 performance

In FY2012, we set ourselves the target of limiting our overall emissions in FY2017 to below our FY2006 baseline, while growing our business. With our FY2017 GHG emissions of 16.3 million tonnes of carbon dioxide equivalent (CO₂-e) being 21 per cent below the adjusted FY2006 baseline, we have successfully achieved our ambitious target. Projects at our Continuing operations tracked since FY2013 as part of our current GHG target achieved more than 975,000 tonnes CO₂-e of annualised abatement in FY2017.

For more information on our GHG emissions, refer to section 1.10.6.

⁽¹⁾ Measured according to the World Resources Institute/World Business Council for Sustainable Development Greenhouse Gas Protocol.

- (2) In order to compare the total GHG emissions in FY2015 to other financial years, GHG emissions (estimated) from South32 assets between the date of demerger and 30 June 2015 have been added to FY2015 GHG emissions as shown above.
- (3) Scope 2 refers to indirect GHG emissions from the generation of purchased electricity and steam that is consumed by operated assets (calculated using the market-based method).
- (4) Scope 1 refers to direct GHG emissions from operated assets.
- (5) Our FY2006 baseline was adjusted as necessary for material acquisitions and divestments based on asset GHG emissions at the time of the applicable transaction.
- (6) Our GHG target for our operated assets is to keep our absolute FY2017 GHG emissions below our adjusted FY2006 baseline.

Table of Contents

Social investment ⁽¹⁾

Definition

Our voluntary social investment is calculated as one per cent of the average of the previous three years' pre-tax profit. For FY2017, as pre-tax profits for the period FY2014 to FY2016 were lower than in recent periods, social investment has also decreased. Expenditure includes BHP's equity share for operated and non-operated joint ventures, and comprises cash, administrative costs and contributions to our BHP supported charities and the BHP Billiton Foundation.

Link to strategy

We believe in addition to operating a responsible and ethical company, we can make a broader contribution to the communities in which we operate and support *Our Charter* value of Sustainability.

FY2017 performance

Our voluntary social investment totalled US\$80.1 million. This included US\$75.1 million contributed to community development programs and associated administrative costs as well as a US\$5 million contribution to the BHP Billiton Foundation.

For more information on our voluntary social investment, refer to section 1.10.4.

⁽¹⁾ Includes BHP's equity share for both operated and non-operated joint ventures. Data prior to FY2016 includes payments made by operations demerged with South32.

Capital management KPIs

Total shareholder return (TSR)

Definition

Total shareholder return (TSR) shows the total return to the shareholder during the financial year. It combines both movements in share prices and dividends paid (which are assumed to be reinvested).

Link to strategy

TSR measures BHP's performance in terms of shareholder wealth generation, which aligns to our purpose as presented in *Our Charter* and enables the comparison of our performance with that of our peer companies.

FY2017 performance

TSR was 31.1 per cent during FY2017 as a result of increases in both the BHP share price and the dividends paid. From 1 July 2012 to 30 June 2017, BHP underperformed the sector peer group by 8.7 per cent and underperformed the Index TSR by 101 per cent.

For more information on our long-term incentive performance outcomes to June 2017, refer to section 3.3.3.

Table of Contents

Long-term credit rating

Definition

Credit ratings are forward looking opinions on credit risk. Standard & Poor's and Moody's credit ratings express the opinion of each agency on the ability and willingness of BHP to meet its financial obligations in full and on time.

Link to strategy

The balance sheet is an enabler of strategy. An appropriately structured balance sheet enables BHP to act on value accretive opportunities at low points in the cycle and facilitate shareholder returns through the cycle. We aim to maintain a strong balance sheet consistent with seeking to achieve and maintain a solid 'A' credit rating.

FY2017 performance

Standard & Poor's credit rating of BHP remained at the A level throughout FY2017. It affirmed this rating and changed its outlook on 20 January 2017 from negative to stable. Moody's maintained its credit rating of BHP at A3 throughout FY2017 and improved its outlook from stable to positive on 3 May 2017.

For more information on our liquidity and capital resources, refer to section 1.12.3.

Table of Contents

1.6.2 Financial KPIs and performance overview

Financial KPIs

Significantly higher prices have improved our margins, generated strong cash flow, reduced net debt and, in line with our financial performance, increased our dividends.

Profits and earnings

Attributable profit of US\$5.9 billion includes an exceptional loss of US\$842 million (after tax). This compares to an attributable loss of US\$6.4 billion, including an exceptional loss of US\$7.6 billion (after tax), in FY2016. The FY2017 exceptional loss related to the Samarco dam failure, Escondida industrial action and Chilean withholding tax paid at a concessional rate, partially offset by the reimbursement received on cancellation of the Carooona exploration licence. The FY2016 exceptional loss related to the impairment of our Onshore US assets, the Samarco dam failure and global taxation matters.

Our Underlying attributable profit was US\$6.7 billion (FY2016: US\$1.2 billion).

We reported Underlying EBITDA of US\$20.3 billion, with higher prices, controllable cash cost improvements and other net movements (in total US\$9.4 billion) more than offsetting the impacts of unfavourable exchange rate movements, inflation and one-off items (in total US\$1.4 billion).

Cash flow and balance sheet

Our Net operating cash flow of US\$16.8 billion reflects higher commodity prices and further cash cost efficiencies.

We continued to strengthen our balance sheet with a reduction in net debt of US\$9.8 billion to finish the period at US\$16.3 billion (FY2016: US\$26.1 billion). This reduction reflects strong free cash flow generation during the period as well as non-cash adjustments of US\$0.6 billion related to a fair value adjustment of US\$1.2 billion from interest rate and foreign exchange rate movements, partially offset by the recognition of the Kelar finance lease of US\$0.6 billion.

Our gearing ratio is 20.6 per cent (FY2016: 30.3 per cent).

Table of Contents

Reconciling our financial results to our key performance indicators

(1) Represents amounts attributable to non-controlling interests with respect of the Escondida industrial action (gross expense of US\$(232) million; tax benefit of US\$68 million; net expense of US\$(164) million).

For more information on financial performance and alternate performance measures, refer to section 1.12.

Table of Contents

Capital management

We achieved strong capital management results in FY2017. We have focused on low-cost, high-return latent capacity projects, which has allowed us to reduce capital expenditure. We strengthened our balance sheet and our dividend policy enables the stability and flexibility to create value and reward shareholders in a more volatile environment.

Free cash flow

Net operating cash flow of US\$16.8 billion and free cash flow⁽¹⁾ of US\$12.6 billion in FY2017 were underpinned by higher commodity prices, strong operating performance and improved capital productivity. Our free cash flow position was our second highest on record and all operating assets were free cash flow positive.

We continued to strengthen our balance sheet through debt reduction (see cash flow and balance sheet commentary on the preceding pages).

Our dividend policy provides for a minimum 50 per cent payout of Underlying attributable profit at every reporting period. The minimum dividend payment for the second half was 33 US cents per share. Recognising the importance of cash returns to shareholders, the Board has determined to pay an additional amount of 10 US cents per share, taking the final dividend to 43 US cents per share which is covered by free cash flow generated in FY2017. In total, dividends of US\$4.4 billion (83 US cents per share, an increase of 177 per cent from FY2016) have been determined for FY2017, including additional amounts of US\$1.1 billion.

Capital and exploration expenditure reduced by 32 per cent to US\$5.2 billion in FY2017, as we focused on capital efficient latent capacity projects and exercised flexibility in our Onshore US plans. Capital and exploration expenditure is expected to increase to US\$6.9 billion in FY2018. The increase in expenditure compared to the prior year reflects continued investment in high-return latent capacity projects, increased Onshore US drilling activity and approval of Mad Dog Phase 2 and the Spence Growth Option.

⁽¹⁾ For more information on the reconciliation of alternate performance measures, refer to section 1.12.4.

Productivity and costs

Productivity gains (which represent changes in controllable cash costs, changes in volumes attributed to productivity and changes in capitalised exploration) of US\$1.3 billion were achieved for the period, with total annualised productivity gains of more than US\$12 billion accumulated over the last five years. Productivity gains were lower than expected, largely as a result of volumes at the lower end of expected ranges and increased exploration expenditure, including the successful bid for Trion in Mexico.

Improvements continue to be realised across the portfolio. We expect to deliver a further US\$2.0 billion of productivity gains over the two years to the end of FY2019, with gains weighted to the second year.

Table of Contents

Group copper equivalent unit costs declined by four per cent compared to FY2016. Escondida and Western Australia Iron Ore (WAIO) unit cash costs decreased by 17 per cent to \$0.93 per pound (excluding the impact of the industrial action) and three per cent to US\$14.60 per tonne, respectively. Conventional petroleum and Queensland Coal unit costs increased by two per cent and eight per cent, respectively. Escondida unit costs were seven per cent lower than expected due to continued productivity improvements and favourable inventory movements. If costs related to the industrial action were included, Escondida unit costs would have been US\$1.13 per pound (compared to US\$1.12 per pound in FY2016). WAIO unit costs declined due to reductions in labour and contractor costs, and productivity improvements. Conventional petroleum unit costs were higher due to lower volumes as a result of planned maintenance at Atlantis and natural field decline. Queensland Coal unit costs were higher as sales volumes were impacted by Cyclone Debbie.

For more information, refer to section 1.12.2 and 1.6.3.

Case study: Driving value through excellence in maintenance

Achieving excellence in maintenance has the potential to drive real value for BHP. We have set ourselves the ambitious target of saving an aggregated US\$1.2 billion in maintenance costs across BHP by the end of FY2022 and reducing down time by 20 per cent. We plan to do this by focusing on defect elimination, excellence in planning and scheduling, and safely embedding optimised maintenance strategies.

Across BHP's operations, we use more than 3,000 machines, including 1,300 trucks, around 400 loaders, 450 dozers, 240 drills, 200 excavators, and more. We also rely on a variety of fixed plant equipment to process our commodities. All this equipment currently costs around US\$3.5 billion annually to maintain.

BHP has created the Maintenance Centre of Excellence to partner with our operations with the goal of delivering safe, sustainable improvement in our equipment performance. The Centre aims to utilise BHP's scale and draws on the deep expertise, data and systems we hold across our business to reduce cost, cut unplanned down time, improve production and ensure our equipment is safe and reliable for our people.

We have established regional planning hubs in Brisbane, Perth and Adelaide, co-located with supply chain and maintenance strategy teams, to enable work to be more accurately planned further in advance. The goal is to improve supply chain performance, making frontline maintenance teams more effective, which in turn leads to improved availability and reduced cost.

The Centre's work to date has reduced master data errors, improved planning lead times and accuracy, and reduced life-of-asset costs. One example is the equipment strategy for our most important haul truck, the Caterpillar 793F, almost 300 of which are in use in BHP's operations around the world. We brought together a team of experts from our Coal, Iron Ore, Copper, Technology and Supply teams to identify how to maximise the value of this truck based on the function it performs in our mining operations. By optimising the maintenance and supply chain strategies, and setting operating limits for how we use these trucks in the field, we have reduced costs by a projected 20 per cent across the remaining life of the fleet, and improved availability.

Another example is our Liebherr T282 haul trucks. By standardising pit stop servicing improvements, implementing preventative activities, such as targeted electrical component inspections for identified problem areas, and installing specific component updates and parts, we expect to reduce costs by a projected 18 per cent across the remaining life of the fleet. Similarly, for our fleet of D10 and D11 dozers, we expect to reduce costs by a projected 18 per cent across

the remaining life of the fleet as a result of improvements to undercarriage, hydraulics and power train strategies.

Over the next three years and beyond, the Centre intends to work through BHP's top 70 asset classes to accelerate the delivery of these productivity improvements. This significant program of work will focus on improving the end-to-end performance of these assets and the maintenance systems that support them to generate a step change in safety, equipment availability and cost performance.

Table of Contents**1.6.3 Commodity performance overview****Commodity prices**

The following table shows the prices for our most significant commodities for the years ended 30 June 2017, 2016 and 2015. These prices represent selected quoted prices from the relevant sources as indicated and will differ from the realised prices due to differences in quotation periods, quality of products, delivery terms and the range of quoted prices that are used for contracting sales in different markets. For information on realised prices, refer to section 1.13.

Year ended 30 June	2017 Closing	2016 Closing	2015 Closing	2017 Average	2016 Average	2015 Average	2017 vs 2016 Average
Natural gas Henry Hub ⁽¹⁾ (US\$/MMBtu)	3.0	2.9	2.8	3.0	2.2	3.3	33%
Natural gas Asian Spot LNG ⁽²⁾ (US\$/MMBtu)	5.5	5.2	7.3	6.4	6.1	9.7	5%
Crude oil (Brent) ⁽³⁾ (US\$/bbl)	47.4	48.4	61.1	49.6	43.2	73.9	15%
Ethane ⁽⁴⁾ (US\$/bbl)	10.3	9.7	8.4	9.5	7.7	8.6	24%
Propane ⁽⁵⁾ (US\$/bbl)	25.1	21.7	16.3	24.9	17.9	29.3	39%
Butane ⁽⁶⁾ (US\$/bbl)	30.8	28.9	23.9	33.3	24.2	36.9	38%
Copper (LME cash) (US\$/lb)	2.7	2.2	2.6	2.4	2.2	2.9	10%
Iron ore ⁽⁷⁾ (US\$/dmt)	63.0	55.0	59.5	69.5	51.4	71.6	35%
Metallurgical coal ⁽⁸⁾ (US\$/t)	148.5	91.5	88.0	190.4	81.6	102.9	133%
Energy coal ⁽⁹⁾ (US\$/t)	82.5	56.5	61.7	80.5	53.4	64.4	51%
Nickel (LME cash) (US\$/lb)	4.2	4.3	5.3	4.6	4.2	7.0	9%

(1) Platts Gas based on Henry Hub typically applies to gas sales in the US gas market.

(2) Platts Liquefied Natural Gas Delivery Ex-Ship (DES) Japan/Korea Marker typically applies to Asian LNG spot sales.

(3) Platts Dated Brent a benchmark price assessment of the spot market value of physical cargoes of North Sea light sweet crude oil.

(4) OPIS Mont Belvieu non-Tet Ethane typically applies to ethane sales in the US Gulf Coast market.

(5) OPIS Mont Belvieu non-Tet Propane typically applies to propane sales in the US Gulf Coast market.

(6) OPIS Mont Belvieu non-Tet Normal Butane typically applies to butane sales in the US Gulf Coast market.

- (7) Platts 62 per cent Fe Cost and Freight (CFR) China used for fines.
- (8) Platts Low-Vol hard coking coal Index FOB Australia representative of high-quality hard coking coals.
- (9) GlobalCoal FOB Newcastle 6,000kcal/kg NCV typically applies to coal sales in the Asia Pacific market.

Table of Contents**Impact of changes to commodity prices**

The prices we obtain for our products are a key driver of value for BHP. Fluctuations in these commodity prices affect our results, including cash flows and asset values. The estimated impact of changes in commodity prices in FY2017 on our key financial measures is set out below.

	Impact on profit after taxation from Continuing and Discontinued operations (US\$M)	Impact on Underlying EBITDA (US\$M)
US\$1/bbl on oil price	48	73
US¢10/MMBtu on US gas price	17	28
US¢1/lb on copper price	18	26
US\$1/t on iron ore price	142	202
US\$1/t on metallurgical coal price	23	33
US\$1/t on energy coal price	10	14
US¢1/lb on nickel price	1	1

1.7 Samarco**The Fundão dam failure**

On 5 November 2015, the Fundão tailings dam operated by Samarco Mineração S.A. (Samarco) failed. Samarco is a non-operated joint venture owned by BHP Billiton Brasil Limitada (BHP Billiton Brasil) and Vale S.A. (Vale), with each having a 50 per cent shareholding.

A significant volume of mine tailings (water and mud-like mine waste) was released. Tragically, 19 people died – five community members and 14 people who were working on the dam when it failed. The communities of Bento Rodrigues, Gesteira and Paracatu were flooded. A number of other communities further downstream in the states of Minas Gerais and Espírito Santo were also affected by the tailings, as was the environment of the Rio Doce basin.

Our response

Our commitment to do the right thing for the people and the environment is unwavering.

Our initial priority was to support Samarco in the humanitarian response and ensure the safety of people and the environment. We have now moved from that emergency phase to a more strategic, structured way of working, which is focused on engaging with the affected communities to provide the solutions they need. This work is being conducted through Fundação Renova.

Fundação Renova

Fundação Renova is implementing programs to restore the environment and rebuild the communities, as set out in the Framework Agreement with the relevant Brazilian authorities that was signed in March 2016 (see section 6.5 Legal proceedings for more information on the Framework Agreement). Fundação Renova is a not-for-profit, private

foundation, named after the Portuguese word for renew . It was established by BHP Billiton Brasil, Vale and Samarco, in accordance with the Framework Agreement, and became operational on 2 August 2016.

Table of Contents

Fundação Renova's Chief Executive is Roberto Waack, a biologist with an extensive background in sustainability-related organisations, including World Wide Fund for Nature (WWF) Brazil, Global Reporting Initiative, Forest Stewardship Council, Ethos Institute and the Brazilian Biodiversity Fund. Fundação Renova is governed by a Board of Governors, comprised of representatives nominated by BHP Billiton Brasil, Vale, Samarco and the Interfederative Committee. Its governance structure also comprises a Fiscal Council, Advisory Council, a Compliance Manager and an Ombudsman. The Advisory Council includes representation from impacted communities, and community development and education experts. The activities of Fundação Renova are overseen by an independent Interfederative Committee of 12 representatives from the Brazilian Government and environmental agencies, who monitor, guide and assess the progress of actions agreed in the Framework Agreement and are implemented by an Executive Board, comprised of members appointed by the Board of Governors. Fundação Renova's staff of 400 people is supported by around 2,500 contractors and a small number of BHP employees seconded to the organisation who provide specialist environmental, social, legal, governance and communication advice. Fundação Renova's budget for CY2017 was R\$1.94 billion (approximately US\$590 million).

To address the diversity, scale and complexity of the programs, Fundação Renova collaborates and engages broadly with affected communities, scientific and academic institutions, regulators and civil society. An independent scientific technical and advisory panel, to be managed by the International Union for Conservation of Nature (IUCN), will provide expert advice to Fundação Renova. The panel is to be guided by the principles of independence, transparency, accountability and engagement, and its reports and recommendations will be publicly available. Chaired by Yolanda Kakabadse, currently President of WWF International, the panel intends to hold its first meeting prior to the end of CY2017.

Resettlement

Fundação Renova is relocating and rebuilding the communities of Bento Rodrigues, Paracatu and Gesteira, in consultation with the affected community members. The relocation process involves the identification and acquisition of land, design and planning for the urban development, including all services and reconstruction of public buildings (schools, health centres, squares, covered sports grounds and religious buildings) and construction of new houses for the affected people. The resettlement also involves the employment of community members and provision of support services to help them resume their way of life.

Resettlement is progressing, with active participation of the communities. Residents collectively designed criteria for potential sites for the new communities and applied the criteria to agree a short list of options from a larger list of possible locations. They visited the different relocation options, viewed 3D videos and received booklets containing information such as soil quality, water, geology and vegetation. In addition, residents saw models of each site, to better assess different areas.

The communities identified their new locations through a voting process overseen by an independent audit company, and urban planning has commenced in consultation with the communities. However, issues with the sale of the land selected by Gesteira residents have delayed the process. Fundação Renova is now investigating alternatives for the residents' consideration.

Remediation

Geochemical studies have concluded that the tailings material is non-toxic and does not pose human health concerns.

Fish surveys were conducted along stretches of the Rio Doce. The surveys identified the presence of fish in all areas studied, with experts concluding that it is likely that repopulation of Rio Doce fish stocks is being complemented by

stocks in the river's tributaries. However, precautionary fishing bans remain in place while definitive studies to assess any potential impacts on fish tissue metal levels or fish stocks are completed.

Areas to be rehabilitated have been temporarily revegetated with fast growing species to reduce potential for erosion while longer-term solutions are developed.

Table of Contents

Areas with the greatest potential to act as sources of sediment and contribute to turbidity were prioritised according to independent expert consultant reviews.

The majority of the emergency works for stabilisation of flood plains, tributaries and river banks in the priority areas are completed. Erosion stabilisation activities in non-priority areas will continue for the remainder of 2017.

Environmental compensation programs to rehabilitate 40,000 hectares of degraded land are in the design stage, with consultants engaged and consultation with regulatory and community stakeholders having commenced. Over 500 degraded natural springs have been revegetated as part of a Framework Agreement commitment to rehabilitate 5,000 springs over 10 years.

The program to build additional retention structures to contain tailings by December 2016 was completed successfully, controlling tailing releases during the wet season.

Compensation and financial assistance

Around 8,000 financial assistance cards have been distributed to people whose livelihoods were impacted by the dam failure, with the majority of those being for fishermen who are unable to fish following the dam failure.

The mediated compensation program is being rolled out throughout the impacted regions. It is intended to fairly compensate all individuals impacted by the dam failure. The program was designed based on inputs from public attorneys, local judges, technical entities and impacted families.

Around 400,000 people are expected to be entitled to compensation for interruption to water supplies along the Rio Doce. As at 22 July 2017, over 186,000 claims have been accepted for payment and 82,000 claims have been resolved. Over 14,000 families have registered for compensation for other damages, such as property loss or business impacts.

Lessons learned

Non-operated minerals joint ventures

Following a review of governance at our non-operated minerals joint ventures (NOJV), we have focused on the following actions.

Risk management and processes: we have developed a global standard which defines the requirements for managing BHP's interest in our NOJVs. These minimum requirements include a framework for identification and management of risks to BHP from NOJVs, which is consistent with the risk management framework for identifying and managing risks across BHP. The global standard covers matters such as audits and input on succession planning for NOJV leadership positions. We are working closely with our NOJV partners with a view to establishing priority areas, communication strategies and workplans in line with this global standard.

Accountability and structure: the oversight of all our NOJVs has been centralised in our Minerals Americas asset group. We have created a NOJV leadership team and supporting team, who are a single point of accountability with responsibility for all NOJVs.

People: we have added to the capabilities of our teams to oversee the risks and opportunities at each NOJV. Further resources have been allocated to provide functional support, and for projects, governance and planning. This dedicated

NOJV team of subject matter experts provides support to the NOJVs. These experts also contribute to discussions on governance improvement and value generation opportunities.

Our focus for FY2018 is on our governance processes for our NOJVs, including further development and implementation of specific standards for how BHP interacts with our NOJVs, based on best-practice governance benchmarking, and working with our NOJV partners to improve governance and assurance processes.

Table of Contents

Dams and tailings management

A risk review was conducted of all significant dams across our operated assets and the assets of our NOJVs in FY2016, which confirmed the dams to be stable.

Tailings dams require continuous monitoring and maintenance, so our focus has shifted to risk identification, governance and monitoring programs. We have identified opportunities for improvements to dam governance and risk management at our operated assets and at NOJVs. The following actions have been taken to address these issues:

Dam safety reviews consistent with the Canadian Dam Association's Dam Safety Guidelines are underway at all significant operated and non-operated sites, and are expected to be completed by December 2017. Those reviews include considering how climate change might impact the risk and design requirements for those dams, and will be repeated on a regular basis.

A centralised function for dams and tailings governance and risk management has been created, to support our site management to apply appropriate dam risk management practices and build internal capability across the Group.

We have investigated potential technological solutions for better dam management, in conjunction with leading technology providers. We have identified monitoring and early warning as having the greatest potential to enhance dam risk controls in the near term. We are also examining the feasibility of additional technologies to further enhance controls for dams.

BHP has used the lessons from the dam risk review to contribute to a broader tailings storage review by the International Council on Mining & Metals (ICMM). That review has resulted in the ICMM releasing a Tailings Position Statement, including a governance framework and benchmarks, which we intend to adopt.

Our focus for FY2018 will be on:

the implementation of a stewardship program;

progressing monitoring and early warning technologies and emergency response preparedness;

further development of BHP's dams and tailings controls and standards.

Legal proceedings

On 18 January 2017, BHP Billiton Brasil, together with Vale and Samarco, entered into a Preliminary Agreement with the Federal Prosecutors' Office in Brazil, which outlines the process and timeline for further negotiations towards a settlement regarding the R\$20 billion (approximately US\$6.1 billion) public civil claim and the R\$155 billion (approximately US\$47 billion) Federal Public Prosecution Office claim relating to the dam failure.

The Preliminary Agreement also provides for the appointment of experts to advise the Federal Prosecutors on social and environmental remediation and the assessment and monitoring of the programs under the Framework Agreement. The expert advisors' conclusions will be considered in the negotiation of a final settlement arrangement with the Federal Prosecutors.

Under the Preliminary Agreement, BHP Billiton Brasil, Vale and Samarco agreed to provide an interim security comprising R\$1.3 billion (approximately US\$395 million) in insurance bonds, R\$100 million (approximately US\$30 million) in liquid assets, a charge of R\$800 million (approximately US\$245 million) over Samarco's assets and R\$200 million (approximately US\$60 million) to be allocated within the next four years through existing Framework Agreement programs in the Municipalities of Barra Longa, Rio Doce, Santa Cruz do Escalvado and Ponte Nova.

The Preliminary Agreement suspends a R\$1.2 billion (approximately US\$365 million) injunction order under the R\$20 billion public civil claim and requests a suspension of that claim with a decision from the 12th Court of Belo Horizonte pending. The Court also suspended the R\$155 billion Federal Prosecution Office claim, including a R\$7.7 billion (approximately US\$2.3 billion) injunction request. The suspended legal proceedings and injunctions may be reinstated if a final settlement arrangement is not agreed by 30 October 2017.

For more information on legal proceedings relating to the Samarco dam failure, refer to section 6.5.

Restart

Restart of Samarco's operations remains a focus but is subject to separate negotiations with relevant parties and will occur only if it is safe, economically viable and has the support of the community. Resuming operations requires the granting of licences by state and federal authorities, community hearings and an appropriate restructure of Samarco's debt.

Table of Contents

1.8 Our operating environment

1.8.1 Market factors and trends

We produce raw materials that are essential to modern life. Our success is tied to sustainable growth and development of both emerging and developed economies and, at the same time, is integral to driving that growth.

As a result, our performance is influenced by a wide range of factors that drive a complex relationship between supply and demand. In line with our purpose of creating long-term shareholder value, we navigate those market factors by thinking and planning in decades. Our diverse portfolio of long-life, low-cost assets allows us to adapt to the changing needs of our customers and protect long-term shareholder value.

Key trends

Our long-term view for our markets remains positive. Population growth and rising living standards will continue to drive demand for energy, metals and fertilisers for decades to come. New demand centres will emerge where the twin levers of industrialisation and urbanisation are still immature today. Technology will advance, creating both opportunities and threats. International responses to climate change will evolve.

Against that backdrop, we are confident we have the right assets in the right commodities, with demand diversified by end-use sector and geography. Our exploration and acquisition efforts are critical to maintaining that advantage, as they create a pipeline of products to meet future demand (see section 1.8.2). Exploration is inherently risky (see section 1.8.3) as the geoscience used for locating and accessing resources is complex and uncertain. Exploration and acquisition are also subject to political, infrastructure and other risks that can impact the accessibility of resources.

In the near term, challenges remain. After a period of weak prices, several of our commodities currently trade above long-term forecasts. In addition, there has been a marked rise in geopolitical uncertainty and protectionism, which has the potential to inhibit international trade, weigh on business confidence and restrain job creation and investment.

Short term

Political and policy uncertainty

Political uncertainty has continued during FY2017 and protectionist policies that have the potential to curb international trade are becoming more common. Such policies are harmful for consumer purchasing power, and by extension, business confidence, investment and jobs.

Modest economic growth

Protectionism and political uncertainty lower the achievable ceiling for global economic growth while they remain in place. We expect world growth to remain in the 3-3.5 per cent range, on average, in coming years.

Table of Contents

Price volatility

Commodities markets will move back towards balance at various speeds, while prices are expected to remain volatile.

Petroleum market rebalances

Global demand for petroleum is expected to surpass global supply in the short term. Production outside the United States is likely to remain relatively flat and current excess inventories are likely to decline.

Medium term

New supply

New supply, particularly of copper and petroleum, is expected to be required as demand grows and current resources are depleted.

Steeper costs

The costs of producing some commodities are likely to rise, particularly for oil and copper, as existing resources deplete and new resources come from lower-quality deposits that are more costly to access.

Sustainable productivity rewarded

As costs rise, large producers are likely to benefit, as they can take advantage of scale and disciplined production practices.

Asian growth

China still offers rich opportunities due to its large scale, ongoing urbanisation and the Belt and Road initiative, despite its ongoing structural shift away from manufacturing towards services. India has significant potential for high growth. Economic reforms appear to be maintaining their momentum, which will be critical to realising that potential.

Long term

Growth in population, wealth

Demand for commodities is expected to increase to meet the needs of the world's growing population. Global energy needs are expected to increase by around 25 per cent in the next 20 years, with much of that demand coming from Asia, particularly China and India.

Urbanisation and new demand centres

New demand centres will emerge where the twin levers of industrialisation and urbanisation are still immature today. They include nations in South Asia, South East Asia, Africa and Latin America.

Decarbonisation

The move towards a low-carbon economy will continue to drive significant change. Environmental and risk concerns will drive increasing diversification of national energy sources.

Table of Contents

Technology

Technology can substantially alter the markets for and uses of our products. However, markets for essential products such as ours are typically slow to change. Our diversified portfolio provides some protection against disruption of demand caused by technological change.

Global long-term outlook

We anticipate ongoing increases in global living standards over the longer term, with urbanisation, industrialisation and trade expected to underpin commodity demand. The development of emerging economies in South and South East Asia should drive particular demand for industrial metals, energy and fertilisers.

Key geographies

Our customers are geographically diverse. We have structured our business to flexibly meet changing demands as global market dynamics shift. Developments in a particular country can affect the demand for our products in that country and in any countries that supply goods for import to that country.

China

China is the largest consumer of our commodities, with 49 per cent of our revenues being derived from China. China is the largest manufacturing and exporting economy in the world and the second-largest importing economy, so its performance is also a significant factor in the health of the global economic system.

China's GDP growth in the short term is expected to remain steady. Growth is expected to slow modestly in FY2018, while remaining within the official GDP target range of between 6.5 and 7.0 per cent. We expect to see a cooling of growth rates in the housing and automobile markets, while infrastructure investment is expected to provide stability as overall growth slows.

China's policymakers are likely to continue to seek a balance between the pursuit of reform and the maintenance of macroeconomic and financial stability. We expect a continuation of current efforts to reduce debt and deal with housing inflation.

In the long term, China's economic growth is expected to slow progressively as the working age population falls and the capital stock matures, with productivity reforms offsetting these impacts to some degree.

China's economic structure is expected to continue to move from industry to services and growth drivers will shift from investment and exports towards consumption. This structural change is likely to produce a less-volatile underlying growth rhythm in the long run.

United States

As both a major producer and consumer of our products, the United States is important to our performance. As most of our transactions are denominated in US dollars, fluctuations in that currency can also influence our performance.

The medium-term outlook for the US economy is uncertain. Consumer confidence and spending are expected to remain strong, but a slowdown in the automotive and housing sectors may impact demand. Strong currency and higher interest rates may also reduce demand. Progress on growth enhancing infrastructure spending and tax reform has

been slow and monetary conditions are expected to tighten further.

Protectionist policies would cut consumer purchasing power and productivity growth. Purchasing power is reduced through higher prices for imported goods and domestic goods with imported components. Reduced competition and the unintended consequences of restrictive migration policies on the free flow of world-class talent would dent productivity growth.

Table of Contents

Japan

Japan's demographics (ageing population and extremely low birth rate) and its public debt burden are constraints on long-term growth. Without population, immigration and microeconomic reform, growth is likely to stagnate.

In the short to medium term, with monetary and fiscal policy proving ineffective at spurring domestic demand, any sustained lift in Japanese growth is likely to have to come from external sources.

Eurozone

Europe's short-term outlook has improved, with most countries in the region now experiencing growth in domestic demand. While financial fragilities remain, downside risks have been reduced.

Significant microeconomic reform is required in Europe's southern regions to prevent longer run stagnation. In the more internationally competitive northern regions, lower savings rates would boost growth at home and help to rebalance demand within the common currency zone.

India

India's short-term outlook is solid, driven by consumer demand. Economic reform that boosts the supply of basic infrastructure is critical to India's ability to take advantage of its demographic profile and successfully urbanise.

Progress on key reforms, including GST, real estate regulation and demonetisation of high denomination bills has been encouraging.

We expect India's GDP growth to average more than seven per cent annually over FY2016 - FY2020, with energy and metals demand rising at a similar pace.

Exchange rates

We are exposed to exchange rate transaction risk on foreign currency sales and purchases. Operating costs and costs of locally sourced equipment are influenced by fluctuations in local currencies, primarily the Australian dollar and Chilean peso. The majority of our sales are denominated in US dollars and we borrow and hold surplus cash predominately in US dollars. Those transactions and balances provide no foreign exchange exposure relative to the US dollar presentation currency of the Group.

The US dollar remained relatively stable during FY2017 against our main local currencies.

We are also exposed to exchange rate translation risk in relation to net monetary liabilities, being our foreign currency denominated monetary assets and liabilities, including certain debt and other long-term liabilities.

Interest rates

We are exposed to interest rate risk on our outstanding borrowings and investments. Our policy on interest rate exposure is to pay on a US dollar floating interest rate basis.

Our earnings are sensitive to changes in interest rates on the floating component of BHP's borrowings. Our main exposure is to the three-month US LIBOR benchmark, which increased by 65 basis points to an average of 0.99 per

cent in FY2017.

Table of Contents

1.8.2 Exploration

The world has abundant potential resources, but they are increasingly difficult to find and, for many resources, demand is increasing. For example, we estimate that demand for petroleum will increase by one per cent per year, while world production is expected to decline by three to four per cent per year by 2035.

A successful exploration program is the lowest cost way to add these resources to our portfolio. Innovation and discipline in exploration will be key to the discovery of new deposits. BHP has a proud history of successful exploration, since we first started mining silver, lead and zinc in Broken Hill over 130 years ago. We are building on that legacy; developing new technology and methods to identify and develop deposits. In this, we have the advantage of being the only global resource company that combines petroleum and minerals expertise. We are using that advantage to leverage science, technology and experience across our exploration program (see *Leveraging our exploration expertise to create value* on the next page).

Exploration strategy

Greenfield exploration is focused on copper and petroleum, and is the lowest cost way to build our portfolio of these assets. We are able to invest now, while others have cut back, which means we can take advantage of lower exploration costs. We are exploring for copper resources in Chile, Peru, Canada, South Australia and southwestern United States, and for petroleum liquids in the Gulf of Mexico, Trinidad and Tobago, and Western Australia. Like all investment decisions, these opportunities are carefully assessed and only pursued where they align with our strategy.

Exploration in FY2017

Petroleum

Our Petroleum exploration is informed by the results of an in-depth proprietary global endowment study. This study assesses the likelihood of significant hydrocarbon deposits and evaluates the viability of development and production of those deposits. Consistent with our strategy, we concentrate our efforts only in areas we feel have the potential to be high-quality assets: the Gulf of Mexico, the Caribbean and Western Australia.

In FY2017, we discovered gas at LeClerc in Trinidad and Tobago. Commercial evaluation of that discovery is well advanced: the region has large installed liquefied natural gas capacity and local petrochemical demand that is short of gas in the medium term.

Table of Contents

After finding oil at Shenzi North to the north of the operated Shenzi field in the US Gulf of Mexico in FY2016, we completed the nearby Caicos well in FY2017 and also discovered oil. The Caicos well reached a total depth of 9,198 metres and encountered oil in multiple horizons. Following these positive results, we accelerated our Wildling appraisal well and oil was discovered in multiple horizons in August 2017. Drilling of the Scimitar prospect, to the north of the Neptune field, is planned for FY2018.

Our exploration portfolio has been recently expanded with the acquisition of more leases in the Western Gulf of Mexico and the successful bid for the Trion discovered resource in Mexico's deepwater. We have a partnership with Pemex to appraise and further explore opportunities over the licence area. The appraisal program is underway and drilling is planned for the beginning of FY2019. The appraisal program will allow us to further define the opportunity and assess commerciality.

For more details on Petroleum exploration, refer to section 1.13.1.

Copper

Our copper exploration is focused on the search for large, high-quality copper deposits in Chile, Peru, Ecuador, North America and Australia. We continue to review other jurisdictions and opportunities to partner with third parties to counter the increasing exploration maturity of our existing geographies.

In Chile, Peru and North America, activities focused on identifying and testing targets. In Australia, geophysical targets were identified and developed for testing. In Ecuador, five concessions were awarded to BHP via an auction process and we made applications for additional concessions. Establishment of an in-country presence in Ecuador has progressed, with a temporary office being rented and employment opportunities posted locally.

Sharing of exploration methodologies between the Petroleum and Copper teams has led to better targets for copper (see *Leveraging our exploration expertise to create value* below) and better research and development of new technology for Petroleum exploration.

Case study: Leveraging our exploration expertise to create value

Creating future value will require a very different approach to exploration. Identifying new deposits will be more difficult and expensive than in the past, but the rewards if we get it right will be correspondingly greater.

BHP is investing in geoscience excellence as a core skill and fundamental value driver for our business. Drawing on our petroleum liquids expertise, we have developed a systems approach to exploration that considers the whole earth system (tectonics, erosion, sedimentation, climate and more) in deep time, to determine where deposits are most likely to have formed. From this, we can determine which areas to target for further investigation and development.

This approach gives us more confidence in the potential of targeted areas, earlier, at lower cost. We have the potential to gain early mover advantage in undervalued regions, and better target our exploration and development spend to create value.

Driven by our Geoscience Centre of Excellence, the systems approach is already delivering results. We brought together an expert team of geoscientists from across our petroleum and copper assets, and reviewed our model for targeting copper exploration. From approximately 3,000 land-based sedimentary basins worldwide identified by our

Petroleum business, we have selected around 200 with potential to contain copper deposits, and determined which to further investigate. As further data is collected, the certainty of finding a significant deposit improves.

Table of Contents**Exploration expenditure**

Our brownfield minerals exploration expenditure increased by three per cent in FY2017 to US\$120 million, while our greenfield expenditures decreased to US\$43 million. Expenditure on brownfield and greenfield minerals exploration over the last three financial years is set out below.

Year ended 30 June	2017 US\$M	2016 US\$M	2015 US\$M
Greenfield exploration	43	59	55
Brownfield exploration	120	116	194
Total minerals exploration	163	175	249

For more information on minerals exploration, refer to section 1.13.

Petroleum exploration

Petroleum exploration expenditure for FY2017 was US\$805 million, of which US\$473 million was expensed. Expenditure on Petroleum exploration over the last three financial years is set out below.

Year ended 30 June	2017 US\$M	2016 US\$M	2015 US\$M
Petroleum exploration	805	590	567

Our Petroleum exploration program had positive results in FY2017. We are pursuing high-quality oil plays in our three priority basins and a US\$715 million exploration program is planned for FY2018 as we progress testing of our future growth opportunities.

For more information on Petroleum exploration, refer to section 1.13.1.

Exploration expense

Exploration expense represents that portion of exploration expenditure that is not capitalised in accordance with our accounting policies, as set out in note 10 Property, plant and equipment in section 5.

Exploration expense for each segment over the last three financial years is set out below.

Year ended 30 June	2017 US\$M	2016 US\$M	2015 US\$M
Exploration expense			
Petroleum ⁽¹⁾	575	288	529
Copper	44	64	90
Iron Ore	70	74	38

Coal	9	18	20
Group and unallocated items ⁽²⁾	16	1	21
Total Group	714	445	698

(1) Includes US\$102 million (FY2016: US\$15 million; FY2015: US\$28 million) exploration expense previously capitalised, written off as impaired.

(2) Group and unallocated items includes functions, other unallocated operations, including Potash, Nickel West and consolidation adjustments.

Table of Contents

1.8.3 Principal risks

Robust risk assessment and viability statement

The Board has carried out a robust assessment of BHP's principal risks, including those that would threaten the business model, future performance, solvency or liquidity.

The Directors have assessed the prospects of BHP over the next three years, taking account our current position and principal risks.

The Directors believe a three-year viability assessment period is appropriate for the following reasons. BHP has a two-year budget, a five-year outlook and a 20-year strategic planning horizon. We have publicly stated our view that the outlook for the sector remains challenging and volatile in the short to medium term. This exchange rate and price volatility results in variability in plans and budgets. A three-year period strikes an appropriate balance between long and short-term influences on performance.

The viability assessment took into account, among other things, BHP's commodity price protocols, including low-case prices; the latest funding and liquidity update; the long-dated maturity profile of BHP's debt and the maximum debt maturing in any one year; the Group-level risk profile and the mitigating actions available should particular risks materialise; the Board strategy discussions, which provide a strategic review of BHP's markets and plans under divergent scenarios and consider available strategic options; the flexibility in BHP's capital and exploration expenditure programs under the enhanced Capital Allocation Framework; and the reserve life of BHP's minerals assets and the reserves-to-production life of our oil and gas assets.

The Directors' assessment also took account of additional stress-testing of the balance sheet against two hypothetical significant risk events: a well blow out in the Gulf of Mexico and a low-price environment.

The Directors were also mindful of the scenario analysis incorporated in BHP's corporate planning process. These scenarios help identify the key uncertainties facing the global economy and natural resources sector.

Taking account of these matters, and BHP's current position and principal risks, the Directors have a reasonable expectation that BHP will be able to continue in operation and meet its liabilities over the next three years.

Risk factors

External risks

Fluctuations in commodity prices (including sustained price shifts) and impacts of ongoing global economic volatility may negatively affect our results, including cash flows and asset values

The prices we obtain for our oil, gas and minerals are determined by, or linked to, prices in world markets, which have historically been subject to significant volatility. Our usual policy is to sell our products at the prevailing market prices. The diversity provided by our relatively broad portfolio of commodities does not necessarily insulate BHP from the effects of price changes. Fluctuations in commodity prices can occur due to price shifts reflecting underlying global economic and geopolitical factors, industry demand, increased supply due to the development of new productive resources or increased production from existing resources, technological change, product substitution and national tariffs. We are particularly exposed to price movements in minerals, oil and gas. For example, a US\$1 per tonne decline in the average iron ore price and US\$1 per barrel decline in the average oil price would have an

estimated impact on FY2017 Profit after taxation from Continuing and Discontinued operations of US\$142 million and US\$48 million, respectively.

For more information in relation to commodity price impacts, refer to section 1.6.3. Volatility in global economic growth, particularly in developing economies, has the potential to adversely affect future demand and prices for commodities. The impact of sustained price shifts and short-term price volatility, including the effects of unwinding the sustained monetary stimulus in the United States, and uncertainty surrounding the details of the United Kingdom's exit from the European Union, creates the risk that our financial and operating results, including cash flows and asset values, will be materially and adversely affected by short- or long-term volatility in the prevailing prices of our products.

Table of Contents***Our financial results may be negatively affected by exchange rate fluctuations***

The geographic diversity of the countries in which our assets are located means that our assets, earnings and cash flows are influenced by a variety of currencies. Fluctuations in the exchange rates of those currencies may have a significant impact on our financial results. The US dollar is the currency in which the majority of our sales are denominated and the currency in which we present our financial performance. Operating costs are influenced by the currencies of those countries where our assets and facilities are located and also by those currencies in which the costs of imported equipment and services are determined.

Reduction in Chinese demand may negatively impact our results

The Chinese market has been driving global materials demand and pricing over the past decade. Sales into China generated US\$18.9 billion (FY2016: US\$13.2 billion) or 49.3 per cent (FY2016: 42.6 per cent) of our revenue in FY2017. FY2017 sales into China by commodity included 61 per cent Iron Ore, 22 per cent Copper, 16 per cent Coal and 1 per cent Nickel (reported in Group and Unallocated). A continued slowing in China's economic growth and demand could result in lower prices for our products and materially and adversely impact our results, including cash flows.

Actions by governments, regulation, political, community or social events, judicial or community activism or unrest in the countries where our assets are located could have a negative impact on our business

There are varying degrees of political, judicial and commercial stability and activism in the locations in which we have operated and non-operated assets around the globe. At the same time, our exposure to emerging markets may involve additional risks that could have an adverse effect on the profitability of an operation. Risks in the locations in which we have operated and non-operated assets could include terrorism, civil unrest, judicial activism, community challenge or opposition, regulatory investigation, nationalisation, protectionism, renegotiation or nullification of existing contracts, leases, permits or other agreements, imposts, controls or prohibitions on the production or use of certain products, restrictions on repatriation of earnings or capital and changes in laws and policy, as well as other unforeseeable risks. Risks relating to bribery and corruption, including possible delays or disruption resulting from a refusal to make so-called facilitation payments, may be prevalent in some of the countries where our assets are located. If any of our major assets are affected by one or more of these risks, it could have a material adverse effect on our assets in those countries, as well as BHP's overall operating results, financial condition and prospects.

Our operated and non-operated assets are based on material long-term investments that are dependent on long-term fiscal stability and could be adversely affected by changes in fiscal legislation, changes in interpretation of fiscal legislation, periodic challenges and disagreements with tax authorities and legal proceedings relating to fiscal matters. The natural resources industry continues to be regarded as a source of tax revenue and can also be adversely affected by broader fiscal measures applying to businesses generally. BHP is currently involved in a number of uncertain tax and royalty matters. For more information, refer to note 5 Income tax expense in section 5.

Our business could be adversely affected by new or evolving government regulations and international standards, such as controls on imports, exports, prices and greenhouse gas emissions. The nature of the industries in which we conduct business means many of our activities are highly regulated by laws relating to health, safety, environment and community impacts. Increasing requirements relating to regulatory, environmental, social or community engagement or approvals can potentially result in significant delays or interruptions and may adversely affect the economics of new mining and oil and gas projects, the expansion of existing assets and operations and the performance of our assets. As regulatory standards and expectations are constantly developing, we may be exposed to increased regulatory review, compliance costs to meet new operating and reporting standards and unforeseen closure and site

rehabilitation expenses.

Table of Contents

Infrastructure, such as rail, ports, power and water, is critical to our business operations. We have assets or potential development projects in countries where government-provided infrastructure or regulatory regimes for access to infrastructure, including our own privately operated infrastructure, may be inadequate, uncertain or subject to legislative change. The impact of climate change may increase competition for, and the regulation of, limited resources, such as power and water. These factors could materially and adversely affect the expansion of our business and ability of our assets to operate efficiently.

We own assets or interests in countries where land tenure can be uncertain and disputes may arise in relation to ownership and use, including in respect of Indigenous rights. For example, in Australia, the Native Title Act 1993 provides for the establishment and recognition of native title under certain circumstances.

New or evolving regulations and international standards are complex, difficult to predict and outside our control. Potential compliance costs, litigation expenses, regulatory delays, rehabilitation expenses and operational impacts and costs arising from government action, regulatory change and evolving standards could materially and adversely affect BHP's future results, prospects and our financial condition.

Business risks

Failure to discover or acquire new resources, maintain reserves or develop new assets could negatively affect our future results and financial condition

The demand for our products and production from our assets results in existing reserves being depleted over time. As our revenues and profits are derived from our oil, gas and minerals assets, our future results and financial condition are directly related to the success of our exploration and acquisition efforts, and our ability to generate reserves to meet our future production requirements at a competitive cost. Exploration activity occurs adjacent to established assets and in new regions, in developed and less-developed countries. These activities may increase land tenure, infrastructure and related political risks. A failure in our ability to discover or acquire new resources, maintain reserves or develop new assets or operations in sufficient quantities to maintain or grow the current level of our reserves could negatively affect our results, financial condition and prospects. Deterioration in commodities pricing may make some existing reserves uneconomic. Our actual exploration drilling activities and future drilling budget will depend on our inventory size and quality, drilling results, commodity prices, drilling and production costs, availability of drilling services and equipment, lease expirations, land access, transportation pipelines, railroads and other infrastructure constraints, regulatory approvals and other factors.

There are numerous uncertainties inherent in estimating mineral and oil and gas reserves. Geological assumptions about our mineralisation that are valid at the time of estimation may change significantly when new information becomes available. Estimates of reserves that will be recovered, or the cost at which we anticipate reserves will be recovered, are based on uncertain assumptions. The uncertain global financial outlook may affect economic assumptions related to reserve recovery and may require reserve restatements. Reserve restatements could negatively affect our results and prospects.

Potential changes to our portfolio of assets through acquisitions and divestments may have a material adverse effect on our future results and financial condition

We regularly review the composition of our asset portfolio and from time-to-time may add assets to, or divest assets from, the portfolio. There are a number of risks associated with acquisitions or divestments. These include:

adverse market reaction to such changes or the timing or terms on which changes are made;

Table of Contents

the imposition of adverse regulatory conditions and obligations;

commercial objectives not being achieved as expected;

unforeseen liabilities arising from changes to the portfolio;

sales revenues and operational performance not meeting our expectations;

anticipated synergies or cost savings being delayed or not being achieved;

inability to retain key staff and transaction-related costs being more than anticipated.

These factors could materially and adversely affect our reputation, future results and financial condition.

Increased costs and schedule delays may adversely affect our development projects

Although we devote significant time and resources to our project planning, approval and review processes, many of our development projects are highly complex and rely on factors that are outside our control, which may cause us to underestimate the cost or time required to complete a project. For instance, incidents or unexpected conditions encountered during development projects may cause setbacks or cost overruns, required licences, permits or authorisations to build a project may be unobtainable at anticipated costs, or may be obtained only after significant delay and market conditions may change, thereby making a project less profitable than initially projected.

In addition, we may fail to develop and manage projects as effectively as we anticipate and unforeseen challenges may emerge.

Any of these may result in increased capital costs and schedule delays at our development projects and materially and adversely affect anticipated financial returns.

Financial risks

If our liquidity and cash flow deteriorate significantly it could adversely affect our ability to fund our major capital programs

We seek to maintain a strong balance sheet. However, fluctuations in commodity prices and ongoing global economic volatility could materially and adversely affect our future cash flows and ability to access capital from financial markets at acceptable pricing. If our key financial ratios and credit ratings are not maintained, our liquidity and cash reserves, interest rate costs on borrowed debt, future access to financial capital markets and the ability to fund current and future major capital projects could be adversely affected.

We may not fully recover our investments in mining, oil and gas assets, which may require financial write-downs

One or more of our assets may be adversely affected by changed market or industry structures, commodity prices, technical operating difficulties, inability to recover our mineral, oil or gas reserves and increased operating cost levels.

These may cause us to fail to recover all or a portion of our investment in mining, oil and gas assets and may require financial write-downs, including goodwill, adversely affecting our financial results.

The commercial counterparties we transact with may not meet their obligations, which may negatively affect our results

We contract with many commercial and financial counterparties, including end-customers, suppliers and financial institutions in the context of global financial markets that remain volatile. We maintain a one book approach with commercial counterparties to make sure all credit exposures are quantified and assessed consistently. However, our existing counterparty credit controls may not prevent a material loss due to credit exposure to a major customer segment or financial counterparty. In addition, customers, suppliers, contractors or joint venture partners may fail to perform against existing contracts and obligations. Non-supply of key inputs, such as tyres, mining and mobile equipment, diesel and other key consumables, may unfavourably impact costs and production at our assets. These factors could negatively affect our financial condition and results of assets.

Table of Contents**Operational risks*****Unexpected natural and operational catastrophes may adversely impact our assets***

We have onshore and offshore extractive, processing and logistical operations in many geographic locations. Our key port facilities are located at Coloso and Antofagasta in Chile and Port Hedland and Hay Point in Australia. We have four underground mines, including one underground coal mine. Our operational processes may be subject to operational accidents, such as port and shipping incidents, underground mine and processing plant fire and explosion, open-cut pit wall or tailings/waste storage facility failures, loss of power supply, railroad incidents, loss of well control, environmental pollution, mechanical critical equipment failures and cyber security attacks on BHP's infrastructure. Our minerals and oil and gas assets may also be subject to unexpected natural catastrophes such as earthquakes, floods, hurricanes and tsunamis. Our Western Australia Iron Ore, Queensland Coal and Gulf of Mexico oil and gas assets are located in areas subject to cyclones or hurricanes. Our Chilean copper and Peruvian base metals assets are located in a known earthquake and tsunami zone. Based on our risk management and the limited value of external insurance in the natural resource sector, our risk financing (insurance) approach is to minimise or not to purchase external insurance for certain risks, including property damage and business interruption, sabotage and terrorism, marine cargo, construction, primary public liability and employee benefits. Existing business continuity plans may not provide protection for all the costs that arise from such events, including clean-up costs, litigation and other claims. The impact of these events could lead to disruptions in production, increased costs and loss of facilities. Where external insurance is purchased, third party claims arising from these events may exceed the limit of liability of the insurance policies we have in place. Additionally, any uninsured or underinsured losses could have a material adverse effect on our financial position or results of assets.

Breaches in, or failures of, our information technology may adversely impact our business activities

We maintain and increasingly rely on information technology (IT) systems, consisting of digital infrastructure, applications and networks to support our business activities. These systems may be subject to security breaches (e.g. cyber-crime or activists) or other incidents (e.g. from negligence) that can result in misappropriation of funds, increased health and safety risks to people, disruption to our assets, environmental damage, poor product quality, loss of intellectual property, disclosure of commercially or personally sensitive information, legal or regulatory breaches and liability, other costs and reputational damage.

Evolving convergence of IT and operational technology (OT) networks across industries, including ours, present additional cyber-related risk as traditionally IT networks have focused on availability of service to the enterprise.

Our potential liability from litigation and other actions resulting from the Samarco dam failure is subject to significant uncertainty and cannot be reliably estimated at this time, but could have a material adverse impact on our business

On 5 November 2015, the Samarco Mineração S.A. (Samarco) iron ore operations experienced a tailings dam failure that resulted in a release of mine tailings, flooding the communities of Bento Rodrigues, Gesteira and Paracatu and impacting other communities downstream and the environment of the Rio Doce basin. Samarco is a joint venture owned equally by BHP Billiton Brasil Limitada (BHP Billiton Brasil) and Vale S.A. (Vale). For information on the Samarco dam failure, refer to section 1.7.

Table of Contents

The Samarco dam failure and subsequent suspension of Samarco's mining and processing operations continue to impact our financial results and will be disclosed as an exceptional item for the year ended 30 June 2017, as described in 1.7 and in note 3 Significant events Samarco dam failure in section 5.

Mining and processing operations remain suspended following the dam failure. Samarco is currently progressing plans to resume operations; however, significant uncertainties surrounding the nature and timing of any resumption of operations remain, including as a result of Samarco's significant debt obligations. For financial information relating to Samarco, refer to note 29 Investments accounted for using the equity method in section 5.

BHP Billiton Brasil is among the defendants named in a number of legal proceedings initiated by individuals, non-governmental organisations (NGOs), corporations and governmental entities in Brazilian federal and state courts following the Samarco dam failure. The other defendants include Samarco, Vale and Fundação Renova. The lawsuits seek various remedies, including rehabilitation costs, compensation to injured individuals and families of the deceased, recovery of personal and property losses, moral damages and injunctive relief.

Among the claims brought against BHP Billiton Brasil is a public civil claim commenced by the Federal Government of Brazil, the states of Espírito Santo and Minas Gerais, and certain other public authorities (Brazilian Authorities) on 30 November 2015, seeking the establishment of a fund of up to R\$20 billion (approximately US\$6.1 billion) in aggregate for clean-up costs and damages and a R\$155 billion (approximately US\$47 billion) claim brought by the Federal Public Prosecution Service on 3 May 2016 for reparation, compensation and moral damages in relation to the Samarco dam failure. Given the status of these proceedings, it is not possible at this time to provide a range of possible outcomes or a reliable estimate of potential future exposures for BHP Billiton Brasil. For further details on some of the legal proceedings relating to the Samarco dam failure, refer to section 6.5.

On 2 March 2016, BHP Billiton Brasil, together with Vale and Samarco, entered into a Framework Agreement (Framework Agreement) with the Brazilian Authorities to establish a foundation (Fundação Renova) that will develop and execute environmental and socio-economic programs to remediate and provide compensation for damage caused by the Samarco dam failure. The Framework Agreement was ratified by the Conciliation Chamber of the Federal Court of Appeal in Brasilia on 5 May 2016, suspending the R\$20 billion public civil claim. However, on 30 June 2016, the Superior Court of Justice issued a preliminary order (Interim Order) suspending the 5 May 2016 ratification of the Framework Agreement and reinstating the R\$20 billion public civil claim. BHP Billiton Brasil, Vale and Samarco and the Federal Government have appealed the Interim Order before the Superior Court of Justice.

In light of the significant uncertainties surrounding the nature and timing of ongoing future operations at Samarco and based on currently available information, at 30 June 2017, BHP recognised a provision of US\$1.1 billion, before tax and after discounting (30 June 2016, US\$1.2 billion), in respect of BHP Billiton Brasil's obligations under the Framework Agreement.

The measurement of the provision requires the use of estimates and assumptions and may be affected by, among other factors, potential changes in scope of work and funding amounts required under the Framework Agreement, including further technical analysis required under the Preliminary Agreement (referred to on the next page), the outcome of the ongoing negotiations with Federal Prosecutors, costs incurred in respect of programs delivered, resolution of uncertainty in respect of operational restart, updates to discount and foreign exchange rates, resolution of existing and potential legal claims and the status of the Framework Agreement. As a result, future actual expenditures may differ from the amounts currently provided and changes to key assumptions and estimates could result in a material impact on the amount of the provision in future reporting periods.

Table of Contents

On 18 January 2017, BHP Billiton Brasil, together with Vale and Samarco, entered into a Preliminary Agreement with the Federal Prosecutors Office in Brazil, which outlines the process and timeline for further negotiations towards a settlement regarding the R\$20 billion public civil claim and the R\$155 billion public civil claim. While a final decision by the Court on the issue of ratification of the Framework Agreement is pending, the Preliminary Agreement suspends a R\$1.2 billion (approximately US\$365 million) injunction order under the R\$20 billion public civil claim. The Preliminary Agreement also requests suspension of the public civil claim, with a decision from the Court pending. The R\$1.2 billion injunction order may be reinstated if a final settlement arrangement is not agreed by 30 October 2017. Given the status of these proceedings, it is not possible at this time to provide a range of possible outcomes or a reliable estimate of potential future exposures for BHP Billiton Brasil.

With regard to the Preliminary Agreement, the 12th Federal Court of Belo Horizonte suspended the R\$155 billion claim, including a R\$7.7 billion (approximately US\$2.3 billion) injunction request. However, proceedings may be resumed if a final settlement agreement is not agreed by 30 October 2017. Given the status of these proceedings, it is not possible at this time to provide a range of possible outcomes or a reliable estimate of potential future exposures for BHP Billiton Brasil.

In addition, government inquiries and investigations relating to the Samarco dam failure have been commenced by numerous agencies of the Brazilian Government. Other lawsuits and investigations are at the early stages of proceedings, including a shareholder action in the United States against BHP and a Samarco bondholder action in the United States against Samarco, Vale, BHP Billiton Brasil and BHP. For more information on the shareholder and bondholder actions and other lawsuits relating to the Samarco dam failure, refer to section 6.5. Additional lawsuits and government investigations relating to the Samarco dam failure may be brought against BHP Billiton Brasil and possibly other BHP entities in Brazil or other jurisdictions.

While additional retention structures have been completed, the potential remains for further release or downstream movement of tailings material, which may result in additional claims, fines and proceedings (or impact existing proceedings) and may also have additional consequences on the environment and the feasibility, timing and scope of any restart of Samarco operations.

Our potential costs and liabilities in relation to the Samarco dam failure are subject to a high degree of uncertainty and cannot be reliably estimated at this time. The total amounts that we may be required to pay will be dependent on many factors, including the timing and nature of a potential restart of operations at Samarco, the number of claims that become payable, the quantum of any fines levied, the outcome of litigation and the amount and timing of payments under any judgements or settlements. Nevertheless, such potential costs and liabilities could have a material adverse effect on our business, competitive position, cash flows, prospects, liquidity and shareholder returns.

Cost pressures and reduced productivity could negatively impact our operating margins and expansion plans

Cost pressures may continue to occur across the resources industry. As the prices for our products are determined by the global commodity markets, we do not generally have the ability to offset these cost pressures through corresponding price increases, which can adversely affect our operating margins. Although our efforts to reduce costs and a number of key cost inputs are commodity price-linked, the inability to reduce costs and a timing lag could materially and adversely impact our operating margins for an extended period.

Some of our assets, such as those producing copper, are energy or water intensive. As a result, BHP's costs and earnings could be materially and adversely affected by rising costs or supply interruptions. These could include the unavailability of energy, fuel or water due to a variety of reasons, including fluctuations in climate, inadequate infrastructure capacity, interruptions in supply due to equipment failure or other causes and the inability to extend

supply contracts on economic terms.

Many of our Australian employees have conditions of employment, including wages, governed by the operation of the Australian Fair Work Act 2009. Conditions of employment are often contained within collective agreements that are required to be renegotiated on expiry (typically every three to four years). In some instances, under the operation of the Fair Work Act, it can be expected that unions will pursue increases to conditions of employment, including wages, and/or claims for greater union involvement in business decision-making.

Table of Contents

In circumstances where a collective agreement is being renegotiated, industrial action is permitted under the Fair Work Act. Industrial action and any subsequent settlement to mitigate associated commercial damage can adversely affect productivity and customer perceptions as a reliable supplier, and contribute to increases in costs.

The industrial relations environment in Chile remains challenging and it is possible that we will see further disruptions. Recent changes to labour legislation in Chile have resulted in the right to have a single negotiating body across different operations owned by a single company. This change may lead to a higher risk of operational stoppages that can contribute to an increase in costs and a reduction in productivity.

More broadly, cost and productivity pressures on BHP and our contractors and sub-contractors may increase the risk of industrial action and employment litigation.

These factors could lead to increased operating costs at existing assets, interruptions or delays and could negatively impact our operating margins and expansion plans.

Non-operated assets have their own management and operating standards, joint venture partners or other companies managing those non-operated assets may take action contrary to our standards or fail to adopt standards equivalent to BHP's standards, and commercial counterparties may not comply with our standards

We have interests in assets which are operated and managed by joint venture partners or by other companies. Those joint venture partners or other companies have their own management and operating standards, controls and procedures, including health, safety, environment and community (HSEC) standards and may take action contrary to BHP's management and operating standards, controls and procedures. Failure by those joint venture partners or other companies to adopt equivalent standards, controls and procedures at these non-operated assets could lead to higher costs and reduced production, litigation and regulatory action, delays or interruptions and adversely impact our results, prospects and reputation.

Commercial counterparties, such as our suppliers, contractors and customers, may not comply with our HSEC standards or other standards we apply, causing adverse reputational, legal and financial impacts.

Sustainability risks

Safety, health, environmental and community impacts, incidents or accidents may adversely affect our people, assets and reputation or licence to operate

Safety

Potential safety events that may have a material adverse impact on our people, assets, reputation or licence to operate include fire, explosion or rock fall incidents in underground mining operations, personnel conveyance equipment failures in underground operations, aircraft incidents, road incidents involving buses and light vehicles, incidents between light vehicles and mobile mining equipment, ground control failures, uncontrolled tailings containment breaches, well blowouts, explosions or gas leaks and accidents involving inadequate isolation, working from heights or lifting operations.

Health

Health risks faced include fatigue, musculoskeletal illnesses and occupational exposure to substances or agents, including noise, silica, coal mine dust, diesel exhaust particulate, nickel and sulphuric acid mist and mental illness.

Longer-term health impacts may arise due to unanticipated workplace exposures or historical exposures of our workforce or communities to hazardous substances. These effects may create future financial compensation obligations, adversely impact our people, reputation, regulatory approvals or licence to operate and affect the way we conduct our assets.

Table of Contents

Given the global location of our assets, we could be affected by a public health emergency such as influenza or other infectious disease outbreaks in any of the regions in which our assets are located.

Environment

Our assets by their nature have the potential to adversely impact air quality, biodiversity, water resources and related ecosystem services. Changes in scientific understanding of these impacts, regulatory requirements or stakeholder expectations may prevent, delay or reverse project approvals and result in increased costs for mitigation, offsets or compensatory actions.

Environmental incidents have the potential to lead to material adverse impacts on our people, communities, assets, reputation or licence to operate. These include uncontrolled tailings containment breaches, subsidence from mining activities, escape of polluting substances and uncontrolled releases of hydrocarbons.

We provide for operational closure and site rehabilitation. Our operating and closed facilities are required to have closure plans. Changes in regulatory or community expectations may result in the relevant plans not being adequate. This may increase financial provisioning and costs at the affected assets.

Climate change

The physical and non-physical impacts of climate change may affect our assets, productivity and the markets in which we sell our products. This includes acute and chronic changes in weather patterns, policy and regulatory change, technological development and market and economic responses. Fossil fuel-related emissions are a significant source of greenhouse gases contributing to climate change. We produce fossil fuels such as coal, oil and gas for sale to customers. We use fossil fuels in our mining and processing operations either directly or through the purchase of fossil fuel based electricity.

A number of national governments have already introduced, or are contemplating the introduction of, regulatory responses to greenhouse gas emissions, including from the extraction and combustion of fossil fuels to address the impacts of climate change. This includes countries where we have assets such as Australia, the United States and Chile, as well as customer markets such as China, India and Europe. In addition, the international community completed a new global climate agreement at the 21st Conference of the Parties (COP21) in Paris in December 2015. The absence of regulatory certainty, global policy inconsistencies and the challenges presented by managing our portfolio across a variety of regulatory frameworks have the potential to adversely affect our assets and supply chain. From a medium- to long-term perspective, we are likely to see some adverse changes in the cost position of our greenhouse gas-intensive assets as a result of regulatory impacts in the countries where we do business. These proposed regulatory mechanisms may adversely affect our assets directly or indirectly through our suppliers and customers. Assessments of the potential impact of future climate change regulation are uncertain given the wide scope of potential regulatory change in the many countries in which we do business. Examples of this include China, which is launching the world's largest emissions trading system in 2017 and Australia, where the federal government repealed a carbon tax in 2014 and introduced new legislation to take its place.

There is a potential gap between the current valuation of fossil fuel reserves on the balance sheets of companies and in global equities markets and the reduced value that could result if a significant proportion of reserves were rendered incapable of extraction in an economically viable fashion due to technology, regulatory or market responses to climate change. In such a scenario, stranded reserve assets held on our balance sheet may need to be impaired or written off and our inability to make productive use of such assets may also negatively impact our financial condition and results.

The growth of alternative energy supply options, such as renewables and nuclear, could also present a change to the energy mix that may reduce the value of fossil fuel assets.

Table of Contents

The physical effects of climate change on our assets may include changes in rainfall patterns, water shortages, rising sea levels, increased storm intensities and higher temperatures. These effects could materially and adversely affect the financial performance of our assets.

Community

Our assets and activities may directly impact communities and also risk the potential for adverse impacts on human rights or breaches of other international laws or conventions.

Local communities may become dissatisfied with our operations or oppose our new development projects, including through legal action leading to, potential schedule delay, increased costs and reduced production. Community-related risks may include community protests or civil unrest, adverse human rights impacts, community health and safety, complaints and grievances, and civil society activism. In extreme cases the risks may affect viability, adversely impacting our reputation and licence to operate.

Hydraulic fracturing

Our Onshore US assets involve hydraulic fracturing, which includes using water, sand and a small amount of chemicals to fracture hydrocarbon-bearing subsurface rock formations, to allow flow of hydrocarbons into the wellbore. We depend on the use of hydraulic fracturing techniques in our Onshore US drilling and completion programs.

In the United States, the hydraulic fracturing process is typically regulated by relevant US state regulatory bodies. Arkansas, Louisiana and Texas (the states in which we currently operate) have adopted various laws and regulations, or issued regulatory guidance, concerning hydraulic fracturing. Some states are considering changes to regulations in relation to permitting, public disclosure, and/or well construction requirements on hydraulic fracturing and related operations, including the possibility of outright bans on the process. For more information, refer to section 7.11.

While we have not experienced a material delay or substantially higher operating costs in our Onshore US assets as a result of current regulatory requirements, we cannot predict whether additional federal, state or local laws or regulations will be enacted and what such actions would require or prohibit. Additional legislation or regulation could subject our assets to delays and increased costs, or prohibit certain activities, which could adversely affect the financial performance of our Onshore US assets.

Governance and compliance

A failure of our governance or compliance processes may lead to regulatory penalties and loss of reputation. We conduct our business in a global environment that encompasses multiple jurisdictions and complex regulatory frameworks. Our governance and compliance processes (which include the review of internal controls over financial reporting and specific internal controls in relation to trade and financial sanctions and offers of anything of value to government officials and representatives of state-owned enterprises) may not operate to identify financial misstatements or prevent potential breaches of law, or of accounting or governance practice. Our *BHP Code of Business Conduct*, together with our mandatory policies, such as the anti-corruption, trade and financial sanctions and competition policies, may not prevent instances of fraudulent behaviour and dishonesty nor guarantee compliance with legal or regulatory requirements. This may lead to regulatory fines, disgorgement of profits, litigation, allegations or investigations by regulatory authorities, loss of operating licences and/or reputational damage.

Table of Contents**1.8.4 Management of principal risks**

The scope of our assets and the number of industries in which we conduct our business and engage mean that a range of factors may impact our results. Material risks that could negatively affect our results and performance are described in this section. Our approach to managing these risks is outlined below.

Principal risk area**External risks**

Risks arise from fluctuations in commodity prices and demand in major markets (such as China or Europe) or changes in currency exchange rates, and actions by governments, including new regulations and standards, and political events that impact long-term fiscal stability

Business risks

Risks include the inherent uncertainty of identifying and proving reserves, adding and divesting assets and managing our capital development projects

Financial risks

Continued volatility in global financial markets may adversely impact future cash flows, our ability to adequately access and source capital from financial markets and our credit rating. Volatility may impact planned expenditures, as well as the ability to recover investments in mining, oil and gas projects. In addition, the commercial counterparties (customers, suppliers, contractors and financial institutions) we transact with may, due to adverse market conditions, fail to meet their contractual obligations

Risk management approach

The diversification of our portfolio of commodities, geographies and currencies is a key strategy for reducing the effects of volatility. Section 1.8.1 describes external factors and trends affecting our results and note 21 Financial risk management in section 5 outlines BHP's financial risk management strategy, including market, commodity and currency risk. The Financial Risk Management Committee oversees these risks as described in sections 2.14 and 2.15. We also engage with governments and other key stakeholders to make sure the potential adverse impacts of proposed fiscal, tax, resource investment, infrastructure access, regulatory changes and evolving international standards are understood and, where possible, mitigated.

Our Geoscience and Resource Engineering Centres of Excellence manage governance and technical leadership for Ore Reserves reporting as described in section 6.3.2. Our governance over reporting of Petroleum reserves is described in section 6.3.1.

We have established investment approval processes that apply to all major capital projects and asset divestment and acquisitions. The Investment Committee oversees these as described in sections 2.14 and 2.15. Our Project Management Centre of Excellence aims to make sure projects are safe, predictable and competitive.

We seek to maintain a strong balance sheet, supported by our Portfolio Risk Management strategy. As part of this strategy, the diversification of our portfolio reduces overall cash flow volatility. Commodity prices and currency exchange rates are not generally hedged, and wherever possible, we take the prevailing market price. A hedging program for our shale gas assets is an exception and reflects the inherent differences in shale gas assets in our portfolio. A shale gas operation has a short-term investment cycle and a price responsive supply base, while hedging prices and input costs can be used to fix investment returns and manage volatilities. We use Cash Flow at Risk analysis to monitor volatilities and key financial ratios. Credit limits and review processes are required to be established for all customers and financial counterparties. The Financial Risk Management Committee oversees these, as described in sections 2.14 and

2.15. Note 21 Financial risk management in section 5 outlines our financial risk management strategy.

Table of Contents

Principal risk area

Operational risks

Unexpected natural and operational catastrophes may adversely affect our assets. Breaches in IT security processes may adversely affect the conduct of our business activities. Our potential liabilities from litigation and other actions resulting from the Samarco dam failure are subject to significant uncertainty and cannot be reliably estimated at this time. Operating cost pressures and reduced productivity could negatively affect operating margins and expansion plans. Non-operated assets may not comply with our standards

Risk management approach

By applying our risk management processes, we seek to identify catastrophic operational risks and implement the critical controls and performance requirements to maintain control effectiveness. Business continuity plans must be established to mitigate consequences. Consistent with our portfolio risk management approach, we continue to be largely self-insured for losses arising from property damage, business interruption and construction.

IT security controls (to protect IT infrastructure, business applications and communication networks and respond to security incidents) are in place and subject to regular monitoring and assessment. To maintain adequate levels of protection, we also continue to monitor the development of threats in the external environment and assess potential responses to those threats.

The Board has continued to focus its attention on responding to the tragedy at Samarco. As that response has now moved from the immediate, emergency stage to a more strategic, structured way of working, we have transitioned the work previously carried out by the Samarco Sub-committee of the Board to the Risk and Audit Committee, the Sustainability Committee, as appropriate, as well as the Board.

For further information on BHP's response to the Samarco dam failure, refer to section 1.7.

BHP has identified a number of actions that we will take in the management of tailings dams and non-operated joint venture arrangements. For details of those actions, refer to section 1.7.

We aim to maintain adequate operating margins through our strategy to own and operate large, long-life, low-cost, expandable, upstream assets.

Our concentrated effort to reduce operating costs and drive productivity improvements has realised tangible results, with a reduction in controllable costs.

The capability to sustain productivity improvements is being further enhanced through continued refinements to our Operating Model. The Operating Model is designed to deliver a simple and scalable organisation,

providing a competitive advantage through defining work, organisation and performance measurements. Defined global business processes, including ISAP, provide a standardised way of working across BHP. Common processes generate useful data and improve operating discipline. Global sourcing arrangements have been established to ensure continuity of supply and competitive costs for key supply inputs. We seek to influence the application of our standards to non-operated assets.

From an industrial relations perspective, detailed planning is undertaken to support the renegotiation of employment agreements, and is supported by training and access to expertise in negotiation and agreement making.

Table of Contents**Principal risk area****Sustainability risks**

HSEC incidents or accidents may adversely affect people or neighbouring communities, assets, reputation and our licence to operate. The potential physical impacts and related responses to climate change may impact the value of BHP, our assets and markets

Risk management approach

Our approach to sustainability risks is reflected in *Our Charter* and described in section 1.10. *Our Requirements* standards set out Group-wide HSEC-related performance requirements designed to support effective management control of these risks.

Our approach to corporate planning, investment decision-making and portfolio management provides a focus on the identification, assessment and management of climate change risks. We have been applying an internal price on carbon in our investment decisions for more than a decade. Through a comprehensive and strategic approach to corporate planning, we work with a broad range of scenarios to assess our portfolio, including consideration of a broad range of potential policy responses to and impacts from climate change. We also track signals across the external environment to provide timely insights into the potential impacts on our portfolio. For more information on the management of climate change, refer to section 1.10.6.

Our approach to engagement with community stakeholders is outlined in our minimum organisational requirements for Community. We undertake stakeholder identification and analysis, social impact and opportunity assessments, community perception surveys and human rights impact assessments to identify, mitigate or manage key potential social and human rights risks.

Our Requirements for Risk Management standard provides the framework for risk management relating to climate change and material health, safety, environment and community risks. We conduct internal audits to test compliance with *Our Requirements* standards and develop action plans to address any gaps. Key findings are reported to senior management and reports are considered by relevant Board committees.

Our Requirements standards and action plans are developed to address any gaps. Key findings are reported to senior management and reports are considered by relevant Board committees.

Our *Code of Business Conduct* sets out requirements related to working with integrity, including dealings with government officials and third parties as described in section 2.16. Processes and controls are in place for the internal control over financial reporting, including under Sarbanes-Oxley. We have established anti-corruption, competition and trade sanctions performance requirements, which are overseen by the Ethics and Compliance function. The Disclosure Committee oversees our compliance with securities dealing obligations and continuous and periodic disclosure obligations, as described in sections 2.14, 2.15 and 2.17.

Table of Contents

1.9 People

With a workforce of more than 60,000 employees and contractors working across 87 locations worldwide, BHP's culture is shaped to support the creation of value from our portfolio.

Our culture is shaped through our policies and the programs we enact to build a positive work environment and engage our people. It is driven by our leaders and the behaviours they demonstrate. And it is supported by the dialogue we have with and between our people, every day.

1.9.1 Supporting our culture

We engaged with a selection of employees across all levels and geographies in FY2017 to gather their views on the strengths and challenges of our current culture. Despite the diversity of our business, we found a handful of enduring traits that span business lines, geographies and levels. These traits contain many strengths that have enabled the delivery of strong business performance over many years.

With input from our employees, a cohort of senior leaders (including the General Managers who lead the workforces at our assets) have identified the behaviours that we will focus on to leverage the strengths of those traits. Leaders around the globe have translated these priorities into plans to amplify care and trusted relationships within our teams. These plans comprise both local and BHP-wide priorities, including the further roll out of leadership development programs focused on the identification and realisation of value and the management of risk.

This work builds on years of investment in developing our leaders' capabilities to engage and develop their teams and to lead change. The positive impact of the programs that have been run to date is reflected in improvements in our annual Employee Perception Survey results.

BHP's culture of care

BHP values a culture that enables our people to do the right thing for each other, for our communities and for our shareholders; reducing risk and driving performance.

Our focus on inclusion and diversity enables us to challenge entrenched ideas and bring innovative perspectives to our work.

For more information on our culture, refer to section 1.5.1.

Table of Contents

1.9.2 Inclusion and diversity

At BHP, we believe all employees should have the opportunity to fulfil their potential and thrive in an inclusive and diverse workplace. We employ, develop and promote based on merit and we do not tolerate any form of unlawful discrimination, bullying or harassment. Our systems, processes and practices support fair treatment.

To better reflect the communities in which we work, we have set an ambitious, aspirational goal to achieve gender balance across BHP globally by FY2025. It is an aspiration designed to harness the enormous potential that a more inclusive and diverse workplace will deliver at BHP. Progress on our goal of gender balance will be reported to the Board each year for review.

The commercial case for action on gender balance is compelling. For the past three years, BHP's most inclusive and gender diverse operations have outperformed our average on a range of measures, including lower injury rates, adherence to work plans and meeting production targets.

Our CEO, Andrew Mackenzie, chairs the Global Inclusion and Diversity Council that has recommended four priorities: embedding flexible working; enabling our supply chain partners to support our commitment to inclusion and diversity; uncovering and taking steps to mitigate potential bias in our systems, behaviours, policies and processes; and ensuring our brand and industry are attractive to a diverse range of people.

The gender composition of BHP's employees was 20.5 per cent women as at 30 June 2017; an increase of 2.9 per cent in one year⁽¹⁾. This was very close to the goal we set our Executive Leadership Team of reaching a three per cent year-on-year increase in representation of women among employees across the Group. This was achieved in part through an improved gender balance in external hiring and reduction of the turnover rate for women. Our work on culture has also supported us in becoming more inclusive and embedding flexibility in the way we work.

We're also enabling our supply chain partners to support our commitment to inclusion and diversity, by working with our suppliers to identify opportunities for improvement, incorporating inclusion and diversity enablers into supplier procurement processes and working with suppliers to redesign equipment to allow for handling by all operators, regardless of gender.

⁽¹⁾ Based on a point in time snapshot of employees as at 30 June 2017, as used in internal management reporting for the purposes of monitoring progress against our goals. This does not include contractors.

Table of Contents

Case study: Achieving gender balance in practice

BHP's Mooka Ore Car Repair Shop (OCRS) is a high-tech, semi-automated production line, designed to safely conduct highly repetitive activities that are involved in maintenance of ore cars.

Mooka OCRS took on the challenge of achieving a more inclusive workplace. As part of our push for continuous improvement, we redesigned the OCRS to reduce risk from activities such as shunting and overhead crane use. This not only made the workplace safer, it also made it possible for a diverse pool of talent from the local community to participate in our workforce, without requiring specialist technical qualifications.

For example, the introduction of automated guided vehicles and a robotic gantry system means that dogging and rigging licences are no longer required, while the mechanisation of tasks that formerly required heavy lifting means people of different physiques can perform them safely. Tasks that require a trade-qualified operator are separated from tasks that do not, which has enabled the participation of people without trade qualifications or previous experience.

As a result, we were able to adapt our recruitment and assessment processes to reach a broader range of people from our local communities. We used information sessions and assessment centres to promote opportunities. Assessment focused on characteristics such as demonstrated behaviours and the ability to work in a team, rather than technical capabilities. Our workforce is now 30 per cent women (up from five per cent in FY2016) and 10 per cent Indigenous as at 30 June 2017.

We know that in addition to improving diversity, we must support inclusive workplaces. We focused on creating an inclusive culture through visible leadership, more face-to-face updates on performance and regular updates on any changes impacting the team. The strength of this approach is reflected in this year's Mooka OCRS Employee Perception Survey results, which are higher than the BHP average and above external norms for high performing companies.

The success at Mooka OCRS means it can also act as a talent incubator for other BHP assets. We're continuing to build on our achievements through active promotion of our apprenticeship program to a diverse range of participants, working with communities to develop a more structured work experience program for high school students, and developing a cultural plan to continue to drive an inclusive workforce.

1.9.3 Our people policies

We have a comprehensive set of frameworks that support our culture of safety and productivity.

Our Charter is central to everything we do. It describes our purpose, our values and how we measure our success, who we are, what we do and what we stand for.

Our *Code of Business Conduct* demonstrates how to practically apply the commitments and values set out in *Our Charter* and reflects many of the standards and procedures we apply throughout BHP. We have internal dispute and grievance handling processes, as well as a business conduct advisory service, to address any potential breaches of the Code.

Our Requirements standards outline the minimum mandatory standards we expect of those who work for, or on behalf of, BHP. Some of those standards relate to people activities, such as recruitment and talent retention.

Our all-employee share purchase plan, Shareplus, is available to all permanent full-time and part-time employees, and those on fixed term contracts, except where local regulations limit operation of the scheme. In these instances, alternate arrangements are in place.

Table of Contents

Through all of these documents, we make it clear that discrimination on any basis is not acceptable. In instances where employees require support for a disability, we work with them to identify any roles that meet their skill, experience and capability, and offer retraining where required.

For more information on our people, including our focus on culture, inclusion and diversity, training and development, see our Sustainability Report 2017 at bhp.com.

1.9.4 Employee and contractors

The data in this section (consistent with previous years) are averages. We take the number of employees and contractors (where applicable) at the last day of each calendar month for a 10-month period to calculate an average for the year. This does not necessarily reflect the number of employees and contractors as at the end of FY2017.

The diagram below shows the average number of employees and contractors over the last three financial years.

The diagram below provides a breakdown of our average number of employees by geographic region over the last three financial years.

Table of Contents

The table below shows the gender composition of our employees, senior leaders and the Board (Non-executive Directors) over the last three financial years.

	2017	2016	2015
Female employees ⁽¹⁾	4,868	4,708	5,183
Male employees ⁽¹⁾	21,278	22,119	24,487
Female senior leaders ⁽²⁾⁽³⁾	65	65	62
Male senior leaders ⁽²⁾⁽³⁾	211	251	293
Female Board members ⁽²⁾	3	3	2
Male Board members ⁽²⁾	7	7	10

(1) Based on the average of the number of employees at the last day of each calendar month for a 10-month period to April and in accordance with our reporting requirement under the UK Companies Act 2006. This does not reflect the number of employees as at the end of FY2017.

(2) Based on actual numbers as at 30 June 2017, not rolling averages.

(3) For UK law purposes, we are required to show information for senior managers, which are defined to include both senior leaders and any persons who are directors of any subsidiary company, even if they are not senior leaders. In FY2017, 276 senior leaders comprised the top people in the organisation. There were 12 Directors of subsidiary companies who are not senior leaders, comprising 10 men and two women. Therefore, for UK law purposes, the total number of senior managers was 221 men and 67 women (23 per cent women) in FY2017.

Changes in market conditions and our business transformation programs, focused on improving efficiencies and driving greater productivity, have resulted in a decrease in our workforce requirements.

1.9.5 Employee relations

Relationships with our employees are built on mutual respect. We strive to achieve outcomes that are mutually beneficial to our people and BHP.

We are committed to full compliance with legislative workplace requirements in the many jurisdictions in which we work, and we have both individual and collective employment contract arrangements in place. In FY2017, 55 per cent of our employees were covered by collective arrangements.

Where labour disputes arise, we aim to maintain the safety of employees while minimising the impact on our customers. A labour dispute arose at Escondida in Chile during negotiation of a new collective agreement (see section 1.11.2 for information on the dispute), which resulted in a 44-day strike by Union N°1 and the temporary suspension of operations. Following the resolution of Union N°1 to extend the existing collective agreement, the restart was conducted gradually to ensure the safety of our people and the mine has been fully operational since late April. BHP continues to engage proactively with our workforce at Escondida.

1.10 Sustainability

Sustainability is at the heart of everything we do. We put health and safety first, we are environmentally responsible, we respect human rights and we support our host communities.

As a partner in the communities in which we operate, we share stewardship of the environment, support local cultures and help drive economic development. Many of our assets last for decades, and the maintenance of a social licence to operate them is essential.

Full details of our sustainability framework, management, performance and targets and an introduction to our new sustainability targets and longer-term goals are available in our Sustainability Report 2017 at bhp.com.

Table of Contents

1.10.1 Our sustainability approach

Health, safety, environment and community (HSEC) considerations are integrated into our daily activities and decisions. Our approach to sustainability is defined by *Our Charter* and realised through *Our Requirements* standards. These clearly describe our mandatory minimum performance requirements and are the foundation for developing and implementing management systems at our assets.

We are committed to complying with the laws and regulations of the jurisdictions in which we operate and aim to exceed legal and regulatory requirements where those are less stringent than our own. Contractors working at our operated assets are required to comply with our HSEC standards and requirements. We also engage with and encourage our suppliers, agents and service providers to maintain business practices and workplace standards that are comparable to our own.

We believe high standards of governance are critical to deliver our strategy, create long-term value and maintain our social licence to operate. The Board oversees our sustainability approach. The Board's Sustainability Committee assists with governance and monitoring. The Board's Risk and Audit Committee assists with oversight of the Group's systems of risk management.

For information on the Sustainability and Risk and Audit Committees, refer to section 2.13.

BHP has been setting global sustainability targets since 1997. A strong part of our history, these targets help us focus on our most material sustainability risks. FY2017 marked the end of our FY2013–FY2017 sustainability target period. Details of our performance against these targets are provided throughout this section of the Annual Report. Our new, five-year HSEC performance targets, which took effect from 1 July 2017, are framed around shared global challenges.

Engaging with our partners at non-operated joint ventures

Following a review of governance at our non-operated minerals joint ventures (NOJV), we created a NOJV leadership team and supporting team, and developed a global standard which defines the requirements for managing BHP's interest in our NOJVs. For more information, refer to section 1.7.

1.10.2 Operating with ethics and integrity

Operating responsibly and ethically involves bringing *Our Charter* values to life. We cannot deliver value to our shareholders, employees or communities unless we demonstrate these values through our actions, processes, systems and interactions with all stakeholders.

Our BHP *Code of Business Conduct* (Code) demonstrates how to apply *Our Charter* by setting behavioural standards for everyone who works for, or on behalf of, BHP. Acting in accordance with our Code is a condition of employment, and all our people are required to undertake annual training on the Code.

Anti-corruption compliance

We are determined to play a significant role in the global fight against corruption to ensure communities benefit from the development of natural resources. Our commitment to anti-corruption compliance is reflected in our Code and the *Our Requirements for Business Conduct* standard.

Our Ethics and Compliance function is responsible for designing, monitoring and reporting on our anti-corruption compliance program. The function is independent of our assets and asset groups, and comprises teams that are co-located in our main global locations and a specialised Compliance Legal team. The Chief Compliance Officer reports to the Risk and Audit Committee.

Table of Contents

In addition to anti-corruption training as part of annual training on our Code, additional risk-based anti-corruption training was completed by 3,412 employees in FY2017, together with numerous employees of business partners and community partners.

More information on our anti-corruption compliance program (including risk assessments, training and communication) is available online at bhp.com/anticorruption.

Closure planning

We consider the entire life cycle of our operations, including closure, in our planning and decision-making.

Our operated assets are required to develop a closure plan, including a financial assessment, to minimise closure-related risks over the life of the asset. Our Internal Audit function tests the effectiveness of these plans, with findings reviewed and reported annually to Asset Presidents, and summary reports provided to the Risk and Audit Committee. Information about the financial provisions related to closure liabilities is available in note 14 Closure and rehabilitation provisions in section 5.

Building trust through transparency

Our business model is based on trust. To earn this trust, we are dedicated to becoming a global leader in corporate transparency and public disclosure. Transparency is a priority for BHP because it allows our stakeholders to hold us accountable for our actions and minimises the risk that the significant taxes and royalties we pay around the world are diverted away from the citizens who should benefit from the wealth created by the resources we produce.

Our approach to transparency is guided by our Transparency Principles of responsibility, openness, fairness and accountability. Our annual Economic Contribution Report discloses our payments of taxes and royalties to all our host governments on a project-by-project basis, consistent with the European Union Transparency Directive.

Our approach to transparency and tax is detailed in our Economic Contribution Report 2017 available online at bhp.com.

1.10.3 Health and safety

Safety

The safety of our workforce and the communities in which we operate is an essential priority.

Our goal is zero fatalities and we are committed to achieving this through the effective management of safety risks.

We committed to a set of global safety priorities in FY2016 that continue to guide our decision-making and approach to safety. These four focus areas are:

reinforce that safety comes before productivity;

focus on in-field verification of material and fatal risks;

enhance our internal investigation process and widely share and apply lessons;

enable additional quality field time to engage our workforce.

This work is supported by our ongoing work on our culture of safety and productivity, in particular our focus on leadership. Recognising that visible leadership is a key driver of safety and productivity, our Field Leadership program is designed to drive a cultural change and help us achieve our goal of everyone going home safe. It involves leaders spending time in the field engaging with employees and contractors on how we can enhance our safety processes and observing at-risk activities. The program also focuses on improving in-field verification of material and fatal risks.

Table of Contents

Tragically, one of our colleagues, Rudy Ortiz, died in October 2016 during planned maintenance on the Laguna Seca Line 2 concentrator at Escondida in Chile. Following completion of the investigation, lessons were shared across BHP. At Escondida, a number of actions have been taken to improve our change management and in-field contractor management processes, as well as investigating the use of new technology to mitigate the inherent risks associated with this activity.

In August 2017, another colleague, a contractor from Independent Mining Services, died as a result of an incident at the Goonyella Riverside Mine in Queensland, after the period covered by this Report. An investigation is underway.

These fatalities are a tragic reminder that safety must come first in everything we do. We will continue to strive to make sure our people prioritise safety in their day-to-day activities.

We were encouraged that events with the potential to cause a fatality which had an associated injury reduced by 30 per cent at our operated assets compared with FY2016. This can be attributed to field leadership, in-field verification of critical controls and an increased focus on what we need to do to avoid single fatality risks.

Our total recordable injury frequency (TRIF) performance at our operated assets in FY2017 was 4.2 per million hours worked, a two per cent improvement on the previous financial year. This represents an improvement of nine per cent over five years.

Workplace fatalities ⁽¹⁾ (FY2008 - FY2017)

⁽¹⁾ Includes data for all operated assets for the financial years being reported.

Health

Recognising our operations can impact the health of our people, we set clear requirements to manage and protect the health and wellbeing of our workforce now and into the future. We set the minimum mandatory controls to identify and manage health risks for both employees and contractors.

In FY2012, we committed to reduce potential occupational exposure to carcinogens and airborne contaminants at our operated assets by 10 per cent by 30 June 2017. We have exceeded this target by reducing these occupational health exposures by 76 per cent.

A number of projects were rolled out in FY2017 to make sure we continue to reduce our people's exposure to carcinogens and airborne contaminants.

Table of Contents

The majority of our reported occupational illnesses continue to be noise-induced hearing loss and musculoskeletal illness. We continue to implement solutions designed to minimise the risks through engineering and administrative controls.

The incidence of employee occupational illness at our operated assets in FY2017 was 4.92 per million hours worked, an increase of 18 per cent on FY2016. The incidence of contractor occupational illness was 1.43 per million hours worked, an increase of 23 per cent compared with FY2016.

The increase in musculoskeletal illness reporting has been driven by an improvement in reporting process and access to data in Minerals Americas. Historically, gradual onset musculoskeletal illnesses were not well recognised as being work-related under Chilean regulatory requirements.

We do not have full oversight of contractor noise-induced hearing loss in many parts of BHP due to regulatory regimes and limited access to data. We are working with our contractors to resolve these issues.

In line with *Our Charter* and our culture of care, we also undertake activities to enhance the physical and mental wellbeing of our workforce. This includes the provision of preventative health measures and a Mental Health Framework focused on awareness, support and proactive management of mental wellbeing.

Coal workers pneumoconiosis

As at 30 June 2017, four current Queensland employees have been identified as having coal workers pneumoconiosis (CWP). We were deeply concerned to learn of these cases and have provided counselling, medical support and redeployment options to all four employees. In addition, as at 30 June 2017, two former Queensland workers and one former New South Wales worker have been diagnosed as having CWP.

Details of the steps BHP has taken in response to the re-identification of CWP in our industry are detailed in our Sustainability Report 2017.

1.10.4 Society

Strong and respectful engagement with host communities is vital to our business. Our minimum mandatory requirements guide our approach to these relationships and to engaging openly with communities to understand and respond to their concerns.

We play an important role in helping develop economies and improve standards of living. Our contribution includes employment opportunities, the purchase of local goods and services, the development of infrastructure and facilities and support of regional and national economies through the payment of taxes and royalties. Through these actions, we contribute to the achievement of the United Nations (UN) Sustainable Development Goals.

Engaging with host communities

By understanding the expectations, concerns and interests of the communities in which we work, we are better equipped to plan and implement commitments, as well as monitor and measure our performance. With community input, we undertake actions to understand the social and economic environment, recognise key stakeholders (including those who are vulnerable or disadvantaged) and identify the possible social impact of our operations. We also work closely with other industry partners to understand our collective impact and best approach to working together more effectively.

Table of Contents

Voluntary social investment

Aligned with the UN Sustainable Development Goals, our Social Investment Framework underpins our voluntary social investment approach and provides a consistent framework for local, regional, national and global investments. Using this Framework, we have voluntarily invested one per cent of our pre-tax profit¹ in community programs since 2001.

Our voluntary social investment in FY2017 (including BHP's equity share for both operated assets and non-operated joint venture assets) totalled US\$80.1 million. This included US\$75.1 million contributed to community development programs and associated administrative costs, and a US\$5 million contribution to the BHP Billiton Foundation.

Supporting local economic growth

Where our standards can be met, we choose to source products and services locally, benefiting local suppliers and local communities. In line with our expectations, all our operated assets had local procurement plans in effect during FY2017. These plans enabled us to direct 22 per cent of our external expenditure to local suppliers. An additional 68 per cent of our expenditure was within the regions in which we operate.

Our largest local expenditures were mostly made by our operated assets in the United States (86 per cent), Australia (12 per cent), Trinidad and Tobago (54 per cent) and Chile (16 per cent).

Building partnerships with Indigenous peoples

As the majority of our assets are located on or near traditional lands of Indigenous peoples, we have a responsibility to recognise and respect the status of Indigenous peoples as First Peoples and embrace the opportunity to establish long-lasting relationships, based on trust.

Our approach to engaging with Indigenous peoples is articulated in our Indigenous Peoples Position Statement, which we implement through our Indigenous Peoples Strategy. The Strategy focuses our engagement with Indigenous peoples on four priority areas: governance; economic empowerment; social and cultural support; and public engagement.

Examples of our achievements in each of the four priority areas of our Indigenous Peoples Strategy during FY2017 are available in our Sustainability Report 2017.

Respecting human rights

Respecting human rights wherever we operate is critical to the sustainability of our business and is consistent with our support for the UN Declaration on Human Rights, UN Guiding Principles on Business and Human Rights, the Voluntary Principles on Security and Human Rights and the 10 UN Global Compact principles.

We aim to identify and manage human rights-related risks in all our activities. Due diligence is performed to mitigate those risks, and we seek to remediate any adverse human rights impacts we have caused or to which we have contributed.

The most relevant human rights issues for our industry include occupational health and safety, labour conditions, activities of security forces, and respecting the rights of Indigenous peoples and communities near our operations.

- (1) Calculated on the average of the previous three years pre-tax profit.

Table of Contents

Our *Code of Business Conduct* outlines the human rights commitments applicable to our people, as well as our contractors and suppliers (where under relevant contractual obligation). Mandatory minimum performance requirements are articulated in our relevant standards, including our security and emergency management and our risk management standard.

Information on BHP's systems and processes for meeting the UN Guiding Principles on Business and Human Rights, our zero tolerance requirements in relation to human rights in the supply chain and BHP's 2016 UK Modern Slavery Act Statement is available online at bhp.com/respectinghumanrights.

1.10.5 Environment

We recognise our responsibility to minimise our environmental impact and contribute to enduring benefits.

We have minimum mandatory requirements for environmental management, which are in addition to any local regulatory requirements. The standard requires us to take an integrated, risk-based approach to the management of impact on land, biodiversity, water and air.

Our operated assets are required to understand baseline conditions and prioritise actions to avoid, minimise and rehabilitate environmental impacts over the short and long term, in line with our mitigation hierarchy. We do this within our area of influence, taking account of direct, indirect and cumulative impacts. If there are impacts on important biodiversity and ecosystems (or they are reasonably foreseeable), we will implement compensatory actions such as biodiversity offsets.

Water

Water is a shared resource, with high economic, environmental and social value, and access to water is a basic human right. In recognition of this, all our operated assets are required to manage water at a catchment level and maintain quantitative water balance models that enable timely management responses to water-related risks, consistent with business requirements.

At the end of FY2017, in line with our target for water, all our operated assets that identified water-related material risks implemented at least one project to improve the management of associated water resources.

Where possible, we seek to use lower-quality or recycled water to minimise extraction requirements from higher quality water resources. Our total water input (water intended for use) at our operated assets in FY2017 was 283,900 megalitres, with 91 per cent defined as Type 2 (suitable for some purposes) or Type 3 (unsuitable for most purposes). This demonstrates our approach to utilising lower-quality water wherever feasible.

Land and biodiversity

In FY2017, in line with our target, all our operated assets maintained land and biodiversity management plans that include actions to avoid, minimise and rehabilitate environmental impacts, and to manage their biodiversity and ecosystems impacts.

In addition to the environmental management actions of our operated assets, in FY2013, we established a target to finance the conservation and ongoing management of areas of high biodiversity and ecosystem value that are of

national or international conservation significance. We established an alliance with Conservation International to support the delivery of this target and improve our approach to biodiversity management more broadly.

Through our partnership with Conservation International, we committed more than US\$50 million to conservation as at the end of FY2017, in addition to the environmental management activities undertaken at our operated assets.

Our case study on our partnership with Conservation International is available online at bhp.com/casestudies.

Table of Contents

Environmental events

Our operated assets are required to maintain emergency response plans to minimise the potential severity of, and respond effectively to, environmental events. We conduct thorough investigations when an actual or potential significant environmental event occurs, to understand the cause and identify any corrective actions to prevent similar events.

While no significant environmental events occurred at any BHP operated assets in FY2017, we are still working to address the significant environmental impacts of the tailings dam failure at our non-operated joint venture, Samarco, in November 2015.

1.10.6 Climate change

BHP's strategy is tied to economic growth in both emerging and developed economies. As such, our sustained growth is not possible without an effective response to climate change.

Contributing to the global response

To support the development of that effective response, we seek to engage with governments, non-government organisations and other stakeholders to inform the development of an effective, long-term policy framework that delivers a measured transition to a lower emissions economy.

We are a signatory to the World Bank's *Putting a Price on Carbon* statement and a member of the World Bank's Carbon Pricing Leadership Coalition. We are also a member of the Energy Transitions Commission, which aims to identify pathways for change in our energy systems to ensure both better growth and a better climate.

As part of this engagement, we regularly share lessons learned in order to help identify solutions that can drive emissions reductions at the lowest cost.

Our position on climate change

We accept the Intergovernmental Panel on Climate Change (IPCC) assessment of climate change science, which has found that warming of the climate is unequivocal, the human influence is clear and physical impacts are unavoidable.

We believe the world must pursue the twin objectives of limiting climate change to the lower end of the IPCC emission scenarios in line with current international agreements, while providing access to reliable and affordable energy to support economic development and improved living standards. We do not prioritise one of these objectives over the other – both are essential to sustainable development.

Under all current plausible scenarios, fossil fuels are expected to continue to be a significant part of the energy mix for decades. Therefore, an acceleration of effort to drive energy efficiency, develop and deploy low-emissions technology and adapt to the impacts of climate change is needed. We believe there should be a price on carbon, implemented in a way that addresses competitiveness concerns and achieves lowest cost emissions reductions.

More information is available in our Sustainability Report 2017 at bhp.com.

Transparent reporting

We recognise the importance of open engagement with our stakeholders, including investors, to ensure a good understanding of how climate-related risks and opportunities are identified, assessed and managed.

Table of Contents

We have a strong record of supporting and complying with robust reporting requirements on climate change issues. Our extensive engagement program with investors, government and the broader society includes our voluntary submission to CDP (formerly the Carbon Disclosure project; see cdp.net). This commitment has resulted in a significant improvement in our CDP scores since FY2013.

Our climate change disclosures are aligned with the newly issued recommendations of the Financial Stability Board's Taskforce on Climate-related Financial Disclosures (TCFD). The TCFD has developed a voluntary framework for the reporting of climate-related financial risk disclosures for use by lenders, insurers, investors and other stakeholders. BHP has been a firm supporter of this work and our Vice President of Sustainability and Climate Change, Dr Fiona Wild, is a member of the TCFD. We believe the work of the TCFD builds a consistent framework for climate-related risk disclosure and see the recommendations as a strong endorsement of the work we have already undertaken.

Climate-related disclosures

Responding to climate change is an integral part of our strategy and operations. Therefore information relating to climate change is contained throughout this Report. The table below shows how our disclosures in this Report align to the TCFD recommendations, and where the relevant information can be found. Further information can also be found in BHP's Sustainability Report 2017, Climate Change: Portfolio Analysis (2015) and Climate Change: Portfolio Analysis – Views after Paris (2016).

TCFD recommendation	Disclosure	Location
Governance – Disclose the organisation's governance around climate-related risks and opportunities		
a) Describe the Board's oversight of climate-related risks and opportunities.	Board skills and experience – climate change	2.8
	Sustainability Committee – role and focus	2.13.4
b) Describe management's role in assessing and managing climate-related risks and opportunities.	Our climate change strategy	1.10.6
	Sustainability Committee – role and focus	2.13.4
	FY2017 STI performance outcomes	3.3.2
Strategy – Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning where such information is material		
a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.	Sustainability risks	1.8.3
	Operational risks	1.8.3
	Climate change – overview	1.10.6
b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.	Sustainability risks	1.8.3
	Operational risks	1.8.3
	Portfolio evaluation	1.10.6
c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	Portfolio evaluation	1.10.6

Risk management Disclose how the organisation identifies, assesses, and manages climate-related risks

a) Describe the organisation's processes for identifying and assessing climate-related risks.	Managing performance and risk	1.5.2
b) Describe the organisation's processes for managing climate-related risks.	Managing performance and risk	1.5.2
	Sustainability risks	1.8.3
c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.	Managing performance and risk	1.5.2
	Sustainability risks	1.8.3
	Sustainability KPIs	1.6.1

Table of Contents

TCFD recommendation	Disclosure	Location
Metrics and targets	Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material	
a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.	Sustainability KPIs	1.6.1
b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.	Sustainability KPIs (GHGs)	1.6.1
	Mitigation GHGs	1.10.6
	Low emissions technology	1.10.6
c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.	Sustainability KPIs (GHGs)	1.6.1
	FY2017 STI performance outcomes	3.3.2
Our climate change strategy		

Climate change is a priority governance and strategic issue for BHP. Our Board is actively engaged in the setting of strategy and governance of climate change issues, supported by the Sustainability Committee. Management has primary responsibility for the design and implementation of our response to climate change. GHG reduction is a key performance indicator for our business, and our performance against these targets is reflected in senior executive and leadership remuneration.

Our climate change strategy is informed and underpinned by active engagement with our stakeholders, including investors, policy makers, peer companies and non-government organisations. We regularly review our position on climate change in response to emerging scientific knowledge and changes in global regulation. We seek input and insight from external experts, such as the Forum on Corporate Responsibility. We also incorporate climate change considerations into our scenario planning to understand potential impacts on our portfolio.

Our response to climate change is focused on mitigation, adaptation, low-emissions technology and portfolio evaluation. These are outlined below. For more information, see our Sustainability Report 2017 at bhp.com.

Mitigation

As a major producer and consumer of energy, we prioritise reduction of GHG emissions and energy efficiency. Rather than use an intensity metric to define our Group GHG target, we have set ourselves a challenging goal to limit our overall emissions by keeping our absolute FY2017 GHG emissions at our operated assets below our FY2006 baseline (adjusted as necessary for material acquisitions and divestments). This encourages us to reduce GHG emissions, improve our energy efficiency and increase productivity.

With our FY2017 emissions total at 21 per cent below the adjusted FY2006 baseline, we have successfully achieved our ambitious target. Numerous individual improvement projects have contributed to this achievement, as well as improvements in productivity and technology and changes in production profile. Projects tracked since FY2013 as part of our current GHG target achieved more than 975,000 tonnes CO₂-e of annualised abatement in FY2017 at our Continuing operations.

Table of Contents**GHG Scope 1 and 2 (millions of tonnes CO₂-e)⁽¹⁾**

Year ended 30 June ⁽²⁾	2017	2016	2015
Scope 1 ⁽³⁾	10.5	11.3	20.7
Scope 2 ⁽⁴⁾	5.8	6.7	17.6
Total GHG millions of tonnes CO₂-e	16.3	18.0	38.3

(1) Measured according to the World Resources Institute/World Business Council for Sustainable Development Greenhouse Gas Protocol.

(2) Includes data for Continuing and Discontinued operations.

(3) Scope 1 refers to direct GHG emissions from operated assets.

(4) Scope 2 refers to indirect GHG emissions from the generation of purchased electricity and steam that is consumed by operated assets (calculated using the market-based method).

In line with the requirements of the UK Companies Act 2006, our reported FY2017 GHG intensity was 2.4 tonnes of CO₂-e per tonne of copper equivalent production (FY2016: 2.8 tonnes of CO₂-e). Our reported FY2017 energy intensity was 20 petajoules per million tonnes of copper equivalent production. Copper equivalent production has been based on FY2013 average realised product prices.

Adaptation

Our assets are long-lived and therefore we take a robust, risk-based approach to adapting to the physical impacts of climate change. We work with globally recognised agencies to obtain regional analyses of climate change science to inform resilience planning at an asset level and improve our understanding of the climate vulnerabilities our operations and host communities may face.

All our operated assets build climate resilience into their activities through compliance with the *Our Requirements for Environment and Climate Change* standard. We also require new investments to assess and manage risks associated with the forecast impacts of climate change.

Low-emissions technology

Rapid technology development is contributing to the task of global emissions reduction today, while further innovation has the potential to enable long-term climate goals to be met. We believe industry has a significant collaborative role to play with government, academia and the community to facilitate this necessary step change. BHP has an integrated strategy to invest across a range of new technologies that have the potential to reduce emissions in our operations and from the use of our products, which are significantly higher. In FY2017, our Scope 3 emissions were 585.1¹ million tonnes. This is why we are working in partnership across our supply chain to accelerate

deployment of low emissions technology, improve energy efficiency and support effective, long-term policy responses.

When evaluating investment opportunities, we aim to look at factors including the potential to materially reduce emissions and the opportunity to use our expertise to accelerate the required change. Our investments also build capacity, capability and internal awareness within the business, and leverage BHP's global Operating Model replicability, scale and market power.

- (1) Scope 3 refers to other indirect emissions, such as the extraction and production of purchased materials and fuels, transport-related activities in vehicles not owned or controlled by the reporting entity, electricity-related activities (e.g. transmission losses) not covered in Scope 2, outsourced activities, waste disposal, etc. 97 per cent of our Scope 3 emissions comes from the processing and use of sold products.

Table of Contents

We are focusing on carbon capture and storage (CCS), technologies to reduce fugitive emissions from coal and petroleum assets, renewable energy, battery storage and high-efficiency/low-emissions power generation and transportation. As well as reducing our own emissions, the result of this work will also be shared widely to assist others in the resource sector.

Portfolio evaluation

We recognise that even well-researched forecasts are subject to uncertainty in the face of rapid technology and policy change, and that the world could move in any number of different directions to address climate change. To understand the impact of this uncertainty on BHP's portfolio, our corporate planning process uses scenario analysis to consider a wide spectrum of potential outcomes. Designed to interpret external factors, including technical, economic, political and governance trends facing the global resources industry, the scenarios offer a means to explore potential portfolio discontinuities and opportunities, as well as to test the robustness of decisions. We also test the portfolio against shock events: unlikely and extreme events, which are typically short term, but may have associated longer-term impacts.

Our Portfolio Analysis (first published in FY2015) shows our uniquely diversified portfolio of high-quality, low-cost assets is robust under both an orderly and a more rapid transition to a two degree Celsius world. We also have a strong project pipeline with many capital-efficient growth options that continue to generate shareholder value in a two degree Celsius world.

In September 2016, we released *Climate Change: Portfolio Analysis – Views after Paris*, which included analysis of emerging climate policy (e.g. 21st Conference of the Parties (COP21)) and low-emissions technology developments. As an outcome of COP21 in Paris, the Paris Agreement was significant for establishing a common ambition to reduce emissions, but the Nationally Determined Contributions, which described each nation's plans to achieve this targets, were still relatively modest. It is important that Parties to the Paris Agreement provide regular progress assessments and increase ambition over time.

We expect non-hydro renewables, principally wind and solar, will gain market share in the power sector, mainly at the expense of energy coal. This uptake is expected to triple the combined share of wind and solar in the power mix in the next 25 years. We expect demand growth for oil to decrease due to the rise in electric vehicles and an increase in fuel efficiency of internal combustion engines vehicles.

Nevertheless, despite rapid growth in renewables and electric vehicles, the world will still require roughly four-fifths of its growing total energy needs to come from non-renewable sources in 2040. As such, it is important to look at other options to reduce emissions from the production and use of fossil fuels, such as CCS and improved power generation efficiency.

We are committed to keeping our stakeholders informed of the impact of climate change to BHP.

1.11 Our businesses

The maps in this section should be read in conjunction with the information on mining operations table in section 6.1.

1.11.1 Minerals Australia

The Minerals Australia asset group includes operated assets in Western Australia, Queensland, New South Wales and South Australia.

Table of Contents

Copper asset

Olympic Dam

Overview

Olympic Dam is one of the world's largest ore bodies. Located 560 kilometres north of Adelaide, it is one of the world's largest deposits of copper, gold and uranium, and it also has a significant deposit of silver. Olympic Dam operates a fully integrated processing facility from ore to metal.

Olympic Dam's underground mine is made up of more than 450 kilometres of underground roads and tunnels. The asset extracts copper uranium ore, with the ore hauled by automated train to feed underground crushing, storage and ore hoisting facilities.

Olympic Dam's processing plant consists of two grinding circuits in which high-quality copper concentrate is extracted from sulphide ore through a flotation extraction process. The asset includes a fully integrated metallurgical complex with a grinding and concentrating circuit, a hydrometallurgical plant incorporating solvent extraction circuits for copper and uranium, a copper smelter, a copper refinery and a recovery circuit for precious metals.

Key developments during FY2017

Olympic Dam's copper production decreased following the state-wide power outage during September and October 2016 and unplanned maintenance that took place at the refinery during December 2016 and January 2017.

Looking ahead

Development in the Southern Mining Area is progressing well and is expected to support a gradual increase in copper production to 230 kilotonnes (kt) in FY2021.

Table of Contents

Through the first half of FY2018, BHP's Olympic Dam smelter operations will be enhanced through a total A\$350 million investment.

The smelter upgrade involves combined investment in the following three areas to ensure the ongoing integrity of critical infrastructure and to continue to deliver safe and reliable performance:

rebuilding key elements of the smelter flash furnace;

demolishing and building a new electric slag furnace;

removing and replacing the five-storey high electro static precipitator.

Olympic Dam is also using the planned down time to undertake further refinery asset maintenance.

We are investigating further options for expanding production at Olympic Dam. The brownfield expansion project could see production grow to approximately 280 kilotonnes per annum (ktpa), with a potential upside of 330 ktpa. We are also seeing encouraging results in our heap leach trials which, if proven, would enable potential growth to 450-500 ktpa of copper.

Iron ore asset

Western Australia Iron Ore

Overview

Western Australia Iron Ore (WAIO) is an integrated system of four processing hubs and five mines, connected by more than 1,000 kilometres of rail infrastructure and port facilities in the Pilbara region of northern Western Australia.

Table of Contents

WAIO's Pilbara reserve base is relatively concentrated, allowing development to be planned around integrated mining hubs joined to the mines and satellite orebodies by conveyors or spur lines. This approach enables the value of installed infrastructure to be maximised by using the same processing plant and rail infrastructure for a number of orebodies.

At each mining hub Newman, Yandi, Mining Area C and Jimblebar ore from mines is crushed, beneficiated (where necessary) and blended to create high-grade hematite lump and fines products. Iron ore products are then transported along the Port Hedland Newman Rail Line to the Finucane Island and Nelson Point port facilities at Port Hedland.

There are four main WAIO joint ventures (JVs): Mt Newman, Yandi, Mt Goldsworthy and Jimblebar. BHP's interest in each of the joint ventures is 85 per cent, with Mitsui and ITOCHU owning the remaining 15 per cent. The joint ventures are unincorporated, except Jimblebar.

BHP, Mitsui and ITOCHU have entered into separate joint venture agreements with some customers that involve the sublease of parts of WAIO's existing mineral leases: JW4, Wheelarra and Posmac. The JW4 sublease arrangement expired on 1 April 2017 and, as such, control of the sublease area was handed back to the Yandi JV.

The ore is sold to the main joint ventures. BHP is entitled to 85 per cent of production from these subleases.

All ore is transported by rail on the Mt Newman JV and Mt Goldsworthy JV rail lines to our port facilities. WAIO's port facilities at Nelson Point are owned by the Mt Newman JV, and Finucane Island is owned by the Mt Goldsworthy JV.

Key developments during FY2017

WAIO has achieved record production as a result of continued focus on productivity improvements, the rail renewal program and the ramp-up of additional capacity at Jimblebar, where a new primary crusher and additional conveying capacity was successfully commissioned.

Productivity improvements included a reduction of locomotive service times by 50 per cent and the introduction of an improved drilling fleet configuration, which has lowered fuel usage and engine load factor. Automation was introduced for blast hole drilling across all WAIO mine sites. With some mine blasts requiring more than 6,000 drill holes, automation reduces people exposure to hazardous environments, is a key enabler for diversity, saves time and allows for greater accuracy.

The rail renewal and maintenance program progressed ahead of schedule and is now complete. In the short term, the program has resulted in higher unit costs for FY2017. However, this cost is offset by the benefits of creating a more integrated and just in time supply chain; the re-railing has unlocked further capacity and enabled us to better mitigate the impacts of unplanned events, such as bad weather.

Looking ahead

We will continue to focus on productivity improvements through standardised work processes, simplification and further cost reduction. BHP will continue to work with the regulatory authorities in relation to the necessary licence amendment to increase BHP's current authorised export capacity to 290 million tonnes (Mt).

Pre-commitment funding of US\$184 million has been approved for the development of the South Flank deposit adjacent to the existing Mining Area C operations. The South Flank project, which will leverage and expand the

existing Mining Area C hub, is BHP's preferred option to replace production from the 80 million tonnes per annum (Mtpa) Yandi mine (100 per cent basis) when it reaches the end of its economic life in the early-to-mid 2020s. The project is expected to be submitted for Board approval in the middle of CY2018, with first ore targeted in CY2021 and ramp-up timed to coincide with the ramp-down of Yandi.

Table of Contents

Coal assets

Our coal assets in Australia consist of open-cut and underground mines. At our open-cut mines, overburden is removed after blasting, using either draglines or truck and shovel. Coal is then extracted using excavators or loaders and loaded onto trucks to be taken to stockpiles or directly to a beneficiation facility.

At our underground mine, coal is extracted by either longwall or continuous miner. The coal is then transported to stockpiles on the surface by conveyor. Coal from stockpiles is then crushed and, for a number of the operations, washed and processed through a coal preparation plant. Domestic coal is transported to nearby customers via conveyor or rail, while export coal is transported to the port via trains or trucks. As part of the coal supply chain, both single and multi-user rail and port infrastructure is used.

Queensland Coal

Overview

Queensland Coal comprises the BHP Billiton Mitsubishi Alliance (BMA) and BHP Billiton Mitsui Coal (BMC) assets in the Bowen Basin in Central Queensland, Australia.

The Bowen Basin's high-quality metallurgical coals are ideally suited to efficient blast furnace operations. The region's proximity to Asian customers means it is well positioned to competitively supply the seaborne market.

Queensland Coal has access to key infrastructure in the Bowen Basin, including a modern, multi-user rail network and its own coal-loading terminal at Hay Point, located near the city of Mackay. Queensland Coal also has contracted capacity at three other multi-user port facilities, including the Port of Gladstone (RG Tanna Coal Terminal), Dalrymple Bay Coal Terminal and Abbot Point Coal Terminal.

BHP Billiton Mitsubishi Alliance (BMA)

BMA is Australia's largest coal producer and supplier of seaborne metallurgical coal. BMA is owned 50:50 by BHP and Mitsubishi Development.

Table of Contents

BMA operates seven Bowen Basin mines (Goonyella Riverside, Broadmeadow, Daunia, Peak Downs, Saraji, Blackwater and Caval Ridge) and owns and operates the Hay Point Coal Terminal near Mackay. With the exception of the Broadmeadow underground longwall operation, BMA's mines are open-cut, using draglines and truck and shovel fleets for overburden removal.

BHP Billiton Mitsui Coal (BMC)

BMC owns and operates two open-cut metallurgical coal mines in the Bowen Basin – South Walker Creek Mine and Poitrel Mine. BMC is owned by BHP (80 per cent) and Mitsui and Co (20 per cent).

South Walker Creek Mine is located on the eastern flank of the Bowen Basin, 35 kilometres west of the town of Nebo and 132 kilometres west of the Hay Point port facilities. Poitrel Mine is situated southeast of the town of Moranbah and began open-cut operations in October 2006.

Key developments during FY2017

Tropical Cyclone Debbie hit the Queensland coast in March 2017, and the extreme rainfall that followed impacted access, power, logistics and services in the Bowen Basin. Dewatering infrastructure installed after the 2011 floods is working as designed and all sites have been fully operational since early April 2017.

BMA has announced an intention to invest US\$204 million (100 per cent basis) in the Caval Ridge Southern Circuit (CRSC) capital growth project in the Bowen Basin, which was approved by BHP in March 2017. The CRSC project includes an 11-kilometre overland conveyor system that will transport coal from Peak Downs Mine to the coal handling preparation plant at the nearby Caval Ridge Mine. The project will create up to 400 new construction jobs and lock in around 200 ongoing operational roles to operate the expanded contract mining fleet and to perform maintenance on the new infrastructure. It will also enable full utilisation of the 11.5 Mtpa wash-plant with ramp-up early in FY2019.

The Integrated Remote Operations Center (IROC) in Brisbane, which supports our people working in coal surface mines and port operations in Queensland and New South Wales, was completed in February 2017. IROC provided remote monitoring of the status of our sites during Tropical Cyclone Debbie and the immediate recovery phase, updating our business in a timely and consistent manner.

Looking ahead

Construction of the CRSC capital growth project commenced in April 2017 and will take approximately 18 months to complete. The first coal on conveyor is expected in August 2018.

In addition to the new conveyor and associated tie-ins, the project will fund a new stockpile pad and run-of-mine station at Peak Downs. It includes an upgrade of the existing coal handling preparation plant and stockyard at Caval Ridge. BMA also intends to invest in new mining fleet, including excavators and trucks.

Table of Contents

New South Wales Energy Coal

Overview

New South Wales Energy Coal (NSWEC) consists of the Mt Arthur Coal open-cut energy coal mine in the Hunter Valley region of New South Wales, Australia. The site produces coal for domestic and international customers in the energy sector.

Key developments during FY2017

Following our agreement with the New South Wales Government in August 2016 to cancel the exploration licence of the Caroon Coal project, a net gain of US\$115 million (after tax expense) has been recognised in the FY2017 financial results.

IndoMet Coal (Indonesia)

The sale of our 75 per cent interest in Indomet Coal to equity partner PT Alam Tri Abadi (Adaro) was completed in October 2016.

Table of Contents

Nickel West

Overview

Nickel West is a fully integrated mine-to-market nickel business. All nickel operations (mines, concentrators, a smelter and refinery) are located in Western Australia. The integrated business adds value throughout our nickel supply chain, with the majority of Nickel West's production sold as briquettes.

Low-grade disseminated sulphide ore is mined from Mt Keith, a large open-pit operation. The ore is crushed and processed on-site to produce nickel concentrate. High-grade nickel sulphide ore is mined at Cliffs and Leinster underground mines and Rocky's Reward open-pit mine. The ore is processed through a concentrator and dryer at Leinster. Nickel West's concentrator plant in Kambalda processes ore and concentrate purchased from third parties.

The three streams of nickel concentrate come together at the Nickel West Kalgoorlie smelter, a vital part of our integrated business. The smelter uses a flash furnace to smelt more than 650 ktpa of concentrate to produce nickel matte. Nickel West Kwinana then refines granulated nickel matte from the Kalgoorlie smelter into nickel powder and premium-grade nickel metal briquettes containing over 99 per cent nickel. Nickel matte and metal are exported to overseas markets via the Port of Fremantle.

Key developments during FY2017

The installation of a third grinding mill and other low-cost upgrades have lifted the production capacity at the Kwinana Refinery. This resulted in record production being achieved in FY2017, exceeding the previous record by eight per cent.

Within the Leinster underground mines, the development of the access drives to the Venus ore body has progressed, while mining of the Leinster 1A ore body continued to provide high-grade ore to the concentrator.

An environmental referral for a satellite pit at Mt Keith was lodged with the Western Australian Environmental Protection Authority in May 2017. The satellite pit will continue to supply ore to the Mt Keith concentrator upon completion of mining within the current pit.

Table of Contents

Looking ahead

Debottlenecking projects at Kwinana will continue and a range of projects are underway to extract further value from the refinery.

Exploration access to the Venus nickel deposit is scheduled to be completed in FY2018 and the drilling program to define the ore body will commence thereafter. The Venus deposit has the potential to support the extension of the expected life of Nickel West to FY2032.

1.11.2 Minerals Americas

The Minerals Americas asset group includes projects, operated and non-operated assets in Canada, Chile, Peru, the United States, Colombia and Brazil. Our assets produce copper, zinc, iron ore and coal.

Copper assets

Our copper assets in the Americas (Chile and Peru) consist of open-cut mines. At these mines, overburden is removed after blasting, using a truck and shovel. Ore is then extracted and further processed into high-quality copper concentrate or cathode. Copper concentrate is obtained through a grinding and flotation process, while copper cathode is produced from a leaching, solvent extraction and electrowinning process. Copper concentrate is transported to ports via pipeline, while cathode is transported by either rail or road where it is exported to our customers around the world.

Escondida (Chile)

Overview

We operate and own 57.5 per cent of the Escondida mine, which is a leading producer of copper concentrate and cathodes. Escondida, located in the Atacama Desert in northern Chile, is a copper porphyry deposit. Following the expected commissioning of the Escondida Water Supply project and ramp-up of the Los Colorados Concentrator in the September 2017 quarter, Escondida's two open-cut pits will feed three concentrator plants (which use grinding and flotation technologies to produce copper concentrate), as well as two leaching operations (oxide and sulphide).

Table of Contents

Key developments during FY2017

Tragically, one of our colleagues, Rudy Ortiz, died in October 2016 during planned maintenance on the Laguna Seca Line 2 concentrator. Following completion of the investigation into the fatality, lessons have been shared across BHP. At Escondida, a number of actions have been taken to improve our change management and in-field contractor management processes, as well as investigating the use of new technology to mitigate the inherent risks associated with this activity.

Negotiations with Union N°1 began in December 2016 on a new collective agreement, as the existing agreement was set to expire on 31 January 2017. Negotiations, including government-led mediation, were unsuccessful and the union commenced strike action on 9 February 2017. On 24 March 2017, following a 44-day strike and a revised offer being presented to union members, Union N°1 exercised its rights under Article 369 of the Chilean Labour Code to extend the existing collective agreement for 18 months. Operations returned to full capacity in April 2017.

BHP is investing in long-term sustainable water and power solutions in Chile. The Escondida Water Supply project, approved in July 2013, consists of a new 2,500 litres per second sea water desalination facility at a cost of US\$3.4 billion (US\$2.0 billion BHP share). First water was delivered in the March 2017 quarter, on schedule and budget and the project was officially handed over to operations on 1 July 2017. This project is an important step towards our progressive substitution of water from ground to sea sources.

We have also awarded a long-term energy agreement for the development, operation and maintenance of Kelar, a 517 megawatt combined-cycle gas-fired power plant in the town of Mejillones, Chile. The plant, which is connected to the Northern Interconnected System, commenced generation in the December 2016 quarter and will supply the increasing demand for electricity at Escondida and Pampa Norte.

Looking ahead

In June 2016, the Escondida Los Colorados Extension project was approved at a cost of US\$180 million (US\$103 million BHP share). First production is expected in the September 2017 quarter, adding incremental milling capacity of around 100 kilotonnes per day (ktpd).

The commissioning of the Escondida Water Supply project in June 2017 and the planned ramp-up of the Los Colorados Extension project in the September 2017 quarter are expected to allow full utilisation of three concentrators during FY2018.

Negotiations with Escondida Union N°2, comprising around 700 specialist and supervisor level staff, will occur during FY2018 as the current agreement expires on 31 December 2017.

Pampa Norte (Chile)

Overview

Pampa Norte consists of two wholly owned assets in the Atacama Desert in northern Chile – Spence and Cerro Colorado. Spence and Cerro Colorado produce high-quality copper cathode, using oxide and sulphide ore treatment through leaching, solvent extraction and electrowinning processes.

Key developments during FY2017

Spence processed a record 20 Mt of ore and had record production in FY2017, following the completion of the Recovery Optimisation (SRO) project.

Table of Contents

The SRO project was commissioned in September 2016 and has improved the production run rate from around 180 ktpa to 200 ktpa, as at December 2016. The SRO project was a low-cost, capital-efficient investment that accelerated leaching rates and increased metal recoveries from existing heap leach processes.

Looking ahead

The Spence Growth Option project was approved in August 2017 with expected capital expenditure of US\$2.46 billion, and will extend Spence mining operations by more than 50 years. The project will access primary ore beneath the current mine footprint through the continued development of the existing pit. It will involve the design, engineering and construction of a 95 ktpd concentrator and the outsourcing of a 1,000 litre per second desalination plant, creating up to 5,000 jobs during the construction phase. The project will increase copper production capacity by around 200 ktpa and is expected to deliver first production in FY2021. The current copper cathode stream will continue until FY2025.

Antamina (Peru)

Overview

We own 33.75 per cent of Antamina, a large, low-cost copper and zinc mine in north central Peru. Antamina by-products include molybdenum, lead/bismuth concentrate and silver.

Key developments during FY2017

Antamina continued to study options to debottleneck the operation and increase throughput. In this regard, Antamina achieved record material mined of 245 Mt in FY2017.

Looking ahead

Antamina remains focused on improving productivity and reducing unit cash costs. Copper production is expected to decrease to 125 kt in FY2018, as mining continues to progress through a zinc-rich ore zone consistent with the mine plan. Zinc production is expected to increase from 88 kt to approximately 100 kt in FY2018.

Table of Contents

Resolution Copper (United States)

Overview

We hold a 45 per cent interest in the Resolution Copper project in the US state of Arizona, which is operated by Rio Tinto (55 per cent interest). Resolution Copper is one of the largest undeveloped copper projects in the world and has the potential to become the largest copper producer in North America.

Key developments during FY2017

Studies to identify the best development pathway for the project progressed in FY2017. The multi-year National Environmental Policy Act permitting process continued according to plan. Community engagement activities with Native Americans, environmental advocates and local communities also progressed. Our share of project expenditure for FY2017 was US\$49 million.

Looking ahead

We remain focused on optimising the Resolution Copper project and working with the operator Rio Tinto to develop the project in a manner that creates sustainable benefits for all stakeholders. The next key milestone for the project is in December 2018 when a draft version of the Environmental Impact Study is expected to be made public.

Coal assets

Cerrejón (Colombia)

Overview

We have a one-third interest in Cerrejón, which owns, operates and markets one of the world's largest open-cut export energy coal mines, located in the La Guajira province of Colombia. Cerrejón also owns and operates integrated rail and port facilities through which the majority of production is exported to European, Asian, North and South American customers.

Table of Contents

Cerrejón's coal assets consist of an open-cut mine. Overburden is removed after blasting, using either draglines or truck and shovel. Coal is then extracted using excavators or loaders and loaded onto trucks to be taken to stockpiles or directly to our beneficiation facility.

Coal from stockpiles is crushed, of which a certain portion is washed and processed through the coal preparation plant. Domestic coal is transported to nearby customers via conveyor. Export coal is transported to the port via trains.

Key developments during FY2017

The drought conditions that impacted Cerrejón in FY2016 have abated, allowing for resequencing of the mine plan. Production in the second half of FY2017 was affected by wet weather.

Concerns have been expressed by resettled communities near Cerrejón, including impacts associated with sustainable livelihoods and access to water. We support Cerrejón to continue to work towards outcomes that reflect strong community engagement processes and meet international best practice for resettlements.

Through a roundtable process, resettled communities and Cerrejón have collectively discussed and addressed common issues and concerns to work towards a mutually agreed solution.

Looking ahead

Cerrejón is focused on safely improving throughput by increasing asset utilisation and securing the necessary permits to access new ore reserves.

New Mexico Coal (United States)

Following the sale of the Navajo mine, we continued to manage and operate the mine until the Mine Management Agreement with Navajo Transitional Energy Company (NTEC) ended on 31 December 2016. This transaction completes the divestment of the New Mexico coal assets.

Table of Contents

Iron ore asset

Samarco (Brazil)

BHP Billiton Brasil Limitada and Vale S.A. each holds a 50 per cent shareholding in Samarco Mineração S.A. (Samarco), which operates the Samarco iron ore mine in Brazil.

Overview

As a result of the tragic dam failure at Samarco in November 2015, operations at Samarco remain suspended. For further information on the Samarco dam failure, refer to section 1.7. Samarco comprises a mine and three concentrators located in the state of Minas Gerais, and four pellet plants and a port located in Anchieta in the state of Espírito Santo. Three 400-kilometre pipelines connect the mine site to the pelletising facilities.

Samarco's main product is iron ore pellets. Prior to the suspension of operations, the extraction and beneficiation of iron ore were conducted at the Germano facilities in the municipalities of Mariana and Ouro Preto. Front end loaders were used to extract the ore and convey it from the mines. Ore beneficiation then occurred in concentrators, where crushing, milling, desliming and flotation processes produced iron concentrate. The concentrate leaves the concentrators as slurry and is pumped through the slurry pipelines from the Germano facilities to the pellet plants in Ubu, Anchieta, where the slurry is processed into pellets. The iron ore pellets are then heat treated. The pellet output is stored in a stockpile yard before being shipped out of the Samarco-owned Port of Ubu in Anchieta.

Key developments during FY2017

For information on the progress made on remediation, resettlement and compensation in response to the Fundão dam failure, refer to section 1.7.

Looking ahead

Restart of Samarco's operations remains a focus, but is subject to separate negotiations with relevant parties and will occur only if it is safe, economically viable and has the support of the community. Resuming operations requires the granting of licences by state and federal authorities, community hearings and an appropriate restructure of Samarco's debt.

Table of Contents

Potash

Overview

Potash is a potassium-rich salt mainly used in fertiliser to improve the quality and yield of agricultural production. As an essential nutrient for plant growth, potash is a vital link in the global food supply chain. The demands on that supply chain are intensifying; there will be more people to feed in future, as well as rising calorific intake comprised of more varied diets. The strains this will place on finite land supply mean sustainable increases in crop yields will be crucial and potash fertilisers will be critical in replenishing our soils.

However, in the near term, overcapacity is likely to get worse. In the 10 years to 2016, the industry added nearly 27 Mt of annual nameplate capacity. Further greenfield supply will come on stream over the next five years. As a result, potash prices are currently at their lowest levels in a decade and are likely to get worse before they get better.

Although the near-term outlook may be sombre, we expect the peak of oversupply to occur within the next few years. Positive underlying demand fundamentals, assisted by affordable pricing, should see consumption catch up to capacity in the 2020s. Our projections are that demand for potash will continue to grow at a rate of about two to three per cent per year (compound annual growth rate) and that, even taking into account new projects and latent capacity in the industry, demand will outstrip supply within the next decade.

Potash has the potential to create significant value and provide BHP with an opportunity to capture long-term growth and diversification benefits.

Our investment in the Jansen Potash Project presents an opportunity to develop a multi-decade, multi-mine business; a potential fifth major commodity offering for BHP. It is consistent with our strategy to own and operate large, expandable assets that deliver value. However, the Project will be presented to the Board for approval only if it passes our strict Capital Allocation Framework tests.

Table of Contents

Jansen Potash Project

BHP holds exploration permits and mining leases covering approximately 9,600 square kilometres in the province of Saskatchewan, Canada. The Jansen Potash Project is located about 140 kilometres east of Saskatoon. We own 100 per cent of this Project.

Jansen's large resource endowment provides the opportunity to develop it in stages, with anticipated initial capacity of 4 Mtpa.

Key developments during FY2017

Over the year, our focus was on the safe excavation and lining of two 7.3 metre diameter shafts. Both shafts were safely excavated through the Blairmore formation (which lies about 450 metres below the surface), with steel tubbing in place to prevent water inflow and provide structural support. By the end of FY2017, the production shaft had reached a depth of approximately 730 metres of the design depth of 975 metres and the service shaft had been excavated to approximately 710 metres of its eventual one-kilometre depth. Capital expenditure in the Jansen Potash Project in FY2017 was US\$162 million.

During the year, we awarded the detailed engineering design contract studying the feasibility of Jansen Stage 1 to Hatch Bantrel, which formed a joint venture partnership to complete this work.

Looking ahead

Jansen is in the feasibility study phase and we continue to assess how we can reduce risk and unlock value. The current scope of work was 70 per cent complete at the end of FY2017. Work on the shafts will continue in FY2018. Once shaft excavation is complete, the shafts will be connected underground and shaft infrastructure will be installed. This falls within the current approved scope of work.

Construction beyond the current scope of work will require Board approval. With a later market window now anticipated, the Jansen Potash Project will not be brought to the Board in CY2018. In the meantime, we are considering multiple options to maximise the value of Jansen, including further improvements to capital efficiency, further optimisation of design and diluting our interest by bringing in a partner. Board approval will be sought for the project only if it passes our strict Capital Allocation Framework tests.

1.11.3 Petroleum

BHP has been in oil and gas since the 1960s. Petroleum is a high-margin business and we have globally competitive operating capability that can support long-term value creation.

Our Petroleum unit comprises conventional and unconventional oil and gas assets, and includes exploration, development and production activities. We have a high-quality resource base concentrated in the United States and Australia. We have conventional assets located in the US Gulf of Mexico, Australia and Trinidad and Tobago, and unconventional Onshore US assets. We produce crude oil and condensate, gas and natural gas liquids (NGLs) that are sold on the international spot market or delivered domestically under contracts with varying terms, depending on the location of the asset.

Table of Contents

United States

Gulf of Mexico

Overview

We operate two fields in the Gulf of Mexico – Shenzi (44 per cent interest) and Neptune (35 per cent interest).

We hold non-operating interests in two other fields – Atlantis (44 per cent interest) and Mad Dog (23.9 per cent interest).

All our producing fields are located between 155 and 210 kilometres offshore from the US state of Louisiana. We also own 25 per cent and 22 per cent, respectively, of the companies that own and operate the Caesar oil pipeline and the Cleopatra gas pipeline. These pipelines transport oil and gas from the Green Canyon area, where our Gulf of Mexico fields are located, to connecting pipelines that transport product onshore.

Key developments during FY2017

Mad Dog Phase 2, located in the Green Canyon area in the Deepwater Gulf of Mexico, is a southern and southwestern extension of the existing Mad Dog field. The Mad Dog Phase 2 project is in response to the successful Mad Dog South appraisal well, which confirmed significant hydrocarbons in the southern portion of the Mad Dog field.

The project cost has more than halved since 2013, with a revised field development concept leading to significant cost reductions. It is now estimated to be US\$9 billion on a 100 per cent basis (US\$2.2 billion BHP share). BP (the operator) sanctioned the Mad Dog Phase 2 project in December 2016 and the revised project was approved by the BHP Board in February 2017. The project includes a new floating production facility with the capacity to produce up to 140,000 gross barrels of crude oil per day from up to 14 production wells. Production is expected to begin in FY2022. Our share of the development costs is approximately US\$2.2 billion.

For more information, refer to section 1.13.1.

Table of Contents

Onshore US

Overview

We hold more than 794,000 net acres in four prolific US shale areas – Eagle Ford, Permian, Haynesville and Fayetteville – where we produce oil, condensate, gas and NGLs. The Black Hawk field of Eagle Ford and the Permian area are two of our largest liquids-focused field developments.

Eagle Ford

We are one of the largest producers in the liquids-focused Eagle Ford shale. Our Eagle Ford area (approximately 246,000 net acres) consists of Black Hawk and Hawkville fields, with production operations located primarily in the southern Texas counties of DeWitt, Karnes, McMullen and LaSalle. We produce condensate, gas and NGLs from the two fields. The condensate and gas produced are sold domestically in the United States via connections to intrastate and interstate pipelines, and internationally through the export of processed condensate. Our average net working interest is around 63 per cent. We acted as joint venture operator for approximately 37 per cent of our gross wells. In DeWitt county, we are operators for the drilling and completion phases of the majority of wells. The Eagle Ford gathering system consists of around 1,650 kilometres of pipelines that deliver volumes to five central delivery points, from which volumes are processed and transported to market. We operate the gathering system and own 75 per cent of it, while the remaining 25 per cent is held by Kinder Morgan.

Permian

The Permian production operation is located primarily in the western Texas county of Reeves and consists of approximately 83,000 net acres. We produce oil, gas and NGLs. The oil and gas are sold domestically in the United States via connections to intrastate and interstate pipelines. Our average net working interest is approximately 91 per cent. We acted as joint venture operator for around 91 per cent of our gross wells. Permian has 113 kilometres of water pipelines and a gathering system that consists of 183 kilometres of gas pipelines that deliver volumes to third party processing plants, from where processed volumes are transported to market.

Haynesville

The Haynesville production operation is located primarily in northern Louisiana and consists of approximately 197,000 net acres. We produce gas that is sold domestically in the United States via connections to intrastate and interstate pipelines. Our average net working interest is approximately 36 per cent. We acted as joint venture operator for around 35 per cent of our gross wells.

Fayetteville

The Fayetteville production operation is located in north central Arkansas and consists of approximately 268,000 net acres. We produce gas that is sold domestically in the United States via connections to intrastate and interstate pipelines. Our average net working interest is approximately 21 per cent. We acted as joint venture operator for around 19 per cent of our gross wells. The Fayetteville gathering system consists of around 770 kilometres of pipelines that deliver volumes to multiple compressor stations where processed volumes are transported to market.

Key developments during FY2017

The development phase of an onshore shale operation requires an extensive drilling and completion program, associated gas compression and treatment facilities, and connecting pipelines. Shale development has a repetitive, manufacturing-like nature that provides opportunities for increased efficiency. Our development of the shale reservoirs utilises horizontal drilling, with average lateral lengths between 1,500 3,000 metres. We enter into service contracts with third parties to provide drilling and completion services at our operated sites. Five drilling rigs were in operation at the end of FY2017.

Table of Contents

In the Eagle Ford, tests continue on the potential for staggered wells to increase recovery, larger fracturing jobs to improve productivity and the potential of the Upper Eagle Ford horizon.

The optimisation of Permian acreage has progressed through trades and swaps in the Delaware Basin, so that we can drill longer lateral wells to improve well economics. Activity is expected to increase as we complete the trials we need to inform the future development plan.

In Haynesville, development activity is increasing with the approval of two additional rigs. We expect rates of return on portions of our FY2018 production will be strengthened by gas hedging and supply contracts secured under favourable terms.

We are working with joint venture partners in the Fayetteville to assess the potential of the Moorefield horizon.

Strategic developments

As part of our ongoing review of our portfolio, the Board and management determined in August 2017 that our Onshore US assets are non-core and options to exit these assets are being actively pursued. We will be flexible with our plans and commercial in our approach. We are examining multiple alternatives but will only divest for value. Execution of these options may take time, which we will use to continue to complete our well trials and acreage swaps, and to investigate mid-stream solutions to increase the value, profitability and marketability of our Onshore US acreage.

Table of Contents

Australia

Overview

Bass Strait

We have produced oil and gas from Bass Strait (50 per cent interest) for over 40 years. Our operations are located between 25 and 80 kilometres off the southeastern coast of Australia. The Gippsland Basin Joint Venture, operated by Esso Australia (a subsidiary of ExxonMobil), participated in the original discovery and development of hydrocarbons in the field. More recently, the Kipper gas field under the Kipper Unit Joint Venture (also operated by Esso Australia) has brought online additional gas and liquids production that are processed via the existing Gippsland Basin Joint Venture facilities.

Table of Contents

We sell the majority of our Bass Strait crude oil and condensate production to local refineries in Australia. Gas is piped onshore to the joint venture's Longford processing facility, from where we sell our share of production to domestic retailers and end users. Liquefied petroleum gas (LPG) is dispatched via pipeline, road tanker or sea tanker. Ethane is dispatched via pipeline to a petrochemical plant in western Melbourne.

North West Shelf

We are a joint venture participant in the North West Shelf Project (12.5-16.67 per cent interest), located around 125 kilometres northwest of Dampier in Western Australia. The North West Shelf Project supplies gas to the Western Australian domestic market and liquefied natural gas (LNG) to buyers primarily in Japan, South Korea and China.

North West Shelf gas is piped from offshore fields to the onshore Karratha Gas Plant for processing. LPG, condensate and LNG are transported to market by ship, while domestic gas is transported by the Dampier-to-Bunbury and Pilbara Energy pipelines to buyers.

We are also a joint venture partner in four nearby oil fields - Cossack, Wanaea, Lambert and Hermes. All North West Shelf gas and oil joint ventures are operated by Woodside.

Pyrenees

We operate six oil fields in Pyrenees, which are located offshore around 23 kilometres northwest of Northwest Cape, Western Australia. We had an effective 62 per cent interest in the fields as at 30 June 2017 based on inception-to-date production from two permits in which we have interests of 71.43 per cent and 40 per cent, respectively. The development uses a floating, production, storage and off-take (FPSO) facility.

Macedon

We are the operator of Macedon (71.43 per cent interest), an offshore gas field located around 75 kilometres west of Onslow, Western Australia and an onshore gas processing facility, located around 17 kilometres southwest of Onslow.

The operation consists of four subsea wells, with gas piped onshore to the processing plant. After processing, the gas is delivered into a pipeline and sold to the West Australian domestic market.

Minerva

We are the operator of Minerva (90 per cent interest), a gas field located 11 kilometres south-southwest of Port Campbell in western Victoria. The operation consists of two subsea wells, with gas piped onshore to a processing plant. After processing, the gas is delivered into a pipeline and sold domestically. Minerva end-of-field life is expected in FY2018, after which operations will be discontinued and wells will be plugged and abandoned.

Key developments during FY2017

Bass Strait Longford Gas Conditioning

The Longford Gas Conditioning Plant (LGCP) Project was approved by the Board in December 2012 to allow the production of Turrum reserves and the production of Kipper and other undeveloped high carbon dioxide content hydrocarbons. The facility is designed to process around 400 million cubic feet per day (MMcf/d) of high carbon dioxide gas. The project was completed and first gas production occurred in FY2017, with maximum rates achieved in

March 2017. Our share of development costs is approximately US\$520 million, of which US\$505 million was incurred as of 30 June 2017.

Table of Contents

Bass Strait Kipper gas field development

The Kipper gas field began production in FY2017 following the completion of the Longford Gas Conditioning Plant. Funding for the installation of mercury treatment facilities was approved in March 2014, with completion in FY2017. The project included two new subsea wells, three new pipelines and platform modifications to supply 3,000 barrels per day (Mbbbl/d) of condensate and 80 MMcf/d of gas.

Bass Strait Turrum field development

The Turrum field development is located 42 kilometres offshore in about 60 metres of water and operates under the Gippsland Basin Joint Venture. The Turrum field has a capacity of 10 Mbbbl/d of oil and 200 MMcf/d of gas. Initial production of low carbon dioxide gas through the Turrum facilities occurred in June 2013. High carbon dioxide gas production from the Turrum reservoir has come online with completion of the Longford Gas Conditioning Plant in FY2017.

North West Shelf Other Persephone

Persephone is a two well subsea project located northeast of the existing North Rankin complex. Execution activities are in progress, with first production expected in CY2017. Our share of development costs is around US\$190 million.

North West Shelf Other Greater Western Flank B

The Greater Western Flank 2 project was sanctioned by the Board in December 2015 and represents the second phase of development of the core Greater Western Flank fields, behind the GWF-A development. It is located to the southwest of the existing Goodwyn A platform. The development comprises six fields and eight subsea wells. Execution activities are in progress, with first production expected in CY2019. Our share of development costs is around US\$314 million.

Scarborough

Development planning for the large Scarborough gas field (located offshore from Western Australia) is in progress. Further work to optimise a preferred development option is ongoing. On 14 November 2016, we completed the transaction to divest 50 per cent of our interest in the undeveloped Scarborough area gas fields to Woodside Energy Limited (Woodside).

The transaction included half of BHP's interests in WA-1-R, WA-62-R, WA-61-R, and WA-63-R, for an initial cash consideration of US\$250 million and a further US\$150 million, payable at the time a future final investment decision is made for the development of the Scarborough gas field.

WA-1-R and WA-62-R together contain the Scarborough gas field. WA-61-R and WA-63-R contain the Jupiter and Thebe gas fields. Woodside will operate WA-61-R, WA-62-R and WA-63-R and we now hold a 50 per cent working interest. Esso is the operator of the WA-1-R lease and we now hold a 25 per cent working interest.

Table of Contents

Other production operations

Overview

Trinidad and Tobago

We operate the Greater Angostura field (45 per cent interest in the production sharing contract), an integrated oil and gas development located offshore 40 kilometres east of Trinidad. The crude oil is sold on a spot basis to international markets, while the gas is sold domestically under term contracts.

Algeria

Our Algerian asset comprises an effective 29.5 per cent interest in the ROD Integrated Development, which consists of six satellite oil fields that pump oil back to a dedicated processing train. The oil is sold on a spot basis to international markets. ROD is jointly operated by Sonatrach and ENI.

United Kingdom

We hold 16 per cent non-operating interest in the Bruce oil and gas field in the North Sea and a 31.83 per cent non-operating interest in the Keith oil and gas field, a subsea tie-back. Operatorship of the Keith field was transferred to BP on 31 July 2015. Oil and gas from both fields are processed via the Bruce platform facilities.

For more information, refer to section 1.13.1.

1.11.4 Marketing and Supply

Marketing and Supply is an interdependent core business of BHP. It is the link between BHP's global operations, our customers and our local and global suppliers. It is aligned to our asset groups – Minerals Australia, Minerals Americas and Petroleum.

It's how we take our iron ore mined in Australia and sell it to customers in China to make steel. It's how we source our trucks from Illinois, our rail track from Japan, our contractors from Adelaide, our rolling stock from China and our drilling rigs from Texas. It's how we connect a fabricator in Japan with copper cathode from our Chilean operations and how we pump oil in the Gulf of Mexico to fuel US transport.

Marketing focuses on optimising realised prices and sales outcomes, allowing the assets to focus on safety, volume and cost, and presenting one face to markets and customers across multiple assets. Marketing secures sales of BHP products and manages associated risks, gets our resources to market, provides governance of credit, manages market and price risks, and supports strategic and commercial decision-making by analysing commodity markets and providing short- and long-term insights.

Supply is our global procurement division, which purchases the goods and services that are used by our assets, working with our assets to optimise equipment performance, reduce operating cost and improve working capital. Supply manages supply chain risk and develops sustainable relationships with both global suppliers and local businesses in our communities.

A simple, centralised organisation co-located with key markets

Our Marketing and Supply businesses are strategically located in close proximity to our customers and suppliers. Singapore is our primary Marketing and Supply business, reflecting the fact that about 77 per cent of our sales and suppliers are in Asia. Another major Marketing and Supply business is located in Houston, United States. More than half of our oil and gas sales are to customers in North America. In addition, we have regional marketers located close to our customers in eight other cities across the world and global Supply teams supporting our assets in Australia, Chile and the United States.

Table of Contents

Marketing and Supply strategically located close to our key markets

Safer, more sustainable and efficient freight

BHP is one of the largest global shippers of bulk commodities. We use our scale and deep understanding of our markets to procure safe, low-cost freight. Our objective is to create a competitive advantage through using the highest quality freight service providers and ship owners. We drive improvement in industry safety standards and emissions reduction; for example, through our support for the Rightship ship vetting services and the use of data analytics to measure our counterparties' safety performance. We also look for ways to improve efficiency, such as by coordinating our inbound and outbound ocean freight requirements.

Sustainable supply

We set global standards for critical supply controls. Our focus is on the sustainability of our supply chain, and we develop sustainable partnerships with local businesses in our communities as well as global suppliers, taking into account human rights and environmental risks.

Developing market insight to inform strategic decision-making

Through our centralised network, Marketing and Supply analyses the fundamentals of demand and incorporates views on supply to inform our long-run outlook of commodity markets and key cost drivers for our procurement. We consider various global scenarios in our modelling and regularly monitor evolving trends in the market.

Our commodity views support asset and portfolio investment decisions, strategic planning, valuations and capital management. Marketing and Supply's outlook on the global economy, the resource industry and each of the commodities in our portfolio also serves to inform broader organisational priorities, such as our position on climate change.

1.12 Summary of financial performance

1.12.1 Group overview

We prepare our Consolidated Financial Statements in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board. We publish our Consolidated Financial Statements in US dollars. All Consolidated Income Statement, Consolidated Balance Sheet and Consolidated Cash Flow Statement information below has been derived from audited financial statements. For more information, refer to section 5.

Table of Contents

Unless otherwise noted, comparative financial information for FY2014 and FY2013 has been restated to reflect the demerger of South32 in FY2015, as required by IFRS 5/AASB 5 Non-current Assets Held for Sale and Discontinued Operations. Consolidated Balance Sheet information for these periods has not been restated as accounting standards do not require it.

Information in this section has been presented on a Continuing operations basis to exclude the contribution from assets that were demerged with South32, unless otherwise noted. Details of the contribution of the South32 assets to the Group's results are disclosed in note 27 Discontinued operations in section 5.

Year ended 30 June

US\$M	2017	2016	2015	2014	2013
Consolidated Income Statement (section 5.1.1)					
Revenue	38,285	30,912	44,636	56,762	53,860
Profit/(loss) from operations	11,753	(6,235)	8,670	22,649	21,977
Profit/(loss) after taxation from Continuing operations	6,222	(6,207)	4,390	14,955	14,132
(Loss)/profit after taxation from Discontinued operations			(1,512)	269	(1,312)
Profit/(loss) after taxation from Continuing and Discontinued operations attributable to BHP shareholders (Attributable profit/(loss)) ⁽¹⁾	5,890	(6,385)	1,910	13,832	11,223
Dividends per ordinary share paid during the period (US cents)	54.0	78.0	124.0	118.0	114.0
Dividends per ordinary share determined in respect of the period (US cents)	83.0	30.0	124.0	121.0	116.0
Basic earnings/(loss) per ordinary share (US cents) ⁽¹⁾⁽²⁾	110.7	(120.0)	35.9	260.0	210.9
Diluted earnings/(loss) per ordinary share (US cents) ⁽¹⁾⁽²⁾	110.4	(120.0)	35.8	259.1	210.2
Basic earnings/(loss) from Continuing operations per ordinary share (US cents) ⁽²⁾	110.7	(120.0)	65.5	256.5	238.6
Diluted earnings/(loss) from Continuing operations per ordinary share (US cents) ⁽²⁾	110.4	(120.0)	65.3	255.7	237.8
Number of ordinary shares (million)					
At period end	5,324	5,324	5,324	5,348	5,348
Weighted average	5,323	5,322	5,318	5,321	5,322
Diluted	5,336	5,322	5,333	5,338	5,340
Consolidated Balance Sheet (section 5.1.3) ⁽³⁾					
Total assets	117,006	118,953	124,580	151,413	139,178
Net assets	62,726	60,071	70,545	85,382	75,291
Share capital (including share premium)	2,761	2,761	2,761	2,773	2,773
Total equity attributable to BHP shareholders	57,258	54,290	64,768	79,143	70,667
Consolidated Cash Flow Statement (section 5.1.4)					
Net operating cash flows ⁽⁴⁾	16,804	10,625	19,296	25,364	20,154
Capital and exploration expenditure ⁽⁵⁾	5,220	7,711	12,763	16,210	22,425

Table of Contents**Year ended 30 June**

US\$M	2017	2016	2015	2014	2013
Other financial information					
Net debt ⁽⁶⁾	16,321	26,102	24,417	25,786	27,510
Underlying attributable profit ⁽⁶⁾	6,732	1,215	6,417	13,263	12,017
Underlying EBITDA ⁽⁶⁾	20,296	12,340	21,852	30,292	28,109
Underlying EBIT ⁽⁶⁾	12,389	3,469	11,866	22,098	21,680
Underlying basic earnings per share (US cents) ⁽⁶⁾	126.5	22.8	120.7	249.3	225.8

- (1) Includes (Loss)/profit after taxation from Discontinued operations attributable to BHP shareholders.
- (2) For more information on earnings per share, refer to note 6 Earnings per share in section 5.
- (3) The Consolidated Balance Sheet for FY2015 does not include the assets and liabilities demerged to South32. The Consolidated Balance Sheet of FY2014 and FY2013 does include the asset and liabilities demerged to South32 as IFRS 5/AASB 5 Non-current Assets Held for Sale and Discontinued Operations does not require the Consolidated Balance Sheet to be restated for comparative periods.
- (4) Net operating cash flows are after dividends received, net interest paid and net taxation paid and includes Net operating cash flows from Discontinued operations.
- (5) Capital and exploration expenditure is presented on a cash basis and represents purchases of property, plant and equipment plus exploration expenditure from the Consolidated Cash Flow Statement in section 5. Purchase of property, plant and equipment includes capitalised deferred stripping of US\$416 million for FY2017 (FY2016: US\$750 million) and excludes capitalised interest. Exploration expenditure is capitalised in accordance with our accounting policies, as set out in note 10 Property, plant and equipment in section 5.
- (6) We use alternate performance measures to reflect the underlying performance of the Group. Refer to section 1.12.4 for a reconciliation of alternate performance measures to their respective IFRS measure. Refer to section 1.12.5 for the definition and method of calculation of alternate performance measures. Refer to note 19 Net debt in section 5 for the composition of Net debt.

1.12.2 Financial results

The following table expands on the Consolidated Income Statement in section 5.1.1, to provide more information on the revenue and expenses of the Group in FY2017.

Year ended 30 June	2017 US\$M	2016 US\$M	2015 US\$M
Revenue ⁽¹⁾	38,285	30,912	44,636

Other income	736	444	496
Employee benefits expense	(3,787)	(3,702)	(4,971)
Changes in inventories of finished goods and work in progress	745	(294)	(139)
Raw materials and consumables used	(3,908)	(4,063)	(4,667)
Freight and transportation	(2,284)	(2,226)	(2,644)
External services	(4,765)	(4,984)	(6,284)
Third party commodity purchases	(1,157)	(1,013)	(1,165)
Net foreign exchange (losses)/gains	(103)	153	469
Government royalties paid and payable	(1,986)	(1,349)	(1,708)
Exploration and evaluation expenditure incurred and expensed in the current period	(612)	(430)	(670)

Table of Contents

	2017	2016	2015
Year ended 30 June	US\$M	US\$M	US\$M
Depreciation and amortisation expense	(7,931)	(8,661)	(9,158)
Impairment of assets	(193)	(7,394)	(4,024)
Operating lease rentals	(469)	(528)	(636)
All other operating expenses	(1,090)	(996)	(1,413)
Expenses excluding net finance costs	(27,540)	(35,487)	(37,010)
Profit/(loss) from equity accounted investments, related impairments and expenses	272	(2,104)	548
Profit/(loss) from operations	11,753	(6,235)	8,670
Net finance costs	(1,431)	(1,024)	(614)
Total taxation (expense)/benefit	(4,100)	1,052	(3,666)
Profit/(loss) after taxation from Continuing operations	6,222	(6,207)	4,390
Loss after taxation from Discontinued operations			(1,512)
Profit/(loss) after taxation from Continuing and Discontinued operations	6,222	(6,207)	2,878
Attributable to non-controlling interests	332	178	968
Attributable to BHP shareholders	5,890	(6,385)	1,910

⁽¹⁾ Includes the sale of third party products.

Profit after taxation from Continuing and Discontinued operations attributable to BHP shareholders increased from a loss of US\$6.4 billion in FY2016 to a profit of US\$5.9 billion in FY2017.

Revenue of US\$38.3 billion increased by US\$7.4 billion, or 24 per cent, from FY2016. This increase was primarily attributable to higher average realised prices, partially offset by lower production at Escondida mainly due to industrial action, at Queensland Coal due to the impact of Cyclone Debbie and at Onshore US due to deferral of activity for value and natural field decline. For information on our average realised prices and production of our commodities, refer to section 1.13.

Total expenses of US\$27.5 billion decreased by US\$7.9 billion, or 22 per cent, from FY2016. This primarily reflects impairments to our Onshore US assets recorded in FY2016, with FY2017 impairment expenses declining by US\$7.2 billion. Lower depreciation and amortisation expense of US\$730 million reflected lower production at our coal, copper and petroleum operations and a reduction in the depreciable asset base resulting from previously recorded impairment charges in Onshore US. Changes in finished goods and work in progress inventories of US\$745 million was primarily driven by a planned build of mined ore at Escondida ahead of the commissioning of the Los Colorados Extension project in the September 2017 quarter, and a benefit relative to FY2016 due to an inventory drawdown at Olympic Dam in the prior year. This was partially offset by an increase to government royalties paid and payable of US\$637 million, driven by higher revenues as explained earlier in this section.

Profit/(loss) from equity accounted investments, related impairments and expenses of US\$272 million has increased by US\$2.4 billion from FY2016. The increase is primarily due to the initial financial impact of the Samarco dam failure decreasing the FY2016 result and higher average realised prices received by operating equity accounted investments in FY2017.

Net finance costs of US\$1.4 billion increased by US\$407 million, or 40 per cent, from FY2016 reflecting higher benchmark interest rates, costs related to the March 2017 bond repurchase program and increased discounting charges to provisions and other liabilities, primarily relating to the Samarco dam failure (US\$127 million). This was partially

offset by a lower average debt balance following the repayment on maturity of Group debt and the bond repurchase program. For more information on net finance costs, refer to section 1.12.3 and note 19 Net debt in section 5.

Table of Contents

Total taxation expense, including royalty-related taxation and exchange rate movements, was US\$4.1 billion representing a statutory effective tax rate of 39.7 per cent. The FY2017 taxation expense reflects higher profits as explained earlier in this section. The FY2016 taxation benefit reflects operating losses resulting from the recognition of impairments as explained earlier in this section.

Financial results for the year ended 30 June 2016 compared with year ended 30 June 2015

Loss after taxation from Continuing and Discontinued operations attributable to the BHP shareholders was US\$6.4 billion in FY2016 compared with a profit of US\$1.9 billion in FY2015.

Revenue of US\$30.9 billion reduced by US\$13.7 billion, or 31 per cent, from US\$44.6 billion in FY2015. This decrease was primarily attributable to weaker average realised prices across all major commodities. For a discussion of the average realised prices of our commodities, refer to section 1.6.3 *Commodity performance overview*. Lower volumes during the year, particularly for copper at Escondida (due to anticipated grade decline) and Onshore US (deferral of development activity for value), also contributed to the decline in revenue. For production results from our operations during the periods, refer to section 6.2.

Total expenses of US\$35.5 billion reduced by US\$1.5 billion, or four per cent, from US\$37.0 billion in FY2015. This was due to a US\$1.3 billion reduction in Employee benefits expense related to lower headcount, a US\$1.3 billion reduction in External services related to lower contractor expenditure and a US\$604 million reduction in Raw materials and consumables used due to lower fuel and energy costs.

Depreciation and amortisation expense declined by US\$497 million due to a reduction in the depreciable asset base at Onshore US due to impairments previously recorded. Impairment of assets of US\$7.4 billion in FY2016 primarily relates to Onshore US assets.

(Loss)/profit from operations of US\$(6.2) billion reduced by US\$14.9 billion from FY2015 primarily as a result of a significant decline in commodity prices, the impairment of the Onshore US assets and the financial impacts of the Samarco dam failure, partially offset by the cost reductions described above.

Net finance costs of US\$1.0 billion increased by US\$410 million, or 67 per cent, from US\$614 million in FY2015 due to the issue of multi-currency hybrid notes during FY2016 (refer to section 1.12.3), higher benchmark interest rates and a gain on the early redemption of the Petrohawk Energy Corporation Senior Notes in FY2015.

The Group's statutory effective tax rate for FY2016 presents as nil (FY2015: 45.5 per cent) because we recognised a total taxation benefit of US\$1.1 billion (including government imposed royalty-related taxation calculated by reference to profits), and a loss before taxation for the period of US\$7.3 billion. The Group's adjusted effective tax rate was 35.8 per cent (FY2015: 31.8 per cent). The increase in the Group's adjusted effective tax rate in FY2016 reflects the relative higher proportion of profit from Australian petroleum assets (which are subject to a higher rate of tax due to the Petroleum Resource Rent Tax) in the Group's overall profit compared to FY2015.

Government royalties paid and payable which are not profit based are recognised as operating costs within (Loss)/profit before taxation. These amounted to US\$1.3 billion during the period (FY2015: US\$1.7 billion).

Discontinued operations

South32's contribution to BHP Billiton's FY2015 results comprised a US\$1.5 billion Loss after taxation. Details of the contribution of the South32 assets to the Group's results are disclosed in note 27 *Discontinued operations* in section 5.

Table of Contents**Principal factors that affect Revenue, Profit/(loss) from operations and Underlying EBITDA**

The following table describes the impact of the principal factors that affected Revenue, Profit/(loss) from operations and Underlying EBITDA for FY2017 and relates them back to our Consolidated Income Statement. For information on the method of calculation of the principal factors that affect Revenue, Profit/(loss) from operations and Underlying EBITDA, refer to section 1.12.6.

	Revenue US\$M	Total expenses, Other income and Profit/(loss) from equity accounted investments US\$M	Profit/(loss) from operations US\$M	Depreciation, amortisation and impairments and Exceptional Items US\$M	Underlying EBITDA US\$M
For the year ended 30 June 2016					
Revenue	30,912				
Other income		444			
Expenses excluding net finance costs		(35,487)			
Loss from equity accounted investments, related impairments and expenses		(2,104)			
Total other income, expenses excluding net finance costs and Loss from equity accounted investments, related impairments and expenses		(37,147)			
Loss from operations			(6,235)		
Depreciation, amortisation and impairments ⁽¹⁾				8,871	
Exceptional items ⁽¹⁾ (refer to note 2 Exceptional items in section 5)				9,704	
Underlying EBITDA					12,340
Change in sales prices	9,261	(274)	8,987		8,987
Price-linked costs		(779)	(779)		(779)
Net price impact	9,261	(1,053)	8,208		8,208
Productivity volumes	422	(82)	340		340
Growth volumes	(668)	401	(267)		(267)
Changes in volumes	(246)	319	73		73

Operating cash costs		1,131	1,131	1,131
Exploration and business development		(170)	(170)	(170)
Change in controllable cash costs (2)		961	961	961
Exchange rates	38	(554)	(516)	(516)
Inflation on costs		(308)	(308)	(308)
Fuel and energy		(7)	(7)	(7)
Non-cash		(357)	(357)	(357)
One-off items		(602)	(602)	(602)
Change in other costs	38	(1,828)	(1,790)	(1,790)
Asset sales		176	176	176
Ceased and sold operations	(478)	417	(61)	(61)
Share of operating profit from equity accounted investments		172	172	172
Other	(1,202)	1,419	217	217
Depreciation, amortisation and impairments (1)		964	964	(964)
Exceptional items (1)		9,068	9,068	(9,068)

Table of Contents

	Revenue US\$M	Total expenses, Other income and Profit/(loss) from equity accounted investments US\$M	Profit/(loss) from operations US\$M	Depreciation, amortisation and impairments and Exceptional Items US\$M	Underlying EBITDA US\$M
For the year ended 30 June 2017					
Revenue	38,285				
Other income		736			
Expenses excluding net finance costs		(27,540)			
Profit from equity accounted investments, related impairments and expenses		272			
Total other income, expenses excluding net finance costs and Profit from equity accounted investments, related impairments and expenses					
		(26,532)			
Profit/(loss) from operations			11,753		
Depreciation, amortisation and impairments ⁽¹⁾				7,907	
Exceptional items ⁽¹⁾ (refer to note 2 Exceptional items in section 5)				636	
Underlying EBITDA					20,296

(1) Depreciation and impairments that we classify as exceptional items are excluded from depreciation, amortisation and impairments. Depreciation, amortisation and impairments includes non-exceptional impairments of US\$188 million (FY2016: US\$210 million).

(2) Collectively, we refer to the change in operating cash costs and change in exploration and business development as change in controllable cash costs. Operating cash costs by definition do not include non-cash costs. The change in operating cash costs also excludes the impact of exchange rates and inflation, changes in fuel and energy costs, changes in exploration and business development costs and one-off items. These items are excluded so as to provide a consistent measurement of changes in costs across all segments, based on the factors that are within the control and responsibility of the segment. Change in controllable cash costs and change in operating cash costs are not measures that are recognised by IFRS. They may differ from similarly titled measures reported by other companies.

Higher average realised prices across our key commodities increased Underlying EBITDA by US\$9.0 billion in FY2017. This was partially offset by an increase to price-linked costs of US\$779 million reflecting higher royalty charges.

Productivity volumes in Underlying EBITDA improved by US\$340 million primarily as a result of ongoing efficiency improvements and the release of latent capacity across the Group, excluding US\$602 million one-off items from the industrial action at Escondida, power outage at Olympic Dam and the impact of Cyclone Debbie at Queensland Coal. This was partially offset by US\$267 million lower growth volumes reflecting deferral of development activity for value at Onshore US and expected natural field decline.

Our focus on best-in-class performance underpinned a US\$961 million reduction in controllable cash costs during FY2017. Lower costs reflect a decrease in labour and contractor costs per tonne produced at WAIO, favourable impacts from inventory movements across the mineral assets and a change in estimated recoverable copper in the Escondida sulphide leach pad. These are partially offset by additional WAIO rail maintenance costs, closure and rehabilitation adjustments in Petroleum and the impact of higher exploration expenditure attributable to expensing the Burrokeet wells in Trinidad and Tobago and the Wildling-1 well in the Gulf of Mexico.

Table of Contents

A weaker US dollar against the Australian dollar and Chilean peso decreased Underlying EBITDA by US\$516 million during the period.

Increased depletion of capitalised stripping and a lower strip ratio consistent with the Escondida mine plan further reduced Underlying EBITDA by US\$357 million.

Principal factors affecting Underlying EBITDA for the year ended 30 June 2016 compared with year ended 30 June 2015

Lower average realised prices across our major commodities reduced Underlying EBITDA by US\$11.3 billion in FY2016, partially offset by a reduction in price-linked costs by US\$592 million reflecting lower royalty charges at Western Australia Iron Ore as a result of lower average realised prices.

Anticipated grade decline of 28 per cent at Escondida was the major contributor to lower productivity-led volumes of US\$782 million in Underlying EBITDA. Deferral of development activity for value at Onshore US reduced gas volumes supporting a further volume-related decrease in Underlying EBITDA of US\$383 million.

Our focus on best-in-class performance underpinned a US\$1.0 billion reduction in operating cash costs during FY2016. Lower operating cash costs across the Group more than offset the impact of the drawdown of lower-grade inventory and grade decline at Escondida.

A stronger US dollar against the Australian dollar and Chilean peso increased Underlying EBITDA by US\$1.1 billion during the period.

Cash flow

The following table provides a summary of the Consolidated Cash Flow Statement contained in section 5.1.4 to show the key sources and uses of cash during the periods presented:

Year ended 30 June	2017 US\$M	2016 US\$M	2015 US\$M
Cash generated from operations	19,377	12,671	21,620
Dividends received	636	301	740
Net interest paid	(985)	(702)	(541)
Settlement of cash management related instruments	(140)		
Net taxation paid	(2,084)	(1,645)	(4,025)
Net operating cash flows from Continuing operations	16,804	10,625	17,794
Net operating cash flows from Discontinued operations			1,502
Net operating cash flows	16,804	10,625	19,296
Purchases of property, plant and equipment	(4,252)	(6,946)	(11,947)
Exploration expenditure	(968)	(765)	(816)

Subtotal: Capital and exploration expenditure	(5,220)	(7,711)	(12,763)
Exploration expenditure expensed and included in operating cash flows	612	430	670
Net investment and funding of equity accounted investments	(234)	40	117
Other investing activities	681	(4)	474
Net investing cash flows from Continuing operations	(4,161)	(7,245)	(11,502)
Net investing cash flows from Discontinued operations			(1,066)
Cash disposed on demerger of South32			(586)

Table of Contents

Year ended 30 June	2017 US\$M	2016 US\$M	2015 US\$M
Net investing cash flows	(4,161)	(7,245)	(13,154)
Net (repayment of)/proceeds from interest bearing liabilities	(5,507)	4,607	(728)
(Distributions)/contributions to/from non-controlling interests	(16)		53
Dividends paid	(2,921)	(4,130)	(6,498)
Dividends paid to non-controlling interests	(581)	(87)	(554)
Other financing activities	(108)	(106)	(346)
Net financing cash flows from Continuing operations	(9,133)	284	(8,073)
Net financing cash flows from Discontinued operations			(203)
Net financing cash flows	(9,133)	284	(8,276)
Net increase/(decrease) in cash and cash equivalents from Continuing operations	3,510	3,664	(1,781)
Net increase in cash and cash equivalents from Discontinued operations			233
Cash disposed on demerger of South32			(586)

Net operating cash inflows of US\$16.8 billion increased by US\$6.2 billion. This increase reflects higher commodity prices, a continued focus on cash cost efficiency and higher dividends received from equity accounted investments in line with higher prices. This was partially offset by higher net interest paid due to higher benchmark interest rates, settlement of cash management related instruments and higher net taxation paid as a result of higher profits.

Net investing cash outflows of US\$4.2 billion decreased by US\$3.1 billion. The decrease reflects lower planned capital spend on major projects in FY2017 and higher cash proceeds from divestment and sale of assets during FY2017.

For additional information and a breakdown of capital and exploration expenditure on a commodity basis, refer to section 1.13.

Net financing cash outflows of US\$9.1 billion increased by US\$9.4 billion. This primarily reflects the Group's focus on debt reduction with US\$3.3 billion of senior debt repaid at maturity and US\$2.5 billion paid on bonds repurchased during March 2017 compared with an inflow of US\$4.6 billion in FY2016 primarily due to the Group issuing multi-currency hybrid notes of US\$6.4 billion. This was partially offset by lower dividends paid in FY2017 compared to FY2016 in line with the revised dividend policy.

For additional information, refer to section 1.12.3 and note 19 'Net debt' in section 5.

Financial results for the year ended 30 June 2016 compared with year ended 30 June 2015

Net operating cash inflows after interest and tax of US\$10.6 billion reduced by US\$8.7 billion from FY2015. The major contributor was a US\$8.9 billion decrease in cash generated from operations (after changes in working capital

balances), which was partially offset by a decrease of US\$2.4 billion in net taxes paid. Despite the significant decline in commodity prices, we generated US\$3.4 billion of free cash flow during FY2016 due to a reduction in operating costs and a targeted reduction of working capital.

Net investing cash outflows of US\$7.2 billion reduced by US\$5.9 billion from FY2015 due to a US\$5.1 billion reduction in capital and exploration expenditure. Exploration expenditure was US\$765 million, including US\$430 million classified within Net operating cash flows.

Net financing cash inflows of US\$284 million increased by US\$8.6 billion from outflows of US\$8.3 billion in FY2015, due to the issue of multi-currency hybrid notes during FY2016 (refer to section 1.12.3) and lower dividends paid in line with the revised dividend policy.

Table of Contents

1.12.3 Debt and sources of liquidity

Our policies on debt and liquidity management have the following objectives:

a strong balance sheet through the cycle;

diversification of funding sources;

maintain borrowings and excess cash predominantly in US dollars.

Interest bearing liabilities, net debt and gearing

At the end of FY2017, Interest bearing liabilities were US\$30.5 billion (2016: US\$36.4 billion) and Cash and cash equivalents were US\$14.2 billion⁽¹⁾ (FY2016: US\$10.3 billion). This resulted in net debt⁽²⁾ of US\$16.3 billion, which represented a decrease of US\$9.8 billion compared with the net debt position at 30 June 2016. Gearing, which is the ratio of net debt to net debt plus net assets, was 20.6 per cent at 30 June 2017, compared with 30.3 per cent at 30 June 2016.

During FY2017, the Group had a bias towards debt reduction. This included the decision not to refinance US\$3.3 billion of Group-level debt (which matured in FY2017) and the execution of a US\$2.5 billion bond repurchase program. On 23 March 2017, BHP concluded this bond repurchase program, which was funded by BHP's strong cash position and targeted short dated US dollar bonds maturing before FY2023. The early repayment of the bonds has extended BHP's average debt maturity profile and enhanced BHP's capital structure.

The following bonds were repurchased:

US\$500 million senior notes due 2018;

US\$980 million senior notes due 2019;

US\$720 million senior notes due 2021;

US\$140 million senior notes due 2022.

The decision not to refinance maturing Group debt and the bond repurchase program contributed to a US\$5.9 billion overall decrease in interest bearing liabilities in FY2017.

At the subsidiary level, Escondida issued US\$1.5 billion of new long-term debt to refinance US\$0.8 billion of short-term debt, US\$0.4 billion of long-term debt due for refinancing and to fund capital expenditure associated with key projects.

Funding sources

No new Group-level debt was issued in FY2017, and debt that matured during the year was not refinanced.

None of our Group-level borrowing facilities is subject to financial covenants. Certain specific financing facilities in relation to specific assets are the subject of financial covenants that vary from facility to facility, but which would be considered normal for such facilities. In addition to the Group's uncommitted debt issuance programs, we hold the following committed standby facilities.

- (1) Included within Cash and cash equivalents were short-term deposits of US\$13.3 billion (FY2016: US\$9.8 billion).
- (2) We use alternate performance measures to reflect the underlying performance of BHP. Refer to section 1.12.5 for the definition and method of calculation of alternate performance measures. Refer to note 19 Net debt in section 5 for the composition of net debt.

Table of Contents

	Facility available 2017 US\$M	Drawn 2017 US\$M	Undrawn 2017 US\$M	Facility available 2016 US\$M	Drawn 2016 US\$M	Undrawn 2016 US\$M
Revolving credit facility ⁽³⁾	6,000		6,000	6,000		6,000
Total financing facilities	6,000		6,000	6,000		6,000

⁽³⁾ The Company's committed US\$6.0 billion revolving credit facility operates as a back-stop to the Company's uncommitted commercial paper program. The combined amount drawn under the facility or as commercial paper will not exceed US\$6.0 billion. As at 30 June 2017, US\$ nil commercial paper was drawn (FY2016: US\$ nil), therefore US\$6.0 billion of committed facility was available to use (FY2016: US\$6.0 billion). The revolving credit facility expires on 7 May 2021. A commitment fee is payable on the undrawn balance and an interest rate comprising an interbank rate plus a margin applies to any drawn balance. The agreed margins are typical for a credit facility extended to a company with the Company's credit rating.

For more information regarding the maturity profile of our debt obligations and details of our standby and support agreements, refer to note 21 Financial risk management in section 5.

In BHP's opinion, working capital is sufficient for BHP's present requirements.

BHP's credit ratings are currently A3/P-2 outlook positive (Moody's long-term/short-term) and A/A-1 outlook stable (Standard & Poor's long-term/short-term).

A credit rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by an assigning rating agency, and any rating should be evaluated independently of any other information.

Year ended 30 June 2016 compared with year ended 30 June 2015**Interest bearing liabilities, net debt and gearing**

At the end of FY2016, Interest bearing liabilities were US\$36.4 billion (2015: US\$31.2 billion) and Cash and cash equivalents less overdrafts were US\$10.3 billion (2015: US\$6.8 billion). Included within Cash and cash equivalents were short-term deposits of US\$9.8 billion compared with US\$5.8 billion at 30 June 2015. This resulted in net debt of US\$26.1 billion, which represented an increase of US\$1.7 billion compared with the net debt position at 30 June 2015. Gearing, which is the ratio of net debt to net debt plus net assets, was 30.3 per cent at 30 June 2016, compared with 25.7 per cent at 30 June 2015.

Funding sources

In October 2015, BHP issued the following hybrid notes:

US\$3.25 billion of subordinated fixed rate reset notes across two tranches, comprising US\$1,000 million in a 60NC5 maturity bearing an initial coupon of 6.250 per cent and US\$2,250 million in a 60NC10 maturity bearing

an initial coupon of 6.750 per cent.

Table of Contents

2.0 billion of subordinated fixed rate reset notes across two tranches comprising 1,250 million in a 60.5NC5.5 maturity bearing an initial coupon of 4.750 per cent and 750 million in a 64NC9 maturity bearing an initial coupon of 5.625 per cent.

£600 million of subordinated fixed rate reset notes in a 62NC7 maturity bearing an initial coupon of 6.500 per cent.

None of our Group-level borrowing facilities is subject to financial covenants. Certain specific financing facilities in relation to specific assets are the subject of financial covenants that vary from facility to facility, but which would be considered normal for such facilities.

For more information regarding the maturity profile of our debt obligations and details of our standby and support agreements, refer to note 21 Financial risk management in section 5.

Table of Contents**1.12.4 Alternate performance measures**

We use various alternate performance measures to reflect our underlying performance. Our two primary measures of performance are Underlying attributable profit and Underlying EBITDA. These measures, and other alternate performance measures, are reconciled below and defined in section 1.12.5.

We believe these alternate performance measures provide useful information, but should not be considered as an indication of, or as a substitute for, Attributable profit/(loss) and other statutory measures as an indicator of actual operating performance or as an alternative to cash flow as a measure of liquidity.

We consider Underlying attributable profit to be a key measure that provides insight on the amount of profit available to distribute to shareholders, which aligns to our purpose as outlined in *Our Charter*. Underlying attributable profit is also the key performance indicator against which short-term incentive outcomes for our senior executives are measured and, in our view, is a relevant measure to assess the financial performance of the Group for this purpose.

Underlying EBITDA is the key alternate performance measure that management uses internally to assess the performance of the Group's segments and make decisions on the allocation of resources. In the Group's view this is more relevant to capital intensive industries with long-life assets.

Prior to FY2016, we reported Underlying EBIT as a key alternate performance measure of operating results. Management believes focusing on Underlying EBITDA more closely reflects the operating cash generative capacity and hence the underlying performance of the Group's business. Management also uses this measure because financing structures and tax regimes differ across the Group's assets and substantial components of the Group's tax and interest charges are levied at a Group level rather than an operational level.

Underlying EBITDA and Underlying EBIT are included in the FY2017 Consolidated Financial Statements, as required by IFRS 8 Operating Segments.

Reconciling alternate performance measures

The following tables provide reconciliations between the alternate performance measure and the respective IFRS measure. Section 1.12.5 outlines the definition and calculation methodology of our alternate performance measures.

Year ended 30 June 2017						Group and unallocated items/ eliminations ⁽³⁾	BHP Group
US\$M	Petroleum	Copper	Iron Ore	Coal			
Revenue	6,872	8,335	14,624	7,578	876		38,285
Revenue Group production ⁽¹⁾	6,856	7,232	14,543	7,578	869		37,078
Revenue Third party products ⁽¹⁾	16	1,103	81		7		1,207

Other income	265	62	172	192	45	736
Non-exceptional items	265	62	172	23	45	567
Exceptional items attributable to BHP shareholders				169		169
Depreciation and amortisation expense	(3,395)	(1,737)	(1,828)	(719)	(252)	(7,931)
Non-exceptional items	(3,395)	(1,525)	(1,828)	(719)	(252)	(7,719)
Exceptional items attributable to non-controlling interests		(90)				(90)

Table of Contents

Year ended 30 June 2017					Group and unallocated items/ eliminations ⁽³⁾	BHP Group
US\$M	Petroleum	Copper	Iron Ore	Coal		
Exceptional items attributable to BHP shareholders		(122)				(122)
Net impairments	(102)	(14)	(52)	(20)	(5)	(193)
Non-exceptional items	(102)	(14)	(52)	(15)	(5)	(188)
Exceptional items attributable to BHP shareholders				(5)		(5)
Third party commodity purchases	(12)	(1,080)	(58)		(7)	(1,157)
All other operating expenses	(3,059)	(4,401)	(5,692)	(3,969)	(1,138)	(18,259)
Non-exceptional items	(3,059)	(4,067)	(5,661)	(3,969)	(1,087)	(17,843)
Exceptional items attributable to non-controlling interests		(142)				(142)
Exceptional items attributable to BHP shareholders		(192)	(31)		(51)	(274)
Expenses excluding net finance costs	(6,568)	(7,232)	(7,630)	(4,708)	(1,402)	(27,540)
Profit/(loss) from equity accounted investments, related impairments and expenses	(3)	295	(172)	152		272
Non-exceptional items	(3)	295		152		444
Exceptional items attributable to BHP shareholders			(172)			(172)
Subtotal	566	1,460	6,994	3,214	(481)	11,753
Net finance costs						(1,431)
Non-exceptional items						(1,304)

Exceptional items attributable to BHP shareholders						(127)
Profit/(loss) before taxation						10,322
Total taxation (expense)/benefit						(4,100)
Non-exceptional items						(3,857)
Exceptional items attributable to non-controlling interests						68
Exceptional items attributable to BHP shareholders						(311)
Profit/(loss) after taxation from Continuing and Discontinued operations						6,222
Attributable to non-controlling interests						332
Attributable to BHP shareholders						5,890
Reconciliation to Underlying attributable profit, Underlying EBITDA and Underlying EBIT						
Exceptional items	546	203	(164)	51	127	763
Tax effect of exceptional items						243
Exceptional items attributable to non-controlling interests ⁽²⁾						(232)
Tax effect of exceptional items attributable to non-controlling interests ⁽²⁾						68

Table of Contents

Year ended 30 June 2017						
US\$M	Petroleum	Copper	Iron Ore	Coal	Group and unallocated items/ eliminations ⁽³⁾	BHP Group
Subtotal: Exceptional items attributable to BHP shareholders						842
Profit/(loss) after taxation from Continuing and Discontinued operations attributable to non-controlling interests						(332)
Underlying attributable profit						6,732
Profit/(loss) after taxation from Continuing operations attributable to non-controlling interests						332
Exceptional items attributable to non-controlling interests ⁽²⁾						232
Tax effect of exceptional items attributable to non-controlling interests ⁽²⁾						(68)
Taxation expense from non-exceptional items						3,857
Net finance costs excluding exceptional items						1,304
Underlying EBIT						12,389
Depreciation, amortisation and impairments excluding exceptional items	3,497	1,539	1,880	734	257	7,907
Underlying EBITDA	4,063	3,545	9,077	3,784	(173)	20,296
Underlying EBITDA Group production ⁽¹⁾	4,059	3,522	9,054	3,784	(173)	20,246
Underlying EBITDA Third party products ⁽¹⁾	4	23	23			50

**Basic and Underlying
basic earnings per share**

Underlying attributable profit (US\$M)					6,732
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Weighted basic average number of shares (Million)					5,323
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Underlying basic earnings per ordinary share (US cents)					126.5
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Adjusted for: Exceptional items attributable to BHP shareholders per share					(15.8)
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Basic earnings/(loss) per ordinary share (US cents)					110.7
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Segment contribution to Underlying EBITDA

Segment contribution to the Group's Underlying EBITDA ⁽⁴⁾	20%	17%	44%	19%	100%
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Margin calculation

Underlying EBITDA margin	59%	49%	62%	50%	55%
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Margin on third party products	25%	2%	28%		4%
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Table of Contents

	Profit/(loss) before taxation US\$M	Income tax (expense)/ benefit US\$M	%
Year ended 30 June 2017			
Adjusted effective tax rate reconciliation			
Statutory effective tax rate	10,322	(4,100)	39.7
Adjusted for:			
Exchange rate movements		88	
Exceptional items	763	243	
Adjusted effective tax rate	11,085	(3,769)	34.0

Year ended 30 June 2016

US\$M	Petroleum	Copper	Iron Ore	Coal	Group and unallocated items/ elimination ⁽³⁾	BHP Group
Revenue	6,894	8,249	10,538	4,518	713	30,912
Revenue Group production ⁽¹⁾	6,766	7,411	10,454	4,512	701	29,844
Revenue Third party products ⁽¹⁾	128	838	84	6	12	1,068
Other income	447	87	256	48	(394)	444
Depreciation and amortisation expense	(4,147)	(1,560)	(1,817)	(890)	(247)	(8,661)
Net impairments	(7,232)	(17)	(42)	(94)	(9)	(7,394)
Non-exceptional items	(48)	(17)	(42)	(94)	(9)	(210)
Exceptional items attributable to non-controlling interest	(80)					(80)
Exceptional items attributable to BHP shareholders	(7,104)					(7,104)
Third party commodity purchases	(111)	(792)	(92)	(6)	(12)	(1,013)
	(3,565)	(5,080)	(5,247)	(3,916)	(611)	(18,419)

All other operating expenses						
Non-exceptional items	(3,565)	(5,080)	(5,239)	(3,916)	(479)	(18,279)
Exceptional items attributable to BHP shareholders			(8)		(132)	(140)
Expenses excluding net finance costs	(15,055)	(7,449)	(7,198)	(4,906)	(879)	(35,487)
Profit/(loss) from equity accounted investments, related impairments and expenses						
	(7)	155	(2,244)	(9)	1	(2,104)
Non-exceptional items	(7)	155	136	(9)	1	276
Exceptional items attributable to BHP shareholders			(2,380)			(2,380)
Subtotal	(7,721)	1,042	1,352	(349)	(559)	(6,235)
Net finance costs						(1,024)
Profit/(loss) before taxation						(7,259)
Total taxation (expense)/benefit						1,052
Non-exceptional items						(1,001)
Exceptional items attributable to non-controlling interest						29

Table of Contents

Year ended 30 June 2016						
US\$M	Petroleum	Copper	Iron Ore	Coal	Group and unallocated items/elimination ⁽³⁾	BHP Group
Exceptional items attributable to BHP shareholders						2,024
Profit/(loss) after taxation from Continuing and Discontinued operations						(6,207)
Attributable to non-controlling interests						178
Attributable to BHP shareholders						(6,385)
Reconciliation to Underlying attributable profit, Underlying EBITDA and Underlying EBIT						
Exceptional items	7,184		2,388		132	9,704
Tax effect of exceptional items						(2,053)
Exceptional items attributable to non-controlling interests ⁽²⁾						(80)
Tax effect of exceptional items attributable to non-controlling interests ⁽²⁾						29
Subtotal: Exceptional items attributable to BHP shareholders						7,600
Profit/(loss) after taxation from Continuing and Discontinued operations attributable to non-controlling interests						(178)

Underlying attributable profit							1,215
Profit/(loss) after taxation from Continuing operations attributable to non-controlling interests							178
Exceptional items attributable to non-controlling interests ⁽²⁾							80
Tax effect of exceptional items attributable to non-controlling interests ⁽²⁾							(29)
Taxation expense from non-exceptional items							1,001
Net finance costs							1,024
Underlying EBIT							3,469
Add: Depreciation, amortisation and impairments excluding exceptional items	4,195	1,577	1,859	984	256		8,871
Underlying EBITDA	3,658	2,619	5,599	635	(171)		12,340
Underlying EBITDA Group production ⁽¹⁾	3,641	2,573	5,607	635	(171)		12,285
Underlying EBITDA Third party products ⁽¹⁾	17	46	(8)				55

Table of Contents

Year ended 30 June 2016						Group and unallocated items/elimination ⁽³⁾	BHP Group
US\$M	Petroleum	Copper	Iron Ore	Coal			
Basic and Underlying basic earnings per share							
Underlying attributable profit (US\$M)							1,215
Weighted basic average number of shares (Million)							5,322
Underlying basic earnings per ordinary share (US cents)							22.8
Adjusted for: Exceptional items attributable to BHP shareholders per share							(142.8)
Basic earnings/(loss) per ordinary share (US cents)							(120.0)
Segment contribution to Underlying EBITDA							
Segment contribution to the Group's Underlying EBITDA ⁽⁴⁾							
	29%	21%	45%	5%			100%
Margin calculation							
Underlying EBITDA margin							41%
Margin on third party products							5%

Year ended 30 June 2016	Profit/(loss) before taxation US\$M	Income tax (expense)/benefit US\$M	%
Adjusted effective tax rate reconciliation			
Statutory effective tax rate	(7,259)	1,052	

Adjusted for:			
Exchange rate movements		125	
Exceptional items	9,704	(2,053)	
Adjusted effective tax rate	2,445	(876)	35.8

Year ended 30 June 2015						
US\$M	Petroleum	Copper	Iron Ore	Coal	Group and unallocated items/ elimination ⁽³⁾	BHP Group
Revenue	11,447	11,453	14,753	5,885	1,098	44,636
Revenue production ⁽¹⁾	11,378	10,500	14,677	5,878	1,024	43,457
Revenue Third party products ⁽¹⁾	69	953	76	7	74	1,179
Other income	124	345	69	107	(149)	496
Depreciation and amortisation expense	(4,738)	(1,545)	(1,698)	(875)	(302)	(9,158)
Net impairments	(3,264)	(307)	(18)	(19)	(416)	(4,024)
Non-exceptional items	(477)	(307)	(18)	(19)	(7)	(828)
Exceptional items attributable to BHP shareholders	(2,787)				(409)	(3,196)

Table of Contents

Year ended 30 June 2015						
US\$M	Petroleum	Copper	Iron Ore	Coal	Group and unallocated items/ elimination ⁽³⁾	BHP Group
Third party commodity purchases	(68)	(930)	(86)	(7)	(74)	(1,165)
All other operating expenses	(4,302)	(5,838)	(6,459)	(4,744)	(1,320)	(22,663)
Expenses excluding net finance costs	(12,372)	(8,620)	(8,261)	(5,645)	(2,112)	(37,010)
Profit/(loss) from equity accounted investments, related impairments and expenses		175	371	1	1	548
Subtotal	(801)	3,353	6,932	348	(1,162)	8,670
Net finance costs						(614)
Profit/(loss) before taxation						8,056
Total taxation (expense)/benefit						(3,666)
Non-exceptional items						(3,916)
Exceptional items attributable to non-controlling interest						(12)
Exceptional items attributable to BHP shareholders						262
(Loss)/profit after taxation from Discontinued operations						(1,512)
Attributable to non-controlling interests						61
Attributable to BHP shareholders						(1,573)

Profit/(loss) after taxation from Continuing and Discontinued operations			2,878
Attributable to non-controlling interests			968
Attributable to BHP shareholders			1,910
Reconciliation to Underlying attributable profit, Underlying EBITDA and Underlying EBIT			
Exceptional items	2,787	409	3,196
Tax effect of exceptional items			(250)
Tax effect of exceptional items attributable to non-controlling interests ⁽²⁾			(12)

Table of Contents

Year ended 30 June 2015						
US\$M	Petroleum	Copper	Iron Ore	Coal	Group and unallocated items/elimination ⁽³⁾	BHP Group
Subtotal: Exceptional items attributable to BHP shareholders						2,934
(Loss)/profit after taxation from Discontinued operations attributable to BHP shareholders						1,573
Profit/(loss) after taxation from Continuing and Discontinued operations attributable to non-controlling interests						(968)
Underlying attributable profit						6,417
Profit/(loss) after taxation from Continuing and Discontinued operations attributable to non-controlling interests						968
(Loss)/profit after taxation from Discontinued operations attributable to non-controlling interests						(61)
Tax effect of exceptional items attributable to non-controlling interests ⁽²⁾						12
Taxation expense from non-exceptional items						3,916
Net finance costs						614
Underlying EBIT						11,866
Add: Depreciation, amortisation and impairments excluding exceptional items						
	5,215	1,852	1,716	894	309	9,986

Underlying EBITDA	7,201	5,205	8,648	1,242	(444)	21,852
Underlying EBITDA Group production ⁽¹⁾	7,200	5,182	8,658	1,242	(444)	21,838
Underlying EBITDA Third party products ⁽¹⁾	1	23	(10)			14
Basic and Underlying basic earnings per share						
Underlying attributable profit (US\$M)						6,417
Weighted basic average number of shares (Million)						5,318
Underlying basic earnings per ordinary share (US cents)						120.7

Table of Contents

Year ended 30 June 2015					Group and unallocated items/ elimination ⁽³⁾	BHP Group
US\$M	Petroleum	Copper	Iron Ore	Coal		
Adjusted for: Exceptional items attributable to BHP shareholders per share						(55.2)
Adjusted for: (Loss)/profit after taxation from Discontinued operations attributable to BHP shareholders per share						(29.6)
Basic earnings/(loss) per ordinary share (US cents)						35.9
Segment contribution to Underlying EBITDA						
Segment contribution to the Group's Underlying EBITDA ⁽⁴⁾	32%	23%	39%	6%		100%
Margin calculation						
Underlying EBITDA margin	63%	49%	59%	21%		50%
Margin on third party products	1%	2%	(13)%			1%

Table of Contents

Year ended 30 June 2015	Profit/(loss) before taxation US\$M	Income tax (expense)/ benefit US\$M	%
Adjusted effective tax rate reconciliation			
Statutory effective tax rate	8,056	(3,666)	45.5
Adjusted for:			
Exchange rate movements		339	
Exceptional items	3,196	(250)	
Adjusted effective tax rate	11,252	(3,577)	31.8

- (1) We differentiate sales of our production from sales of third party products to better measure the operational profitability of our operations as a percentage of revenue. These tables show the breakdown between our production and third party products, which is necessary for the calculation of the Underlying EBITDA margin and margin on third party products.

We engage in third party trading for the following reasons:

Production variability and occasional shortfalls from our assets means that we sometimes source third party materials to ensure a steady supply of product to our customers.

To optimise our supply chain outcomes, we may buy physical product from third parties.

To support the development of liquid markets, we will sometimes source third party physical product and manage risk through both the physical and financial markets.

- (2) We exclude exceptional items from Underlying attributable profit and Underlying EBITDA in order to enhance the comparability of such measures from period-to-period and provide our investors with further clarity in order to assess the underlying performance of our operations. Management monitors exceptional items separately. Additional information can be found in note 2 Exceptional items and note 3 Significant events Samarco dam failure in section 5.
- (3) Group and unallocated items includes functions and other unallocated operations, including Potash, Nickel West and consolidation adjustments. Revenue not attributable to reportable segments comprises the sale of freight and fuel to third parties. Exploration and technology activities are recognised within relevant segments.
- (4) Percentage contribution to Group Underlying EBITDA, excluding Group and unallocated items.

Table of Contents

Year ended		Other income and expenses excluding net finance costs	Exceptional items	Depreciation, amortisation and impairments excluding exceptional items	Underlying EBITDA
30 June 2017					
US\$M	Revenue				
Potash		(118)		10	(108)
Nickel West	952	(995)		87	44
Corporate and eliminations	(76)	(244)	51	160	(109)
Total	876	(1,357)	51	257	(173)

Year ended		Other income and expenses excluding net finance costs	Exceptional items	Depreciation, amortisation and impairments excluding exceptional items	Underlying EBITDA
30 June 2016					
US\$M	Revenue				
		(155)		6	(149)
Nickel West	819	(1,009)		76	(114)
Corporate and eliminations	(106)	(108)	132	174	92
Total	713	(1,272)	132	256	(171)

Year ended		Other income and expenses excluding net finance costs	Exceptional items	Depreciation, amortisation and impairments excluding exceptional items	Underlying EBITDA
30 June 2015					
US\$M	Revenue				
Potash		(184)		6	(178)
Nickel West	1,393	(1,876)	409	112	38
Corporate and eliminations	(295)	(200)		191	(304)
Total	1,098	(2,260)	409	309	(444)

Table of Contents**Net operating assets**

The following table reconciles Net operating assets for the Group to Net assets on the Consolidated Balance Sheet:

Year ended 30 June	2017	2016
	US\$M	US\$M
Net operating assets		
Petroleum	23,181	25,168
Copper	24,100	23,844
Iron Ore	19,175	20,541
Coal	10,136	10,651
Group and unallocated items ⁽¹⁾	2,446	2,723
Total	79,038	82,927
Reconciled to Net assets		
Cash and cash equivalents	14,153	10,319
Trade and other receivables ⁽²⁾	665	939
Other financial assets ⁽³⁾	980	2,557
Current tax assets	195	567
Deferred tax assets	5,788	6,147
Trade and other payables ⁽⁴⁾	(390)	(421)
Interest bearing liabilities	(30,474)	(36,421)
Other financial liabilities ⁽⁵⁾	(1,345)	(1,768)
Current tax payable	(2,119)	(451)
Deferred tax liabilities	(3,765)	(4,324)
Net assets	62,726	60,071

(1) Group and unallocated items includes functions and other unallocated operations including Potash, Nickel West and consolidation adjustments.

(2) Represents loans to associates of US\$644 million (FY2016: US\$897 million) and accrued interest receivable of US\$21 million (FY2016: US\$42 million) included within other receivables.

(3) Represents cross currency and interest rate swaps and available for sale shares and other investments (refer to note 21 Financial risk management in section 5) included in other financial assets.

(4) Represents accrued interest payable included within other payables.

- (5) Represents cross currency and interest rate swaps (refer to note 21 Financial risk management in section 5) included in other financial liabilities.

Free cash flow

The following table reconciles Free cash flow to Net increase/(decrease) in cash and cash equivalents:

Year ended 30 June	2017 US\$M	2016 US\$M	2015 US\$M
Net operating cash flows	16,804	10,625	19,296
Net investing cash flows	(4,161)	(7,245)	(13,154)
Free cash flow	12,643	3,380	6,142
Net financing cash flows	(9,133)	284	(8,276)
Net increase/(decrease) in cash and cash equivalents	3,510	3,664	(2,134)

Table of Contents**1.12.5 Definition and calculation of alternate performance measures**

Our primary alternate performance measures are defined and calculated as follows:

Alternate performance measure	Method of calculation
Underlying attributable profit	Profit/(loss) after taxation attributable to BHP shareholders less exceptional items attributable to BHP shareholders as described in note 2 Exceptional items and note 27 Discontinued operations in section 5.
Underlying EBITDA	Earnings before net finance costs, depreciation, amortisation and impairments, taxation expense, Discontinued operations and exceptional items. Underlying EBITDA includes BHP's share of profit/(loss) from investments accounted for using the equity method, including net finance costs, depreciation, amortisation and impairments and taxation (expense)/benefit.
Underlying EBIT	Underlying EBITDA, including depreciation, amortisation and impairments.
Further alternate performance measures are defined and calculated as follows:	
Adjusted effective tax rate	Total taxation (expense)/benefit, excluding exceptional items and exchange rate movements included in taxation (expense)/benefit divided by profit/(loss) before taxation and exceptional items. Management believes this measure provides useful information regarding the tax impacts from underlying operations.
Exceptional items attributable to BHP shareholders per share	Exceptional items attributable to BHP shareholders divided by the weighted basic average number of shares.
Free cash flow ⁽¹⁾	Net operating cash flows less Net investing cash flows.
Gearing ratio ⁽¹⁾	Ratio of Net debt to Net debt plus Net assets.
Margin on third party products	Underlying EBITDA from third party products divided by third party product revenue.
Net debt ⁽¹⁾	Interest bearing liabilities less Cash and cash equivalents for the total operations within the Group at the reporting date.
Net operating assets	Operating assets net of operating liabilities, including the carrying value of equity accounted investments and predominantly excludes cash balances, loans to associates, interest bearing liabilities and deferred tax balances. The carrying value of investments accounted for using the equity accounted method represents the balance of the Group's investment in equity accounted investments, with no adjustment for any cash balances, interest bearing liabilities and deferred tax balances of the equity accounted investment. Management believes this measure provides useful information by isolating the net operating assets of the business from the financing and tax balances which, in combination with our other measures, provides a meaningful

indicator of underlying performance.

Table of Contents

Operating assets free cash flow	Net operating cash flows adjusted for dividends received, net interest received/(paid) and net income tax and royalty-related taxation refunded/(paid) less net investing cash flows, dividends received, net interest and net income tax and royalty-related taxation are not allocated to operating asset free cash flow as financing structures and tax regimes differ across the Group's assets and substantial components of the Group's interest and tax charges are levied at a Group level rather than an operational level.
Segment contribution to the Group's Underlying EBITDA	Segment Underlying EBITDA divided by the Group's Underlying EBITDA excluding Group and unallocated items.
Underlying basic earnings per share	Underlying attributable profit divided by the weighted average number of basic shares.
Underlying EBITDA margin	Underlying EBITDA, excluding third party product Underlying EBITDA, divided by revenue excluding third party product revenue.

⁽¹⁾ Calculation is performed with reference to IFRS measures.

1.12.6 Definition and calculation of principal factors

The method of calculation of the principal factors that affect Revenue, Profit/(loss) from operations and Underlying EBITDA is as follows:

Principal factor	Method of calculation
Change in sales prices	Change in average realised price for each operation from the corresponding period to the current period, multiplied by current period volumes.
Price-linked costs	Change in price-linked costs for each operation from the corresponding period to the current period, multiplied by current period volumes.
Productivity volumes	Change in volumes for each operation not included in the Growth category from the corresponding period to the current period, multiplied by the prior year Underlying EBITDA margin.
Growth volumes	Volume Growth comprises Underlying EBITDA for operations that are new or acquired in the current period minus Underlying EBITDA for operations that are new or acquired in the corresponding period, change in volumes for operations identified as a Growth project from the corresponding period to the current period multiplied by the prior year Underlying EBITDA margin, and change in volume for our petroleum assets from the corresponding period to the current period multiplied by the prior year Underlying EBITDA margin.
Controllable cash costs	Operating cash costs and exploration and business development costs, excluding Discontinued operations. Management believes this measure provides useful information regarding the Group's financial performance because it considers these expenses to be the principal operating and overhead expenses that are most

directly under the Group's control.

Table of Contents

Principal factor	Method of calculation
Operating cash costs	Change in total costs, other than price-linked costs, exchange rates, inflation on costs, fuel and energy costs, non-cash costs and one-off items as defined below for each operation from the corresponding period to the current period.
Exploration and business development	Exploration and business development expense in the current period minus exploration and business development expense in the corresponding period.
Exchange rates	Change in exchange rate multiplied by current period local currency revenue and expenses. The majority of the Group's selling prices are denominated in US dollars and so there is little impact of exchange rate changes on Revenue.
Inflation on costs	Change in inflation rate applied to expenses, other than depreciation and amortisation, price-linked costs, exploration and business development expenses, expenses in ceased and sold operations and expenses in new and acquired operations.
Fuel and energy	Fuel and energy expense in the current period minus fuel and energy expense in the corresponding period.
Non-cash	Includes non-cash items mainly depletion of stripping capitalised.
One-off items	Change in costs exceeding a pre-determined threshold associated with an unexpected event that had not occurred in the last two years and is not reasonably likely to occur within the next two years.
Asset sales	Profit/(loss) on the sale of assets or operations in the current period minus profit/(loss) on sale in the corresponding period.
Ceased and sold operations	Underlying EBITDA for operations that ceased or were sold in the current period minus Underlying EBITDA for operations that ceased or were sold in the corresponding period.
Share of operating profit from equity accounted investments	Share of operating profit from equity accounted investments for the period minus share of operating profit from equity accounted investments in the corresponding period.
Other	Variances not explained by the above factors.

Table of Contents**1.13 Performance by commodity**

Management believes the following financial information presented by commodity provides a meaningful indication of the underlying performance of the assets, including equity accounted investments, of each reportable segment. Information relating to assets that are accounted for as equity accounted investments are shown to reflect BHP's share, unless otherwise noted, to provide insight into the drivers of these assets.

For the purposes of this financial information, segments are reported on a statutory basis in accordance with IFRS 8 Operating Segments. The tables for each commodity include an adjustment for equity accounted investments to reconcile the equity accounted results to the statutory segment results.

For a reconciliation of alternate performance measures to their respective IFRS measure and an explanation as to the use of Underlying EBITDA and Underlying EBIT in assessing our performance, refer to section 1.12.4. For the definition and method of calculation of alternate performance measures, refer to section 1.12.5. For additional information as to the statutory determination of our reportable segments, refer to note 1 Segment reporting in section 5.

Unit cash costs is one of the financial measures used to monitor the performance of our individual assets and is included in the analysis of each reportable segment.

1.13.1 Petroleum

Detailed below is financial information for our Petroleum assets for FY2017 and FY2016 and an analysis of Petroleum's financial performance for FY2017 compared with FY2016.

Year ended**30 June 2017**

US\$M	Revenue ⁽¹⁾	Underlying EBITDA	D&A	Underlying EBIT	Net operating assets ⁽¹¹⁾	Capital Expenditure	Exploration gross to profit ⁽²⁾⁽³⁾
Australia Production Unit ⁽⁴⁾	601	451	275	176	924	15	
Bass Strait	1,096	824	261	563	2,981	154	
North West Shelf	1,190	1,013	199	814	1,630	209	
Atlantis	677	551	471	80	1,486	174	
Shenzi	509	402	204	198	956	37	
Mad Dog	202	155	57	98	722	113	
Eagle Ford	1,266	771	1,255	(484)	6,223	274	
Permian	332	143	302	(159)	996	242	
Haynesville	272	11	139	(128)	2,866	50	
Fayetteville	273	79	85	(6)	871	9	
Trinidad/Tobago	110	26	33	(7)	422	81	
Algeria	212	167	34	133	22	13	
Exploration		(473)	159	(632)	896		
Other ⁽⁵⁾⁽⁶⁾	133	(42)	26	(68)	3,029	101	

Total Petroleum from Group production	6,873	4,078	3,500	578	24,024	1,472	805	575
Closed mines ⁽⁷⁾		(16)		(16)	(843)			
Third party products	16	4		4				
Total Petroleum	6,889	4,066	3,500	566	23,181	1,472	805	575
Adjustment for equity accounted investments ⁽⁸⁾	(17)	(3)	(3)					
Total Petroleum statutory result	6,872	4,063	3,497	566	23,181	1,472	805	575

Table of Contents

Year ended

30 June 2016

US\$M	Revenue ⁽¹⁾	Underlying EBITDA	D&A	Underlying EBIT	Net operating assets ⁽¹⁰⁾⁽¹¹⁾	Capital expenditure	Exploration gross ⁽²⁾	Exploration to profit ⁽³⁾
Australia Production								
Unit ⁽⁴⁾	707	542	349	193	1,166	246		
Bass Strait	930	690	174	516	3,082	226		
North West Shelf	1,171	830	182	648	1,576	180		
Atlantis	652	481	485	(4)	1,795	328		
Shenzi	499	386	245	141	1,133	55		
Mad Dog	123	84	44	40	697	128		
Eagle Ford	1,508	687	1,710	(1,023)	7,193	781		
Permian	260	52	279	(227)	1,114	365		
Haynesville	299	(67)	305	(372)	2,994	44		
Fayetteville	246	20	154	(134)	945	49		
Trinidad/Tobago ⁽⁹⁾	123	95	22	73	467	(26)		
Algeria	144	41	33	8	44	86		
Exploration		(273)	97	(370)	901			
Other ⁽⁵⁾⁽⁶⁾	119	56	119	(63)	2,916	55		
Total Petroleum from Group production	6,781	3,624	4,198	(574)	26,023	2,517	590	288
Closed mines ⁽⁷⁾		20		20	(855)			
Third party products	128	17		17				
Total Petroleum	6,909	3,661	4,198	(537)	25,168	2,517	590	288
Adjustment for equity accounted investments ⁽⁸⁾								
	(15)	(3)	(3)					
Total Petroleum statutory result	6,894	3,658	4,195	(537)	25,168	2,517	590	288

(1) Petroleum revenue from Group production includes: crude oil US\$3,625 million (FY2016: US\$3,566 million), natural gas US\$1,796 million (FY2016: US\$1,761 million), LNG US\$858 million (FY2016: US\$864 million), NGL US\$442 million (FY2016: US\$383 million) and other US\$135 million (FY2016: US\$192 million).

(2) Includes US\$332 million of capitalised exploration (FY2016: US\$317 million).

(3) Includes US\$102 million of exploration expenditure previously capitalised, written off as impaired (included in depreciation and amortisation) (FY2016: US\$15 million).

- (4) Australia Production Unit includes Macedon, Pyrenees, Minerva and Stybarrow (ceased production June 2015).
- (5) Predominantly divisional activities, business development, Pakistan (divested in December 2015), the United Kingdom, Neptune and Genesis. Also includes the Caesar oil pipeline and the Cleopatra gas pipeline, which are equity accounted investments. The financial information for the Caesar oil pipeline and the Cleopatra gas pipeline presented above with the exception of net operating assets reflects BHP's share.
- (6) Goodwill associated with Onshore US of US\$3,022 million is included in Other net operating assets (FY2016: US\$3,026 million).
- (7) Comprises closed mining and smelting operations in Canada and the United States. Petroleum manages the closed mines due to their geographic location.
- (8) Total Petroleum segment Revenue excludes US\$17 million (FY2016: US\$15 million) revenue related to the Caesar oil pipeline and the Cleopatra gas pipeline. Total Petroleum segment Underlying EBITDA includes US\$3 million (FY2016: US\$3 million) D&A related to the Caesar oil pipeline and the Cleopatra gas pipeline.

Table of Contents

- (9) Negative capital expenditure reflects movements in capital creditors.
- (10) Petroleum net operating assets have been restated for North West Shelf, Trinidad and Tobago, Exploration and Other to reflect the reallocation of exploration sundry receivable and sundry creditor balances on a consistent basis with FY2017. There is no change to the overall net operating asset position.
- (11) Refer to section 1.12.4 for a reconciliation of Net operating assets to Net assets and section 1.12.5 for the definition and method of calculation of Net operating assets.

Key drivers of Petroleum's financial results

Price overview

Overall, oil and gas prices have performed favourably in FY2017. Petroleum commodities were supported by OPEC-led output cuts for crude oil and lower year-on-year production for US gas, while demand was stronger in both markets. Asian liquefied natural gas (LNG) saw stronger demand.

Trends in each of the major markets are outlined below.

Henry Hub gas

Our average realised sales price for gas was US\$3.34 per million standard cubic feet (Mscf) (FY2016: US\$2.83 per Mscf). Despite an overall mild winter in the US, the domestic gas price strengthened in FY2017 on strong power demand, rising exports and lower year on year production. Natural gas inventories ended the reporting period seven per cent above the five-year average; a significantly lower level than the corresponding period last year. Lower inventory levels and robust demand are likely to support prices in the near term, although additional North East pipelines, increasing Haynesville production and higher associated gas output are risks to this outlook. Longer term, strong demand growth and natural field decline will incentivise investment in new supply. However, the abundance of lower-cost supply is likely to moderate significant price inflation.

Liquefied natural gas

Our average realised sales price for LNG was US\$6.84 per Mscf (FY2016: US\$7.71 per Mscf). The LNG price rallied towards the end of the first half of FY2017, boosted by a colder than usual start to the northern hemisphere winter and operational issues with a number of nuclear and coal-fired power units in North Asia. This was combined with unexpected supply disruptions. Prices have since eased on the back of supply being restored and the commissioning of new projects. Despite strong demand growth in Asia and Europe, new supply is likely to weigh on the market in the near term. However, in the long run, the outlook for LNG remains positive, underpinned by rising energy demand from emerging economies and the need for low-emission and flexible fuels to supplement intermittent renewables. Depleting indigenous gas supplies will also increase the dependence of some major consumers on the export market.

Crude oil

Our average realised sales price for crude oil was US\$48 per bbl (FY2016: US\$39 per bbl). Crude oil prices overall trended higher in FY2017. OPEC reversed course on 30 November 2016 by agreeing to its first production cut since 2008 and the first cooperative deal with non-OPEC producers since 2001. Agreed output quotas were originally planned for six months, but were subsequently extended at the May 2017 meeting. This renewed cooperation and

overall strong compliance by OPEC offered price support. However, concerns around near-record OECD inventories, increasing production from OPEC countries exempt from the agreement, and rising US output weighed on price at the end of June. A balanced market is forecast for the near term, although OPEC strategy and the US response to higher prices add significant risk to the outlook. The long-term outlook remains positive, underpinned by rising demand from the developing world and natural field decline.

Table of Contents**Production**

Total petroleum production for FY2017 decreased by 13 per cent to 208 MMboe. Onshore US liquids volumes decreased by 29 per cent to 34 MMboe as value accretive deferral of activity in the Black Hawk and natural field decline across all fields were partially offset by increased production from the Permian. Conventional liquids volumes decreased by eight per cent to 63 MMboe as an additional infill well at Mad Dog and higher production at North West Shelf and Algeria partially offset planned maintenance at Atlantis and natural field decline across the portfolio. Natural gas production decreased by 10 per cent to 668 bcf. Divestment of our Pakistan gas business in December 2015 and lower Onshore US gas volumes as a result of the deferral of development activity for value were partially offset by a strong performance at Bass Strait and Macedon and increased LNG volumes at North West Shelf.

For additional information on individual asset production in FY2017, FY2016 and FY2015, refer to section 6.2.

Financial results

Overall, petroleum revenue remained consistent year-on-year at US\$6.9 billion. Onshore US, which includes Eagle Ford, Permian, Haynesville and Fayetteville, decreased by US\$170 million to US\$2.1 billion. Gulf of Mexico, which includes Atlantis, Shenzi and Mad Dog, increased by US\$114 million to US\$1.4 billion. In Australia, Bass Strait and North West Shelf collectively increased by US\$185 million to US\$2.3 billion and the Australian Production Unit, which includes Macedon, Pyrenees and Minerva, decreased by US\$106 million to US\$601 million.

Underlying EBITDA for Petroleum increased by US\$405 million to US\$4.1 billion. Price impacts, net of price linked costs, increased Underlying EBITDA by US\$774 million. Controllable cash costs increased by US\$307 million reflecting higher exploration expenses, attributable to expensing the Burrokeet wells in Trinidad and Tobago and the Wildling-1 well in the Gulf of Mexico. During the period, gains on asset divestments of US\$190 million were recognised, with the majority related to the sale of 50 per cent of BHP's interest in the undeveloped Scarborough area gas fields to Woodside Energy Limited as well as some acreage sales in Onshore US.

Conventional unit cash costs increased by two per cent to US\$8.82 per barrel due to lower volumes. The calculation of conventional petroleum unit costs is set out in the table below.

Conventional petroleum unit costs ⁽¹⁾

US\$M	FY2017	FY2016
Revenue	4,722	4,550
Underlying EBITDA	3,132	3,021
Cash costs (gross)	1,590	1,529
Less: exploration expense ⁽²⁾	471	261
Less: freight	140	152
Less: other ⁽³⁾	(152)	(16)
Cash costs (net)	1,131	1,132
Sales (MMboe, equity share)	128	131

Cash cost per Boe (US\$)	8.82	8.63
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- (1) Conventional petroleum assets exclude Eagle Ford, Permian, Haynesville, Fayetteville and divisional activities recorded in Other.
- (2) Exploration expense represents conventional petroleum's share of total exploration expense.
- (3) Other includes non-cash profit on sales of assets, inventory movements, foreign exchange and the impact from the revaluation of embedded derivatives in the Trinidad and Tobago gas contract.

Table of Contents**Delivery commitments**

We have delivery commitments of natural gas and LNG of approximately 1,720 billion cubic feet through FY2031 (74 per cent Australia and Asia, 10 per cent United States and 16 per cent other), Crude and Condensate commitments of 13.6 million barrels through FY2018 (54 per cent United States, 28 per cent Australia and Asia and 18 per cent other) and liquefied petroleum gas (LPG) commitments of 121,500 metric tonnes through FY2018. We have sufficient proved reserves and production capacity to fulfil these delivery commitments.

We have obligations for contracted capacity on transportation pipelines and gathering systems, on which we are the shipper. In FY2018, volume commitments to gather and transport are 753 million cubic feet of gas (98 per cent Onshore US and two per cent other) and 33 million barrels of oil (55 per cent Onshore US and 45 per cent Offshore US). The agreements with the gas gatherers and transporters have annual escalation clauses.

Other information**Investment expenditure**

Petroleum capital expenditure for FY2017 declined by 42 per cent to US\$1.5 billion.

FY2017 (FY2016)		Liquids-focused areas		Gas-focused areas		Total
		Eagle Ford	Permian	Haynesville	Fayetteville	
Capital expenditure ⁽¹⁾	US\$ billion	0.3 (0.8)	0.2 (0.4)	0.1 ()	()	0.6 (1.2)
Rig allocation	At period-end	1 (2)	1 (2)	3 ()	()	5 (4)
Net wells drilled and completed ⁽²⁾	Period total	51 (89)	21 (30)	5 (5)	2 (11)	79 (136)
Net productive wells	At period-end	963 (929)	126 (107)	394 (411)	1,044 (1,086)	2,527 (2,533)

(1) Includes land acquisition, site preparation, drilling, completions, well site facilities, mid-stream infrastructure and pipelines.

(2) Can vary between periods based on changes in rig activity and the inventory of wells drilled but not yet completed at period-end.

Drilling

The number of wells in the process of drilling and/or completion during the year included:

	Exploratory wells		Development wells		Total	
	Gross	Net ⁽¹⁾	Gross	Net ⁽¹⁾	Gross	Net ⁽¹⁾
Australia			8	1	8	1
United States			66	30	66	30
Other	1	1			1	1

Total	1	1	74	31	75	32
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(1) Represents our share of the gross well count.

Onshore US

BHP's Onshore US drilling and development expenditure in FY2017, which is presented on a cash basis within this section, was US\$575 million (FY2016: US\$1.2 billion). The expenditure was primarily related to drilling and completion activities in our liquids-focused Black Hawk and Permian fields, while deferring development in areas that are predominantly gas. The expenditure related to the following activities:

Eagle Ford: primarily drilling and completion activities, resulting in 51 net development wells completed during the year. Approximately US\$14 million was spent primarily on the installation of more than 30 kilometres of pipeline infrastructure and additional well connections.

Table of Contents

Permian: primarily drilling and completion activities, resulting in 21 net development wells completed during the year. Approximately US\$33 million was spent on the installation of more than 86 kilometres of pipeline infrastructure and additional gas processing facilities.

Haynesville: primarily drilling and completion activities, resulting in five net development wells completed during the year.

Fayetteville: primarily related to participation in drilling and completion activities for wells operated by third parties, resulting in two net development wells completed during the year.

Our Onshore US capital investment is expected to increase to US\$1.2 billion on a cash basis in FY2018, as we progress high-return development drilling activities and trial programs designed to optimise long-term value, with Eagle Ford and Permian accounting for approximately 68 per cent of the total investment. Our average operated rig count is expected to be nine for FY2018.

Conventional

BHP's net share of conventional development expenditure in FY2017, which is presented on a cash basis within this section, was US\$897 million (FY2016: US\$1.3 billion). While the majority of the expenditure incurred in FY2017 was by operating partners at our Australian and Gulf of Mexico assets, we also executed development activity and incurred capital expenditure at operated Australian and Gulf of Mexico assets, and at our Algeria and Trinidad and Tobago assets.

Australia

BHP's net share of capital development expenditure in FY2017, which is presented on a cash basis within this section, was US\$378 million. The expenditure was primarily related to:

North West Shelf: GWF-2 subsea tie back well development, Karratha Gas Plant refurbishment projects and external corrosion compliance and Persephone subsea tie back well development.

Bass Strait: commissioning the Longford Gas Conditioning Plant and further development of pipelines connecting our Longford and Long Island plants.

Gulf of Mexico

BHP's net share of capital development expenditure in FY2017, which is presented on a cash basis within this section, was US\$340 million. The expenditure was primarily related to:

Atlantis: West Auriga rig return and schedule update that enabled execution of development activity on four wells.

Mad Dog: initial phases of Phase 2 development, with additional development activity on two wells at Spar A. Our conventional capital investment in FY2018, which is presented on a cash basis in this section, is expected to be approximately US\$0.8 billion. Capital investment activity in FY2018 remains focused on high-return infill drilling opportunities in the Gulf of Mexico, a life extension project at North West Shelf along with investments related to the recently approved Mad Dog Phase 2 project.

Exploration and appraisal

Our Petroleum exploration strategy is to focus on material opportunities, at high working interest, with a bias for liquids and operatorship. While the majority of the expenditure incurred in FY2017 was in our Gulf of Mexico, Trinidad and Tobago, and Mexico focus areas, we also incurred expenditure in Western Australia and Brazil.

Table of Contents**Access**

We acquired acreage in the US and Mexico sectors of the Gulf of Mexico during FY2017. In the US sector, we were awarded 12 blocks from Lease sale 248, held in August 2016 (100 per cent working interest and operator on all blocks; 280 square kilometres). In addition, we were awarded four blocks from Lease sale 247, held in March 2017 (100 per cent working interest and operator in two blocks and 28.32 per cent working interest with BP in two blocks; 93 square kilometres).

In the Mexico sector, we acquired a 60 per cent participating interest in and operatorship of blocks AE-0092 and AE-0093 containing the Trion discovery (1,285 square kilometres).

Exploration program expenditure details

Our gross expenditure on exploration was US\$805 million in FY2017, of which US\$473 million was expensed.

Exploration and appraisal wells drilled, or in the process of drilling, during the year included:

Well	Location	Target	BHP equity	Spud date	Water depth	Total depth	Status
LeClerc-1	Trinidad and Tobago Block 5	Oil	65% (operator)	21 May 2016	1,800m	5,771m	Hydrocarbons encountered; plugged and abandoned
LeClerc-ST 1	Trinidad and Tobago Block 5	Oil	65% (operator)	6 July 2016	1,800m	6,973m	Hydrocarbons encountered; plugged and abandoned
Caicos-1	Gulf of Mexico GC564	Oil	100% (operator)	21 June 2016	1,288m	9,198m	Hydrocarbons encountered; plugged and abandoned
Burrokeet-1	Trinidad & Tobago Block 23a	Oil	70% (Operator)	8 August 2016	1,923m	3,337m	Plugged and abandoned
Burrokeet-2	Trinidad & Tobago Block 23a	Oil	70% (Operator)	18 August 2016	1,923m	7,348m	Plugged and abandoned
Wildling-1	Gulf of Mexico GC520	Oil	100% (Operator)	8 January 2017	1,230m	5,950m	Plugged and abandoned
Wildling-2	Gulf of Mexico GC520	Oil	100% (Operator)	15 April 2017	1,230m	8,928m	Hydrocarbons encountered; Drilling ahead

In the US Gulf of Mexico, we drilled Caicos on Green Canyon Block 654 during the period. Hydrocarbons were encountered and the well bore was plugged and abandoned. The results of the program are being further evaluated by the Wildling-2 well (which spud in April 2017 on Green Canyon Block 520) after Wildling-1 (which spud in January 2017) encountered technical difficulty and was plugged and abandoned in April 2017. Positive results were reported following the discovery of oil in multiple horizons at Wildling-2 in August 2017. We have commenced a sidetrack on Wildling-2 to further appraise the extent of the discovery. We expect results on the Wildling-2 sidetrack and the Scimitar exploration well to be spud in the September 2017 quarter.

Table of Contents

Seismic data acquisition and reprocessing were completed in order to evaluate prospects in the US and Mexico.

In Western Australia, we participated in reprocessing over the Beagle sub-basin and a regional study that was proposed as a variation for discharging our Good Standing Agreement commitment resulting from the cancellation of exploration permit WA-475-P. This work is ongoing and is expected to complete in FY2018.

In Trinidad and Tobago, we continue to mature prospects utilising the 3D seismic data acquired over Blocks 3, 5, 6, 7, 14, 23a, 23b, 28 and 29. LeClerc-1, the first well of an eight well deepwater program, which spud in May 2016, represents an industry leading three-year timeframe from access to drill test. The well encountered gas in multiple zones and the well bore was plugged and abandoned. Hydrocarbons were encountered and results of the program are being evaluated. Additionally, the Burrokeet-1 well encountered mechanical difficulty shortly after spud and was plugged and abandoned. Non-commercial hydrocarbons were encountered at Burrokeet-2 and analysis is ongoing. This well concluded Phase I of the Trinidad and Tobago deepwater drilling campaign. Phase II is expected to commence in FY2018.

In Brazil, we initiated efforts to relinquish our two blocks in the deepwater Foz do Amazonas Basin in April 2017, prior to the commencement of Exploration Period 2 (two well commitment).

Outlook

Total petroleum production for FY2018 is expected to decrease to between 180 and 190 MMboe, comprising conventional volumes between 119 and 123 MMboe and Onshore US volumes between 61 and 67 MMboe. The expanded rig program is forecast to deliver Onshore US production growth of approximately 35 per cent in FY2019, with investment plans subject to market conditions.

Conventional unit costs for FY2018 are expected to be approximately US\$10 per barrel reflecting the impact of lower volumes, partially offset by productivity improvements.

Petroleum capital expenditure of approximately US\$2.0 billion is planned in FY2018. This includes conventional capital expenditure of US\$0.8 billion discussed earlier in this section. Onshore US capital expenditure is expected to be up to US\$1.2 billion. Our focus in the liquids fields is to maximise value by completing trials to increase investable inventory, while in the Haynesville our hedging strategy allows us to reduce price risk and secure average rates of return in excess of 20 per cent.

Our plans consider up to five additional rigs at Onshore US, subject to market conditions. In July 2017, one rig commenced operations in the Hawkville and one additional rig is expected to commence in the Haynesville in the September 2017 quarter. Evaluation of trials in the Black Hawk is expected to be completed in the September 2017 quarter and, subject to approval, one additional rig will commence towards the end of that quarter. In the Permian, two additional rigs also commencing in the September 2017 quarter will focus on completion trials, which will inform a transition to full pad development as early as FY2019. At this point, we do not anticipate any operated development in the Fayetteville; however, we continue to work with joint venture partners to assess the potential of the Moorefield horizon through non-operated activity.

A US\$715 million exploration program is planned for FY2018. This program includes one well in the US Gulf of Mexico and three wells in Trinidad and Tobago. Trion exploration expenditure for FY2018 is expected to be approximately US\$75 million. In Trinidad and Tobago, we continued appraisal work to assess the potential commercialisation of the gas discovery at LeClerc and to prepare for deepwater oil exploration in Phase 2, which is expected to commence in the second half of FY2018.

Table of Contents**Strategic developments**

As part of our ongoing review of our portfolio, the Board and management determined in August 2017 that our Onshore US assets are non-core and options to exit these assets are being actively pursued. We will be flexible with our plans and commercial in our approach. We are examining multiple alternatives but will only divest for value. Execution of these options may take time, which we will use to continue to complete our well trials and acreage swaps, and to investigate mid-stream solutions to increase the value, profitability and marketability of our Onshore US acreage.

Performance for the year ended 30 June 2016 compared with year ended 30 June 2015***Production***

Total petroleum production for FY2016 decreased by six per cent to 240 MMboe.

Conventional production increased by one per cent to 131 MMboe as new production wells at Atlantis, Mad Dog and Pyrenees and higher gas demand at Bass Strait, offset natural field decline across the portfolio and the divestment of our gas business in Pakistan. Onshore US production declined by 13 per cent to 109 MMboe largely as a result of the value accretive deferral of activity in the Black Hawk and Hawkville.

Financial results

Petroleum revenue decreased by US\$4.6 billion to US\$6.9 billion. Onshore US, which includes Eagle Ford, Permian, Haynesville and Fayetteville, decreased by US\$1.9 billion to US\$2.3 billion. Gulf of Mexico, which includes Atlantis, Shenzi and Mad Dog, decreased by US\$945 million to US\$1.3 billion. In Australia, Bass Strait and North West Shelf collectively decreased by US\$1.1 billion to US\$2.1 billion and the Australia Production Unit, which includes Macedon, Pyrenees, Minerva and Stybarrow, decreased by US\$296 million to US\$707 million.

Underlying EBITDA for Petroleum decreased by US\$3.5 billion to US\$3.7 billion in FY2016. Price impacts, net of price-linked costs, decreased Underlying EBITDA by US\$3.6 billion due to the decrease in average realised prices of crude and condensate oil from US\$68/bbl to US\$39/bbl, US natural gas from US\$3.27/Mscf to US\$2.16/Mscf and LNG from US\$11.65/Mscf to US\$7.71/Mscf. Conventional unit cash costs (excluding inventory movements, freight, third party and exploration expense) decreased by 30 per cent to US\$8.63 per barrel as a result of lower lifting, labour and maintenance expenses.

Petroleum capital expenditure declined by 50 per cent to US\$2.5 billion in FY2016, which includes a decline of US\$2.4 billion of Onshore US drilling and development expenditure. Our Onshore US operated rig count has been reduced to four, however, completion activity in the Black Hawk resumed late in the June 2016 quarter.

Increased shale drilling and completions efficiency during the year was reflected in a significant improvement in drill time and completion techniques in the Black Hawk and Permian. Drilling times improved by 19 per cent to 15 days per well in the Black Hawk and by 22 per cent to 26 days per well in the Permian.

Petroleum exploration expenditure for FY2016 was US\$590 million, of which US\$273 million was expensed. Activity for the year was largely focused on our core areas in the deepwater Gulf of Mexico, the Caribbean and the Northern Beagle sub-basin off the coast of Western Australia, where we acquired additional acreage, seismic data and increased drilling activity. Our exploration activity has increased in the Gulf of Mexico following the positive exploration well results at Shenzi North. The Group is also encouraged by the early indications from the deepwater

LeClerc well in Trinidad and Tobago which encountered gas in multiple zones. While the focus is on a commercial oil discovery, these results support the further appraisal of the basin.

Table of Contents**1.13.2 Copper**

Detailed below is financial information for our Copper assets for FY2017 and FY2016 and an analysis of Copper's financial performance for FY2017 compared with FY2016.

Year ended**30 June 2017**

US\$M	Revenue	Underlying EBITDA	D&A	Underlying EBIT	Net operating assets ⁽⁶⁾	Capital expenditure	Exploration gross	Exploration to profit
Escondida ⁽¹⁾	4,544	2,397	996	1,401	14,972	999		
Pampa Norte ⁽²⁾	1,401	620	314	306	1,662	213		
Antamina ⁽³⁾	1,119	664	114	550	1,265	188		
Olympic Dam	1,287	284	224	60	6,367	267		
Other ⁽³⁾⁽⁴⁾		(118)	7	(125)	(166)	5		
Total Copper from Group production	8,351	3,847	1,655	2,192	24,100	1,672		
Third party products	1,103	23		23				
Total Copper	9,454	3,870	1,655	2,215	24,100	1,672	44	44
Adjustment for equity accounted investments ⁽⁵⁾	(1,119)	(325)	(116)	(209)		(188)		
Total Copper statutory result	8,335	3,545	1,539	2,006	24,100	1,484	44	44

Year ended**30 June 2016**

US\$M	Revenue	Underlying EBITDA	D&A	Underlying EBIT	Net operating assets ⁽⁶⁾	Capital expenditure	Exploration gross	Exploration to profit
Escondida ⁽¹⁾	4,881	1,743	930	813	14,449	2,268		
Pampa Norte ⁽²⁾	1,098	401	401		1,786	321		
Antamina ⁽³⁾	891	439	114	325	1,349	198		
Olympic Dam	1,432	385	237	148	6,339	197		
Other ⁽³⁾⁽⁴⁾		(158)	10	(168)	(79)			
Total Copper from Group production	8,302	2,810	1,692	1,118	23,844	2,984		
Third party products	838	46		46				

Total Copper	9,140	2,856	1,692	1,164	23,844	2,984	65	65
Adjustment for equity accounted investments ⁽⁵⁾	(891)	(237)	(115)	(122)		(198)	(1)	(1)
Total Copper statutory result	8,249	2,619	1,577	1,042	23,844	2,786	64	64

(1) Escondida is consolidated under IFRS 10 and reported on a 100 per cent basis.

(2) Includes Spence and Cerro Colorado.

Table of Contents

- (3) Antamina and Resolution are equity accounted investments and their financial information presented above, with the exception of net operating assets, reflects BHP's share.
- (4) Predominantly comprises divisional activities, greenfield exploration and business development. Also includes Resolution.
- (5) Total Copper segment Revenue excludes US\$1,119 million (FY2016: US\$891 million) revenue related to Antamina. Total Copper segment Underlying EBITDA includes US\$116 million (FY2016: US\$115 million) D&A and US\$209 million (FY2016: US\$122 million) net finance costs and taxation (expense)/benefit related to Antamina and Resolution that are also included in Underlying EBIT. Copper segment Capital expenditure excludes US\$188 million (FY2016: US\$198 million) and US\$ nil (FY2016: US\$1 million) Exploration expenditure related to Antamina.
- (6) Refer to section 1.12.4 for a reconciliation of Net operating assets to Net assets and section 1.12.5 for the definition and method of calculation of Net operating assets.

Key drivers of Copper's financial results**Price overview**

Our average realised sales price for FY2017 was US\$2.54 per pound (FY2016: US\$2.14 per pound). Copper prices remained at relatively subdued levels for the first four months of FY2017, with a broadly accepted view of a well-supplied market with muted demand. In November 2016, improved fundamentals arising from stronger Chinese demand and increased mine disruption saw the commencement of a price rally. This rally gained momentum as improved sentiment saw the entry of investor money, which pushed copper prices into a new, higher range. Disruptions at several large copper mines during the March and June 2017 quarters continued to provide support. In the near term, incremental mine production from committed projects, combined with increased scrap availability, will be sufficient to cover steady growth in copper demand. In the longer term, we expect demand growth to remain solid. China is expected to transition to a consumption-based economy, continued growth is expected from other emerging markets, and technological trends point to greater copper intensities in key sectors. A deficit is expected to emerge early next decade as grade declines, a rise in costs and a scarcity of high-quality future development opportunities are likely to constrain the industry's ability to cheaply meet this demand growth.

Production

Total copper production for FY2017 decreased by 16 per cent to 1.3 Mt.

Escondida copper production decreased by 21 per cent to 772 kt as a result of a four-day site-wide suspension of operations following a fatality in October 2016, 44 days of industrial action in the March 2017 quarter and severe weather in early June 2017. Pampa Norte copper production increased by one per cent to 254 kt supported by record cathode production and ore milled at Spence following the completion of the Recovery Optimisation project. Olympic Dam copper production decreased by 18 per cent to 166 kt following the state-wide power outage during September and October 2016 and unplanned maintenance at the refinery during December 2016 and January 2017. Antamina copper production decreased by nine per cent to 134 kt as record material mined was more than offset by lower copper grades as mining continues through a planned zinc rich ore zone.

For additional information on individual asset production in FY2017, FY2016 and FY2015, refer to section 6.2.

Financial results

Copper revenue increased by US\$86 million to US\$8.3 billion in FY2017.

Table of Contents

Underlying EBITDA for Copper increased by US\$926 million to US\$3.5 billion. Price impacts, net of price linked costs, increased Underlying EBITDA by US\$1.0 billion. Controllable cash costs decreased by US\$731 million, mainly due to a US\$203 million planned build of mined ore ahead of the commissioning of the Los Colorados Extension project, a US\$160 million ore inventory drawdown as a result of extending the operation of Los Colorados by four months in FY2016 and a US\$77 million benefit related to the increase in estimated recoverable copper contained in the sulphide leach pad following commissioning of the Escondida Bioleach Pad Extension project. In addition, there was a US\$103 million benefit due to an inventory drawdown at Olympic Dam in the prior year. Non-cash costs, which includes net deferred stripping, increased by US\$304 million, reflecting lower capitalised development stripping at Escondida and Pampa Norte consistent with the optimised mine plans. One-off items reduced Underlying EBITDA by US\$492 million and reflects US\$387 million in lost volume from the 44 days of industrial action at Escondida and US\$105 million due to the state-wide power outage and resultant shutdown at Olympic Dam. The idle capacity and other strike-related costs incurred as a result of the Escondida industrial action were reported as exceptional and are therefore not included in one-off items.

Unit cash costs at our operated copper assets decreased by four per cent to US\$1.15 per pound, excluding the idle capacity and other strike-related costs incurred as a result of the industrial action at Escondida. Escondida unit cash costs decreased by 17 per cent to US\$0.93 per pound, excluding the impact of the industrial action which was reported as an exceptional item. If costs related to the industrial action were included, unit costs would have been US\$1.13 per pound. The calculation of operated copper assets and Escondida unit costs is set out in the table below.

US\$M	Operated copper assets unit costs ⁽¹⁾		Escondida unit costs	
	FY2017	FY2016	FY2017	FY2016
Revenue	7,232	7,411	4,544	4,881
Underlying EBITDA	3,301	2,529	2,397	1,743
Cash costs (gross)	3,931	4,882	2,147	3,138
Less: by-product credits	580	650	213	222
Less: freight	71	85	60	75
Less: treatment and refining charges	302	356	302	356
Cash costs (net)	2,978	3,791	1,572	2,485
Sales (Mlb, equity share)	2,595	3,155	1,691	2,209
Cash cost per pound (US\$)	1.15	1.20	0.93	1.12
Cash cost per pound including industrial action (US\$) ⁽²⁾	1.28		1.13	

(1) Operated copper assets include Escondida, Pampa Norte and Olympic Dam.

(2) Sales volumes are adjusted to exclude intercompany sales and purchases. Exceptional item relating to the industrial action of US\$546 million comprises US\$334 million of cash costs and US\$212 million of depreciation

expense. Industrial action cash cost per pound for FY2017 calculated as: cash costs of US\$334 million divided by sales of 1,691 Mlb = US\$0.20 per pound.

Outlook

Total copper production is expected to increase to between 1.66 and 1.79 Mt in FY2018. Escondida production is expected to increase to between 1.13 and 1.23 Mt following the ramp-up of the Los Colorados Extension project during the September 2017 quarter, which will enable utilisation of three concentrators. At Olympic Dam, production is expected to decrease to 150 kt as a major smelter maintenance campaign is phased through August to November 2017. Production at Pampa Norte is expected to be higher than the prior year following completion of the Spence Recovery Optimisation project in FY2017. Production at Antamina is expected to decrease to 125 kt as mining continues through a zinc rich ore zone.

Table of Contents

FY2018 unit cash costs at our operated copper assets are expected to remain broadly unchanged at approximately US\$1.15 per pound. At Escondida, unit cash costs are expected to rise to approximately US\$1.00 per pound, reflecting an expected 10 per cent grade decline, in line with the optimised mine plan, to approximately 0.90 per cent, higher price-linked commodity input costs and an increase in usage of higher cost desalinated water. This will be partially offset by lower mining cost per tonne of material moved expected as a result of continued productivity improvements.

Performance for the year ended 30 June 2016 compared with year ended 30 June 2015***Production***

Total copper production for FY2016 decreased by eight per cent to 1.6 Mt. Escondida copper production decreased by 20 per cent to 979 kt. Record cathode production and record material mined, together with the Organic Growth Project 1 reaching full capacity in the June 2016 quarter, was more than offset by an expected 28 per cent decline in grade. Pampa Norte copper production increased by one per cent to 251 kt, supported by record ore milled and higher grades at Spence. Olympic Dam copper production increased by 63 per cent to 203 kt. This reflected higher grades and improved smelter and mill utilisation after the Svedala mill outage in FY2015. Antamina copper production increased by 36 per cent to a record 146 kt due to higher grades and higher mill throughput.

Financial results

Copper revenue decreased by US\$3.2 billion to US\$8.2 billion, primarily due to Escondida which decreased by US\$2.9 billion to US\$4.9 billion.

Underlying EBITDA for FY2016 decreased by 50 per cent to US\$2.6 billion. Price impacts, net of price-linked costs, decreased Underlying EBITDA by US\$2.2 billion due to the decrease in average realised prices for copper from US\$2.78/lb to US\$2.14/lb. Anticipated grade-related volume decline decreased Underlying EBITDA by a further US\$1.6 billion. This was partially offset by US\$369 million increase in estimated recoverable copper contained in the sulphide leach pad following the successful completion of the Escondida Bioleach Pad Extension project, US\$188 million due to the implementation of the Escondida Voluntary Retirement Program in FY2015, and productivity-led initiatives of US\$243 million. A stronger US dollar against the Chilean peso and Australian dollar increased Underlying EBITDA by US\$323 million.

Unit cash costs (excluding one-off items, by-product credits, freight and treatment and refining charges) at our copper operated assets increased by nine per cent to US\$1.20 per pound during FY2016 due to anticipated grade decline at Escondida. In addition, Olympic Dam unit cash costs declined by 29 per cent to US\$1.38 per pound as a result of productivity-led cost improvements and a further reduction in labour and contractor costs.

Table of Contents**1.13.3 Iron Ore**

Detailed below is financial information for our Iron Ore assets for FY2017 and FY2016 and an analysis of Iron Ore's financial performance for FY2017 compared with FY2016.

Year ended**30 June 2017**

US\$M	Revenue	Underlying EBITDA	D&A	Underlying EBIT	Net operating assets ⁽⁵⁾	Capital expenditure	Exploration gross	Exploration to profit
Western Australia Iron Ore	14,395	9,001	1,873	7,128	20,040	716		
Samarco ⁽¹⁾					(1,049)			
Other ⁽²⁾	148	53	7	46	184	89		
Total Iron Ore from Group production	14,543	9,054	1,880	7,174	19,175	805		
Third party products ⁽³⁾	81	23		23				
Total Iron Ore	14,624	9,077	1,880	7,197	19,175	805	94	70
Adjustment for equity accounted investments ⁽⁴⁾								
Total Iron Ore statutory result	14,624	9,077	1,880	7,197	19,175	805	94	70

Year ended**30 June 2016**

US\$M	Revenue	Underlying EBITDA	D&A	Underlying EBIT	Net operating assets ⁽⁵⁾	Capital expenditure	Exploration gross	Exploration to profit
Western Australia Iron Ore	10,333	5,492	1,855	3,637	21,641	969		
Samarco ⁽¹⁾	442	196	46	150	(1,193)	42		
Other ⁽²⁾	121	(19)	4	(23)	93	86		
	10,896	5,669	1,905	3,764	20,541	1,097		

Total Iron Ore
from Group
production

Third party products ⁽³⁾	84	(8)		(8)				
Total Iron Ore	10,980	5,661	1,905	3,756	20,541	1,097	92	74
Adjustment for equity accounted investments ⁽⁴⁾	(442)	(62)	(46)	(16)		(36)		
Total Iron Ore statutory result	10,538	5,599	1,859	3,740	20,541	1,061	92	74

Table of Contents

- (1) Samarco is an equity accounted investment and its financial information presented above, with the exception of net operating assets, reflects BHP Billiton Brasil Ltda's share. Includes BHP Billiton Brasil Ltda's share of operating profit prior to the Samarco dam failure but does not include any financial impacts following the dam failure as this has been reported as an exceptional item.
- (2) Predominantly comprises divisional activities, towage services, business development and ceased operations.
- (3) Includes inter-segment and external sales of contracted gas purchases.
- (4) Total Iron Ore segment Revenue excludes US\$ nil (FY2016: US\$442 million) revenue related to Samarco. Total Iron Ore segment Underlying EBITDA includes US\$ nil (FY2016: US\$46 million) D&A and US\$ nil (FY2016: US\$16 million) net finance costs and taxation (expense)/benefit related to Samarco that are also included in Underlying EBIT. Iron Ore segment Capital expenditure excludes US\$ nil (FY2016: US\$36 million) related to Samarco.
- (5) Refer to section 1.12.4 for a reconciliation of Net operating assets to Net assets and section 1.12.5 for the definition and method of calculation of Net operating assets.

Key drivers of Iron Ore's financial results

Price overview

Iron ore's average realised sales price for FY2017 was US\$58 per wet metric tonne (wmt) (FY2016: US\$44 per wmt). The iron ore price increase was driven by higher pig iron production in China and a preference for higher grade materials amid improved steel margins and high coke prices. Additional price support came from coke minimisation strategies to which steel mills resorted when metallurgical coal prices increased rapidly in late CY2016. Seaborne supply continued to increase from mainstream origins such as Australia and Brazil. A supply response was also observed from price sensitive origins, notably India. Iron ore production at private Chinese mines also recovered, incentivised by a higher price. The market is under pressure in the short term with the supply growth from both seaborne and domestic suppliers, and high iron ore inventories sitting at Chinese ports. In the medium and longer term, committed supply projects will ramp-up. Production increases from productivity and de-bottlenecking are likely to translate into a further flattening of the cost curve.

Production

Total iron ore production for FY2017 increased by four per cent to 231 Mt, or 268 Mt on a 100 per cent basis, following record annual production at WAIO. This increase reflected strong productivity improvements across the supply chain as well as the commissioning of a new primary crusher and additional conveying capacity at Jimblebar. Mining and processing operations at Samarco remain suspended. For further information on the Samarco dam failure, refer to section 1.7.

For additional information on individual asset production in FY2017, FY2016 and FY2015, refer to section 6.2.

Financial results

Total Iron Ore revenue increased by US\$4.1 billion to US\$14.6 billion due to a 32 per cent increase in the average realised price of iron ore.

Underlying EBITDA for Iron Ore increased by US\$3.5 billion to US\$9.1 billion. Price impact, net of price-linked costs, increased Underlying EBITDA by US\$3.2 billion. Higher volumes and cost efficiencies increased Underlying EBITDA by US\$533 million. This was partially offset by a weaker US dollar against the Australian dollar which unfavourably impacted Underlying EBITDA by US\$151 million.

Table of Contents

WAIO unit cash costs decreased by three per cent to US\$14.60 per tonne, underpinned by reductions in labour and contractor costs and increased equipment productivity. This was partially offset by a stronger Australian dollar, additional costs related to the accelerated rail renewal and maintenance program of US\$0.20 per tonne that was completed in May 2017 and a stock write-off at Yandi. The calculation of WAIO unit costs is set out in the table below.

WAIO unit costs (US\$M)	FY2017	FY2016
Revenue	14,395	10,333
Underlying EBITDA	9,001	5,492
Cash costs (gross)	5,394	4,841
Less: freight	983	764
Less: royalties	1,035	740
Cash costs (net) ⁽¹⁾	3,376	3,337
Sales (kt, equity share)	231,208	221,578
Cash cost per tonne (US\$)	14.60	15.06

⁽¹⁾ Cash costs (net) includes exploration expense of US\$0.30 per tonne (FY2016: US\$0.34 per tonne).

Exploration activities***Western Australia***

WAIO has a substantial existing deposit supported by considerable additional mineralisation, all within a 250-kilometre radius of our existing infrastructure. This concentration of ore bodies also gives WAIO the flexibility to add growth tonnes to existing hub infrastructure and link brownfield developments to our existing mainline rail and port facilities. The total area covered by exploration and mining tenure amounts to 7,900 square kilometres, excluding crown leases and general purpose and miscellaneous licences which are used for infrastructure space and access.

Total exploration expenditure in FY2017 amounted to US\$94 million.

Guinea Iron Ore

We have a 41.3 per cent interest in a joint venture that holds the Nimba Mining Concession. In addition to the Mining Concession, the extension of two exploration licences covering satellite areas in southeast Guinea are currently being discussed with the Guinean mining authorities. We will continue to assess our options for the Mount Nimba iron ore project.

Outlook

WAIO production is expected to increase to between 239 and 243 Mt, or between 275 and 280 Mt on a 100 per cent basis in FY2018. This reflects continued productivity improvements and improved reliability across the supply chain.

Volumes are expected to be weighted to the last three quarters of the financial year, as scheduled port debottlenecking activities and lower stockpile levels, following the fire at the Mt Whaleback screening plant in June 2017, will impact the September 2017 quarter. BHP will continue to work with the relevant authorities in relation to the necessary approvals to increase system capacity to 290 Mtpa (100 per cent basis).

WAIO unit cash costs are expected to decline further to below US\$14 per tonne in FY2018.

Table of Contents**Performance for the year ended 30 June 2016 compared with year ended 30 June 2015****Production**

Total iron ore production for FY2016 decreased by two per cent to 227 Mt. Record production at Western Australia Iron Ore (WAIO) offset the suspension of operations at Samarco. WAIO production increased by two per cent to 257 Mt (100 per cent basis) as the Jimblebar mining hub operated at full capacity and utilisation at the Newman ore handling plant improved. Samarco production for FY2016 was 11 Mt (100 per cent basis).

Financial results

Total iron ore revenue decreased by US\$4.2 billion to US\$10.5 billion. The decrease in revenue was due to a 28 per cent decline in the average realised price of iron ore from US\$61 per wet metric tonne (FOB) to US\$44 per wet metric tonne (FOB).

Iron ore Underlying EBITDA decreased by US\$3.0 billion to US\$5.6 billion. Price impact, net of price-linked costs, reduced Underlying EBITDA by US\$3.6 billion. Higher volumes and cost efficiencies increased Underlying EBITDA by US\$368 million, coupled with a stronger US dollar against the Australian dollar which favourably impacted Underlying EBITDA by US\$328 million.

WAIO unit cash costs (excluding freight and royalties) declined by 19 per cent to US\$15 per tonne, underpinned by reductions in labour and contractor costs, increased equipment productivity, lower diesel prices and consumption and a stronger US dollar.

1.13.4 Coal

Detailed below is financial information for our Coal assets for FY2017 and FY2016 and an analysis of Coal's financial performance for FY2017 compared with FY2016.

Year ended**30 June 2017**

US\$M	Revenue	Underlying EBITDA	D&A	Underlying EBIT	Net operating assets ⁽⁵⁾	Capital expenditure	Exploration gross	Exploration to profit
Queensland Coal	6,316	3,256	605	2,651	8,202	235		
New Mexico ⁽¹⁾	3	(6)	3	(9)		1		
New South Wales Energy Coal ⁽²⁾	1,351	525	154	371	1,080	11		
Colombia ⁽²⁾	749	363	96	267	873	34		
Other ⁽³⁾	8	(57)	4	(61)	(19)			

Total Coal from Group production

8,427 4,081 862 3,219 10,136 281

Third party products								
Total Coal	8,427	4,081	862	3,219	10,136	281	9	9
Adjustment for equity accounted investments ⁽⁴⁾								
	(849)	(297)	(128)	(169)		(35)		
Total Coal statutory result	7,578	3,784	734	3,050	10,136	246	9	9

Table of Contents

Year ended

30 June 2016

US\$M	Revenue	Underlying EBITDA	D&A	Underlying EBIT	Net operating assets ⁽⁵⁾	Capital expenditure	Exploration gross	Exploration to profit
Queensland Coal	3,351	584	723	(139)	8,423	246		
New Mexico ⁽¹⁾	320	114	43	71	45	5		
New South Wales Energy Coal ⁽²⁾	914	133	155	(22)	1,181	15		
Colombia ⁽²⁾	525	134	96	38	863	31		
Other ⁽³⁾	23	(88)	95	(183)	139	36		
Total Coal from Group production	5,133	877	1,112	(235)	10,651	333		
Third party products	6							
Total Coal	5,139	877	1,112	(235)	10,651	333	18	18
Adjustment for equity accounted investments ⁽⁴⁾	(621)	(242)	(128)	(114)		(35)		
Total Coal statutory result	4,518	635	984	(349)	10,651	298	18	18

(1) Includes the Navajo mine (divested in July 2016) and San Juan mine (divested in January 2016).

(2) Newcastle Coal Infrastructure Group and Cerrejón are equity accounted investments and their financial information presented above with the exception of net operating assets reflects BHP's share.

(3) Predominantly comprises divisional activities and IndoMet Coal (divested in October 2016).

(4) Total Coal segment Revenue excludes US\$849 million (FY2016: US\$621 million) revenue related to Newcastle Coal Infrastructure Group and Cerrejón. Total Coal segment Underlying EBITDA includes US\$96 million (FY2016: US\$96 million) D&A and US\$116 million (FY2016: US\$46 million) net finance costs and taxation (expense)/benefit related to Cerrejón, that are also included in Underlying EBIT. Total Coal segment Underlying EBITDA excludes US\$32 million (FY2016: US\$32 million) D&A and US\$53 million (FY2016: US\$68 million) total EBIT related to Newcastle Coal Infrastructure Group, that is excluded from Underlying EBIT to reconcile the consolidated business total to the statutory result. Coal segment Capital expenditure excludes US\$35 million

(FY2016: US\$35 million) related to Newcastle Coal Infrastructure Group and Cerrejón.

- (5) Refer to section 1.12.4 for a reconciliation of Net operating assets to Net assets and section 1.12.5 for the definition and method of calculation of Net operating assets.

Key drivers of Coal's financial results

Price overview

Metallurgical coal

Our average realised sales price for FY2017 was US\$180 per tonne for hard coking coal (FY2016: US\$83 per tonne) and US\$121 per tonne for weak coking coal (FY2016: US\$69 per tonne). Metallurgical coal prices increased significantly in the first half of FY2017, reaching a multi-year high in November 2016. This was driven by pronounced constraints in both domestic Chinese supply and seaborne supply, and reflected the impact of China's 276-working day reform policy and adverse weather conditions in China and Queensland. Prices subsequently declined as supply constraints eased, before increasing significantly again in April 2017 as a result of cyclone-related supply disruptions in Queensland. Over the short term, prices are expected to trend towards marginal cost levels after seaborne supply constraints ease. However, the application of China's coal supply reform policy remains a source of uncertainty. Over the longer term, emerging markets such as India are expected to support seaborne demand growth, while high-quality metallurgical coals will continue to offer steelmakers value-in-use benefits.

Table of Contents*Energy coal*

Our average realised sales price for FY2017 was US\$75 per tonne (FY2016: US\$48 per tonne). The Global Coal Newcastle price increase was driven by strong growth in Chinese seaborne demand due to the ongoing domestic supply side reforms. This more than offset the slowdown in demand from India. In the short term, Chinese imports are likely to decline due to a rationalisation in domestic supply. In the long term, global demand for energy coal is expected to grow modestly, with Indian and South East Asian demand offsetting weakness in OECD countries.

Production

Metallurgical coal production decreased by six per cent to 40 Mt in FY2017. Production decreased as a result of damage caused by Cyclone Debbie to third party rail infrastructure. It was partially offset by record annual production at Peak Downs and Saraji. Energy coal production increased by seven per cent to 29 Mt as a result of a stronger performance at Cerrejón following constrained production in FY2016 during drought conditions. In addition, New South Wales Energy Coal (NSWEC) benefited from a lower strip ratio and additional bypass coal.

For additional information pertaining to individual asset production in FY2017, FY2016 and FY2015, refer to section 6.2.

Financial results

Coal revenue increased by US\$3.1 billion to US\$7.6 billion in FY2017. The increase in revenue was primarily due to increases in the average realised coal prices.

Underlying EBITDA for Coal increased by US\$3.1 billion to US\$3.8 billion. Prices, net of price linked costs, increased Underlying EBITDA by US\$3.2 billion.

Queensland Coal unit cash costs increased by eight per cent to US\$60 per tonne as a result of lower sales volumes due to the impacts of Cyclone Debbie and a stronger Australian dollar. NSWEC unit costs of US\$41 per tonne were in line with the prior year as a reduction in labour costs and favourable inventory movements were offset by a stronger Australian dollar. The calculation of Queensland Coal's and NSWEC's unit costs is set out in the table below.

US\$M	Queensland Coal unit costs		NSWEC unit costs	
	FY2017	FY2016	FY2017	FY2016
Revenue	6,316	3,351	1,351	914
Underlying EBITDA	3,256	584	525	133
Cash costs (gross)	3,060	2,767	826	781
Less: freight	111	86		
Less: royalties	631	316	94	61
Cash costs (net)	2,318	2,365	732	720
Sales (kt, equity share)	38,846	42,809	17,899	17,770
Cash cost per tonne (US\$)	59.67	55.25	40.90	40.52

Table of Contents

Outlook

Metallurgical coal production is expected to increase to between 44 and 46 Mt. Energy coal production is expected to remain broadly unchanged at approximately 29 to 30 Mt in FY2018.

Queensland Coal unit cash costs are expected to be US\$59 per tonne, which includes additional contractor stripping fleet costs given forecast higher strip ratios and planned debottlenecking activities. NSWEC unit cash costs are expected to increase to approximately US\$46 per tonne in FY2018 as mining progresses through geological constraints, strip ratios rise and pit design initiatives are implemented to reduce costs in future periods.

Performance for the year ended 30 June 2016 compared with year ended 30 June 2015

Production

Metallurgical coal production increased by one per cent to 43 Mt in FY2016. Record metallurgical coal production at five Queensland Coal mines and first production from the Haju mine in Indonesia, offset the cessation of production at the Gregory Crinum mine and a convergence event at the Broadmeadow mine.

Energy coal production decreased by 16 per cent to 34 Mt in FY2016. Production declined following the divestment of the San Juan Mine, operational rescheduling at New South Wales Energy Coal (NSWEC) and unfavourable weather at NSWEC and Cerrejón.

Financial results

Coal revenue for FY2016 decreased by US\$1.4 billion to US\$4.5 billion. The decrease in revenues was due to a 21 per cent reduction in the average realised price for hard coking coal from US\$105/t to US\$83/t, a 22 per cent reduction in the average price received for weak coking coal from US\$88/t to US\$69/t and a 17 per cent reduction in the average realised price for thermal coal from US\$58/t to US\$48/t.

Underlying EBITDA for FY2016 decreased by US\$607 million to US\$635 million. Price impacts, net of price-linked costs, decreased Underlying EBITDA by US\$917 million. Ceased and sold operations further decreased Underlying EBITDA by US\$181 million. This was partially offset by a stronger US dollar against the Australian dollar, which increased Underlying EBITDA by US\$404 million, and productivity-led cost efficiencies which increased Underlying EBITDA by US\$175 million.

Queensland Coal unit cash costs (excluding freight and royalties) declined by 15 per cent to US\$55 per tonne, supported by increased equipment and wash-plant utilisation, lower labour and contractor costs, lower diesel prices and a stronger US dollar. NSWEC unit cash costs decreased by two per cent to US\$41 per tonne despite lower volumes.

1.13.5 Other assets

Nickel West

Key drivers of Nickel West's financial results

Price overview

Our average realised sales price for FY2017 was US\$10,184 per tonne (FY2016: US\$9,264 per tonne). Nickel prices enjoyed support in the first half of FY2017, with strong stainless steel production combined with increased risks to the supply of nickel ore as the Philippine mine regulator ordered the suspension of operations at several mines and undertook an environmental audit across the mining sector. The announced resumption of exports of nickel ore from Indonesia, as well as a growing belief that the suspension orders in the Philippines would not materially impact supply from that country, saw prices weaken across the second half of the financial year. In the near term, supply of nickel from Indonesia is expected to grow, keeping a cap on prices and delaying the normalisation of stock levels.

Table of Contents

Production

Nickel West production in FY2017 increased by five per cent to 85 kt. Debottlenecking activities at the Kwinana refinery have resulted in record refined metal production. Nickel production for FY2018 is expected to remain broadly unchanged from that of FY2017.

For additional information pertaining to individual asset production in FY2017, FY2016 and FY2015, refer to section 6.2.

Financial results

Higher production and higher realised sales prices resulted in revenue increasing by US\$133 million to US\$952 million.

Underlying EBITDA for Nickel West increased by US\$158 million to US\$44 million due to increased production rates across the supply chain following the triennial statutory shutdowns in FY2016, partially offset by a stronger Australian dollar.

Performance for the year ended 30 June 2016 compared with year ended 30 June 2015

Production

Nickel West production in FY2016 decreased by 10 per cent to 81 kt, reflecting planned major maintenance outages at the Kalgoorlie smelter and Kwinana refinery during the December 2015 quarter and a reduction in third party ore delivered to the Kambalda concentrator. Higher nickel matte production during the June 2016 quarter was supported by additional third party concentrate purchases. Revenue for Nickel West decreased by 41 per cent to US\$819 million predominantly due to lower average realised prices.

Financial results

Underlying EBITDA for Nickel West decreased by US\$152 million due to lower average realised prices which more than offset lower operating costs.

Potash

Potash recorded an Underlying EBITDA loss of US\$108 million in FY2017, compared to a loss of US\$149 million in FY2016. The reduction in loss was due to a decrease in operating cash costs, particularly labour costs.

Performance for the year ended 30 June 2016 compared with year ended 30 June 2015

Potash recorded an Underlying EBITDA loss of US\$149 million in FY2016 compared to a loss of US\$178 million in FY2015. The reduction in loss was due to a decrease in operating cash costs.

1.14 Other information

Application of critical accounting policies

The preparation of the Financial Statements requires management to make judgements and estimates and form assumptions that affect the amounts of assets, liabilities, contingent liabilities, revenues and expenses reported in the Financial Statements. On an ongoing basis, management evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements and estimates on historical experience and on other factors it believes to be reasonable under the circumstances, the results of which form the basis of the reported amounts that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions.

Table of Contents

The Group has identified a number of critical accounting policies under which significant judgements, estimates and assumptions are made. Actual results may differ for these estimates under different assumptions and conditions. This may materially affect financial results and the financial position to be reported in future. These critical accounting policies are as follows:

taxation;

inventories;

exploration and evaluation;

development expenditure;

overburden removal costs;

depreciation of property, plant and equipment;

property, plant and equipment, intangible assets and impairments of non-current assets recoverable amount;

closure and rehabilitation provisions.

In accordance with IFRS, we are required to include information regarding the nature of the judgements and estimates and potential impacts on our financial results or financial position in the Financial Statements. This information can be found in section 5.1.

Quantitative and qualitative disclosures about market risk

We identified our principal market risks in section 1.8.3. A description of how we manage our market risks, including both quantitative and qualitative information about our market risk sensitive instruments outstanding at 30 June 2017, is contained in note 21 Financial risk management in section 5.1.

Off-balance sheet arrangements and contractual commitments

Information in relation to our material off-balance sheet arrangements, principally contingent liabilities, commitments for capital expenditure and commitments under leases at 30 June 2017 is provided in note 32 Commitments and note 33 Contingent liabilities in section 5.1.

Subsidiary information

Information about our significant subsidiaries is included in note 28 Subsidiaries in section 5.1 and in Exhibit 8.1 - List of Subsidiaries.

Related party transactions

Related party transactions are outlined in note 31 Related party transactions in section 5.1.

Significant changes since the end of the year

Significant changes since the end of the year are outlined in note 34 Subsequent events in section 5.1.

The Strategic Report is made in accordance with a resolution of the Board.

Ken MacKenzie

Chairman

Dated: 7 September 2017

Table of Contents

2 Governance at BHP

2.1 Governance at BHP

2.1.1 Chairman's letter

Dear Shareholder

It is an honour and a privilege to be able to write this letter as the new Chairman of BHP. At the outset, I want to acknowledge the contribution of my predecessor, Jac Nasser, who has led the Board for the past seven years. I thank Jac for his outstanding service to the Board and BHP during his tenure. While we will miss his leadership and wise counsel, he leaves a lasting legacy at BHP, including strong corporate governance processes.

Priorities

Although I only officially became Chairman on 1 September 2017, I have used the preceding 10-week period to focus on five immediate priorities:

conducting a listening tour meeting with BHP's shareholders around the world;

completing the orderly handover of Chairman responsibilities and engaging with management;

bringing a fresh perspective to management's ongoing process of reviewing the portfolio;

working with management to further strengthen the application of the Capital Allocation Framework;

reviewing Board composition and the skills and experience required to drive value for shareholders.

The pace of change in the world and in BHP's markets is significant. A number of factors are contributing to this, including technological advances and greater volatility in the prices of our products. The changing environment in which we operate needs to be taken into account as the Board and management continue to work through these immediate priorities.

Meetings with shareholders

During July and August 2017, I met with over 100 shareholders as well as a number of shareholder advisory firms, from eight countries. The meetings were a valuable opportunity to hear investors' perspectives on BHP and I plan to engage with investors on a regular basis.

Chairman handover

After almost a year on the Board, I am now familiar with BHP's governance structures and processes. The handover from Jac to myself was therefore efficient. As part of this process, I have also been meeting regularly with Andrew

Mackenzie and members of his senior management team.

Portfolio

Management reviews the Group's portfolio of assets on an ongoing basis. This evaluation ensures that our assets continue to fit within our long-term strategy. The demerger of South32 shows our existing commitment to value over size, but one of my priorities is to bring a fresh perspective to the existing review process. In August, we announced that our Onshore US assets are no longer aligned with our long-term strategy and are therefore non-core. We are actively pursuing options to exit these assets for value.

Capital allocation

The Group has first-class assets which generate significant amounts of cash in almost all phases of the commodity cycle, and the way we allocate that cash going forward is going to be an important determinant of how much shareholder value is created. The Board strongly supports the capital allocation framework that your CEO, Andrew Mackenzie established at the beginning of 2016. It is, however, a framework, and since its inception, the Board and management team have been working together to strengthen its application.

Table of Contents

Board composition

We take a structured and rigorous approach to Board succession planning. We consider Board size, tenure and the skills, experience and attributes required to effectively govern and manage risk within BHP. As a result, we have made a number of appointments this year to ensure that we continue to have the right balance on the Board and that the Board continues to be fit-for-purpose. This process is continuous, and we will bring additional focus to ensuring the Board evolves to take account of the rapidly changing external environment and BHP's circumstances.

From 1 October 2017, the Board will have 11 members, including the CEO. I am a proponent of a relatively small Board. However, for a company like BHP, which has four key Board Committees (with the Sustainability Committee being critically important in our industry), a Board size of 10 to 12 is appropriate. As at 1 October, the average tenure of Directors will be four years and four months. BHP has an aspiration to achieve gender balance across our workforce and on our Board by FY2025, and Board diversity remains a focus.

Board refreshment was a topic of discussion during my meetings with shareholders. Investors like the Board believe that regular refreshment is important, but they are also aware of the value that corporate memory brings to a board.

On 23 August 2017, we announced the appointment of Terry Bowen and John Mogford to the Board.

Terry Bowen has over 25 years of strategic, operational and financial experience across a range of sectors. He has been the Finance Director of Wesfarmers Limited for the past eight years. (He will retire from that position towards the end of this calendar year.) During his time as Finance Director of Wesfarmers, Mr Bowen has been responsible for the disciplined allocation of capital among its 38 businesses across different industries. Mr Bowen has also had extensive experience transforming and operating businesses in the Wesfarmers structure, with a focus on improved cash flow and cost efficiency.

John Mogford has over 40 years of experience in the oil and gas sector, including 33 years at BP Plc in technical, operational and leadership roles. While at BP, John acquired deep experience across the oil and gas business, working in the areas of exploration, downstream, upstream, safety and technology. Mr Mogford also has investment and strategic experience in the energy sector, holding the roles of Managing Director and Operating Partner at First Reserve Corporation from 2009 to 2015, and as a Senior Adviser to the Head of the Oil and Gas Practice at Nomura Investment Bank from 2010 to 2013.

As part of ongoing planning for Non-executive Director succession, the Board has maintained a skills matrix for several years. We have considered the matrix in light of technological and other changes impacting our industry and the external environment more generally, and have determined that we will undertake a review of the matrix, during FY2018. We believe we have appropriate technical expertise on the Board but will look to continue to enhance this through the next period of succession.

Two Directors retired during FY2017: John Schubert and Pat Davies. Since year-end, owing to concerns expressed by some investors, Grant King decided that he will not stand for election at the 2017 AGMs, and he retired from the Board on 31 August 2017. In addition, given his involvement in ongoing legal proceedings in Italy relating to his prior employment with Shell, Malcolm Brinded has decided that he will not stand for re-election at the 2017 AGMs, and will step down on 18 October 2017. On behalf of all shareholders, I thank John, Pat, Grant and Malcolm for their valuable contributions to the Board and wish them all the best for the future.

Table of Contents

Samarco

The Board has continued to focus on responding to the tragedy at Samarco. In the immediate aftermath of the tragedy, the Board established a sub-committee to assist the Board in its consideration and oversight of matters relating to the failure at Samarco. As the response to the tragedy has now moved from the immediate, emergency stage to a more strategic, structured way of working, we have transitioned the work from the Samarco sub-committee back to the Board and permanent Committees of the Board, in particular the Sustainability Committee. Please see the main body of this Corporate Governance Statement for more information on the work of those committees, and section 1.7 for information on our ongoing response to the Samarco dam failure.

Looking ahead

Since my appointment to the Board in September 2016, I have visited many of our operations around the world: Western Australia Iron Ore in the Pilbara, coal operations in Queensland, the Jansen Potash Project in Canada, onshore and offshore petroleum operations in the United States, and copper assets in Chile. This has reinforced to me the quality of BHP's assets and people, and the prospects for creating long-term value for our shareholders. I look forward to working with your Board and management, and in continued consultation with shareholders, to achieve this.

Ken MacKenzie

Chairman

Table of Contents

2.1.2 Governance structure

Our philosophy of governance goes beyond compliance. We believe high-quality governance supports long-term value creation: simply put, good governance is good business. Our approach is to adopt what we consider to be the best of the prevailing governance standards in Australia, the United Kingdom and the United States.

In the same spirit, we do not see governance as just a matter for the Board. Good governance is also the responsibility of executive management and is embedded throughout BHP. In this, the Board and management are guided by *Our Charter* values, including our value of Sustainability, in how we operate our business, interact with our stakeholders and plan for the future.

BHP governance structure

The diagram below describes the governance framework at BHP. It shows the interaction between our shareholders and the Board, as well as the relationship between the Board and the Chief Executive Officer (CEO). It also illustrates the flow of delegation from shareholders.

Robust processes are in place to ensure the delegation flows through the Board and its committees to the CEO, the Operations Management Committee (OMC), the Executive Leadership Team (ELT) and into the organisation. At the same time, accountability flows upwards from the Group to shareholders. This process helps ensure alignment with shareholders. While the ELT has responsibility for the day-to-day management of the Group, the OMC retains responsibility for planning, controlling and directing the activities of BHP, including key strategic, investment and operational decisions and recommendations to the Board. As such, the OMC members are classified as Key Management Personnel for remuneration reporting purposes.

Our Charter is central to the governance framework of BHP. It embodies our corporate purpose, strategy and values and defines when we are successful. We foster a culture that values and rewards high ethical standards, personal and corporate integrity and respect for others.

BHP governance structure

Table of Contents

2.2 Board of Directors and Executive Leadership Team

2.2.1 Board of Directors

Ken MacKenzie BEng, FIEA, FAICD, 53

Chairman and Independent Non-executive Director

Director of BHP Billiton Limited and BHP Billiton Plc since September 2016.

Appointed Chairman of BHP Billiton Limited and BHP Billiton Plc with effect from 1 September 2017.

Skills and experience:

Mr MacKenzie has extensive global and executive experience, and a deeply strategic approach. From 2005 until 2015, he was the Managing Director and Chief Executive Officer of Amcor Limited, a global packaging company with operations in over 40 countries. During his 23-year career with Amcor, Mr MacKenzie gained extensive experience across all of Amcor's major business segments in developed and emerging markets in the Americas, Australia, Asia and Europe.

Other directorships and offices (current and recent):

Former Managing Director and Chief Executive Officer of Amcor Limited (from July 2005 to April 2015).

Advisory Board member of American Securities Capital Partners LLC (since January 2016).

Advisory Board member of Adamantem Capital (since September 2016).

Former Senior Adviser to McKinsey & Company (from January 2016 to June 2017).

Board Committee membership:

Chairman of the Nomination and Governance Committee.

Member of the Sustainability Committee.

Andrew Mackenzie BSc (Geology), PhD (Chemistry), 60

Non-independent

Director of BHP Billiton Limited and BHP Billiton Plc since May 2013.

Mr Mackenzie was appointed Chief Executive Officer on 10 May 2013.

Skills and experience:

Mr Mackenzie has over 30 years' experience in oil and gas, petrochemicals and minerals. He joined BHP in November 2008 as Chief Executive Non-Ferrous, with responsibility for over half of BHP's 100,000 strong workforce across four continents. He was appointed Chief Executive Officer in May 2013. Prior to BHP, Mr Mackenzie worked at Rio Tinto, where he was Chief Executive of Diamonds and Minerals, and BP, where he held a number of senior roles, including Group Vice President for Technology and Engineering, and Group Vice President for Chemicals.

Other directorships and offices (current and recent):

Fellow of the Royal Society of London (since May 2014).

Director of the Grattan Institute (since May 2013).

Director of the International Council on Mining and Metals (since May 2013).

Former Non-executive Director of Centrica plc (from September 2005 to May 2013).

Table of Contents

Malcolm Brinded CBE, MA, 64

Independent Non-executive Director

Director of BHP Billiton Limited and BHP Billiton Plc since April 2014.

Skills and experience:

Mr Brinded has extensive experience in energy, governance and sustainability. He served as a member of the Board of Directors of Royal Dutch Shell plc from 2002 to 2012. During his 37-year career with Shell, Mr Brinded held various leadership positions in the United Kingdom, Europe, the Middle East and Asia, including Executive Director of Exploration and Production, Executive Director of Upstream International and Chairman and Upstream Managing Director of Shell UK.

Other directorships and offices (current and recent):

Former Director of Royal Dutch Shell plc (from July 2002 to March 2012, including as a Director of Royal Dutch Petroleum and Shell Transport and Trading Ltd prior to unification of Shell's corporate structure).

Former Director of Shell Petroleum N.V. (from July 2002 to March 2012).

Director of CH2M Hill Companies, Ltd (since July 2012).

Former Director of Network Rail Ltd; Network Rail Infrastructure Ltd (from October 2010 to July 2016).

Chairman of the Shell Foundation (July 2009 to April 2017) and Trustee (since June 2004).

President of The Energy Institute, UK (since July 2017 and before that, Vice President from October 2013).

Chairman of Engineering UK (since October 2016).

Board Committee membership:

Chairman of the Sustainability Committee.

Member of the Remuneration Committee.

As announced on 23 August 2017, Mr Brinded has decided not to stand for re-election as a Non-executive Director at the 2017 Annual General Meetings of BHP.

Table of Contents

Malcolm Broomhead MBA, BE, FAICD, 65

Independent Non-executive Director

Director of BHP Billiton Limited and BHP Billiton Plc since March 2010.

Skills and experience:

Mr Broomhead has extensive experience in running industrial and mining companies with a global footprint, and broad global experience in project development in many of the countries in which BHP operates. He was Managing Director and Chief Executive Officer of Orica Limited from 2001 until September 2005. Prior to joining Orica, Mr Broomhead held a number of senior positions at North Limited, including Managing Director and Chief Executive Officer and, prior to that, held senior management positions with Halcrow (UK), MIM Holdings, Peko Wallsend and Industrial Equity.

Other directorships and offices (current and recent):

Chairman of Orica Limited (since January 2016) and a Director (since December 2015).

Former Chairman of Asciano Limited (from October 2009 to August 2016).

Former Director of Coates Group Holdings Pty Ltd (from January 2008 to July 2013).

Director of the Walter and Eliza Hall Institute of Medical Research (since July 2014).

Chairman of the Australia China One Belt One Road Advisory Board (since August 2016).

Board Committee membership:

Member of the Sustainability Committee.

Member of the Risk and Audit Committee.

Anita Frew BA (Hons), MRes, Hon. D.Sc, 60

Independent Non-executive Director

Director of BHP Billiton Limited and BHP Billiton Plc since September 2015.

Skills and experience:

Ms Frew has extensive board, strategy, marketing, governance and risk management experience in the chemicals, engineering, water and finance industries. She is the Chairman of Croda International Plc and Deputy Chairman and Senior Independent Director of Lloyds Banking Group Plc. Ms Frew was the Chairman of Victrex Plc, Senior Independent Director of Aberdeen Asset Management Plc and IMI Plc and a Non-executive Director of Northumbrian Water.

Other directorships and offices (current and recent):

Chairman of Croda International Plc (since September 2015).

Deputy Chairman (since December 2010) and Senior Independent Director (since May 2017) of Lloyds Banking Group Plc.

Former Senior Independent Director of Aberdeen Asset Management Plc (from October 2004 to September 2014).

Table of Contents

Former Senior Independent Director of IMI Plc (from March 2006 to May 2015).

Former Chairman of Victrex Plc (from 2008 to October 2014).

Board Committee membership:

Member of the Risk and Audit Committee.

Carolyn Hewson AO, BEc (Hons), MA, FAICD, 62

Independent Non-executive Director

Director of BHP Billiton Limited and BHP Billiton Plc since March 2010.

Skills and experience:

Ms Hewson is a former investment banker with over 35 years experience in the finance sector. She was previously an Executive Director of Schroders Australia Limited and has extensive financial markets, risk management and investment management expertise. Ms Hewson is a former Director of BT Investment Management Limited, Westpac Banking Corporation, AMP Limited, CSR Limited, AGL Energy Limited, the Australian Gas Light Company, South Australian Water and the Economic Development Board of South Australia.

Other directorships and offices (current and recent):

Member of Federal Government Growth Centres Advisory Committee (since January 2015).

Director of Stockland Group (since March 2009).

Trustee Westpac Foundation (since May 2015).

Former Member of Australian Federal Government Financial Systems Inquiry (from January 2014 to December 2014).

Former Member of the Advisory Board of Nanosonics Limited (from June 2007 to August 2015).

Former Director of BT Investment Management Limited (from December 2007 to December 2013).

Former Director of Australian Charities Fund Operations Limited (from June 2000 to February 2014).

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Former Director and Patron of the Neurosurgical Research Foundation (from April 1993 to December 2013).

Former Trustee and Chairman of Westpac Buckland Fund (from January 2011 to December 2013) and Chairman of Westpac Matching Gifts Limited (from August 2011 to December 2013), together known as the Westpac Foundation.

Former Director of Westpac Banking Corporation (from February 2003 to June 2012).

Board Committee membership:

Member of the Nomination and Governance Committee.

Chairman of the Remuneration Committee.

Lindsay Maxsted DipBus (Gordon), FCA, FAICD, 63

Independent Non-executive Director

Director of BHP Billiton Limited and BHP Billiton Plc since March 2011.

Table of Contents

Skills and experience:

Mr Maxsted is a corporate recovery specialist who has managed a number of Australia's largest corporate insolvency and restructuring engagements and, until 2011, continued to undertake consultancy work in the restructuring advisory field. He was the Chief Executive Officer of KPMG Australia between 2001 and 2007. Mr Maxsted is the Board's nominated audit committee financial expert for the purposes of the US Securities and Exchange Commission Rules, and the Board is satisfied that he has recent and relevant financial experience for the purposes of the UK Financial Conduct Authority's Disclosure and Transparency Rules and the UK Corporate Governance Code.

Other directorships and offices (current and recent):

Chairman of Westpac Banking Corporation (since December 2011) and a Director (since March 2008).

Chairman of Transurban Group (since August 2010) and a Director (since March 2008).

Director and Honorary Treasurer of Baker Heart and Diabetes Institute (since June 2005).

Board Committee membership:

Chairman of the Risk and Audit Committee.

Wayne Murdy BSc (Business Administration), CPA, 73

Independent Non-executive Director

Director of BHP Billiton Limited and BHP Billiton Plc since June 2009.

Skills and experience:

Mr Murdy has a background in finance and accounting, where he has gained comprehensive experience in the financial management of mining, oil and gas companies during his career with Getty Oil, Apache Corporation and Newmont Mining Corporation. He served as the Chief Executive Officer of Newmont Mining Corporation from 2001 to 2007 and Chairman from 2002 to 2007, and has been a Director of Extraction Oil and Gas, Inc. since December 2016. Mr Murdy is also a former Chairman of the International Council on Mining and Metals, a former Director of the US National Mining Association and a former member of the Manufacturing Council of the US Department of Commerce.

Other directorships and offices (current and recent):

Director of Extraction Oil and Gas, Inc. (since December 2016).

Former Director of Weyerhaeuser Company (from January 2009 to February 2016).

Former Director of Qwest Communications International Inc. (from September 2005 to April 2011).

Board Committee membership:

Member of the Remuneration Committee.

Member of the Risk and Audit Committee.

Shriti Vadera MA, 55

Senior Independent Director, BHP Billiton Plc

Director of BHP Billiton Limited and BHP Billiton Plc since January 2011.

Table of Contents

Skills and experience:

Ms Vadera brings wide-ranging experience in finance, economics and public policy as well as extensive experience of emerging markets and international institutions. She is Chairman of Santander UK Group Holdings Plc and Santander UK Plc, and has been a Director of AstraZeneca Plc since 2011. She was an investment banker with S G Warburg/UBS from 1984 to 1999, on the Council of Economic Advisers, HM Treasury from 1999 to 2007, Minister in the UK Department of International Development in 2007, Minister in the Cabinet Office and Business Department from 2008 to 2009 with responsibility for dealing with the financial crisis and G20 Adviser from 2009 to 2010. Ms Vadera advised governments, banks and investors on the Eurozone crisis, banking sector, debt restructuring and markets from 2010 to 2014.

Other directorships and offices (current and recent):

Chairman of Santander UK Group Holdings Plc and Santander UK Plc (since March 2015).

Director of AstraZeneca Plc (since January 2011).

Former Trustee of Oxfam (from 2000 until 2005).

Board Committee membership:

Member of the Nomination and Governance Committee.

Member of the Remuneration Committee.

Margaret Taylor BA, LLB, GAICD, FCIS, 57

Group Company Secretary and Chairman of the Disclosure Committee

Ms Taylor was appointed Group Company Secretary of BHP effective June 2015. Previously, she was Group Company Secretary of Commonwealth Bank of Australia, and before joining the Bank, held the position of Group General Counsel and Company Secretary of Boral Limited. Prior to that, Ms Taylor was Regional Counsel Australia/Asia with BHP, and earlier, a partner with law firm Minter Ellison, specialising in corporate and securities laws. She is a Fellow of the Governance Institute of Australia.

2.2.2 Executive Leadership Team

Andrew Mackenzie BSc (Geology), PhD (Chemistry), 60

Chief Executive Officer

(See section 2.2.1 for biography.)

Arnoud Balhuizen BBE, 48

President Marketing and Supply

Mr Balhuizen was appointed Chief Commercial Officer in March 2017. Prior to this, he was President Marketing and Supply from March 2016 and President Marketing from 2013. Mr Balhuizen started his career with Billiton in 1994, working for the Marketing and Trading division in the Netherlands. Since then he has held various marketing roles, including General Manager Marketing for Copper Cathodes, Vice President Iron Ore Marketing and Vice President Petroleum Marketing.

Peter Beaven BAcc, CA, 50

Chief Financial Officer

Mr Beaven was appointed Chief Financial Officer in October 2014. Previously he was the President of Copper and prior to that appointment in May 2013, President of Base Metals. Mr Beaven was previously the President of BHP's Manganese Business, and Vice President and Chief Development Officer for Carbon Steel Materials. He has wide experience across a range of regions and businesses in BHP, UBS Warburg, Kleinwort Benson and PricewaterhouseCoopers.

Table of Contents

Geoff Healy BEc, LLB, 51

Chief External Affairs Officer

Mr Healy joined BHP as Chief Legal Counsel in June 2013 and was appointed Chief External Affairs Officer in February 2016. Prior to BHP, Mr Healy was a partner at Herbert Smith Freehills for 16 years, and a member of its Global Partnership Council, working widely across its network of Australian and international offices.

Mike Henry BSc (Chemistry), 51

President Operations, Minerals Australia

Mr Henry joined BHP in 2003. He served as President, Coal from January 2015 to February 2016 when he was appointed President Operations, Minerals Australia. Prior to January 2016, he was President, HSE, Marketing & Technology. His earlier career with BHP included a number of commercial roles covering both Minerals and Petroleum, including the role of Chief Marketing Officer.

Diane Jurgens BSEE, MSEE, MBA, 55

Chief Technology Officer

Ms Jurgens joined BHP in 2015 and was appointed Chief Technology Officer in February 2016. Prior to joining BHP, Ms Jurgens was based in China for nearly 10 years, serving as Board Member and Managing Director of Shanghai OnStar Telematics Company, in addition to prior roles as Chief Information Officer and Strategy Board member for General Motors International and China Operations. Ms Jurgens' early career was with the Boeing Company where she worked for 12 years in engineering, information technology and business development leadership roles.

Daniel Malchuk BEng, MBA, 51

President Operations, Minerals Americas

Mr Malchuk was appointed President Operations, Minerals Americas in February 2016 based in Santiago, Chile. Previously he was President of the Copper Business. Mr Malchuk has held a number of roles in the organisation, including President Aluminium, Manganese and Nickel; President of Minerals Exploration; Vice President Strategy and Development Base Metals; and has worked in four countries with BHP. He joined BHP in April 2002.

Steve Pastor BSc (Mechanical Engineering), MBA, 51

President Operations, Petroleum

Mr Pastor joined BHP in 2001 and was appointed President Operations, Petroleum in February 2016. He is responsible for the Group's global oil and gas operations and exploration program. Over his career with BHP, Mr Pastor has served as Asset President Conventional and he has held leadership roles in deepwater and shale operations. Prior to joining BHP, Mr Pastor's experience includes 11 years with Chevron.

Laura Tyler BSc (Geology (Hons)), MSc (Mining Engineering), 50

Chief of Staff, Head of Geoscience

Ms Tyler joined BHP in 2004 and was appointed Chief of Staff to the CEO in 2015. Previously, Ms Tyler was Asset President of the Cannington Mine, and held technical and operational roles at the EKATI Diamond Mine in Canada and corporate HSEC in London. Prior to joining BHP, Ms Tyler worked for Western Mining Corporation, Newcrest Mining and Mount Isa Mines in various technical and operational roles, and also spent five years in the civil engineering industry.

Table of Contents

Athalie Williams BA (Hons), FAHRI, 47

Chief People Officer

Ms Williams joined BHP in 2007 and was appointed to the role of President, Human Resources in January 2015. Ms Williams' title changed to Chief People Officer effective 1 July 2015. She has previously held senior Human Resources positions, including Vice President Human Resources Marketing, Vice President Human Resources for the Uranium business and Group HR Manager, Executive Resourcing & Development. Prior to BHP, Ms Williams was an organisation strategy advisor with Accenture (formerly Andersen Consulting) and National Australia Bank. Ms Williams is a member of Chief Executive Women and a Director of the BHP Billiton Foundation.

2.3 Shareholder engagement

Part of the Board's commitment to high-quality governance is expressed through the approach BHP takes to engaging and communicating with its shareholders. We encourage shareholders to make their views known to us.

Our shareholders are based around the globe. As well as the two AGMs, which are an important part of the governance and investor engagement process, the Board uses a range of formal and informal communication channels to understand the views of shareholders. This ensures the Board represents shareholders in governing BHP. We regularly engage with institutional shareholders and investor representative organisations in Australia, South Africa, the United Kingdom and the United States. The purpose of these meetings is to discuss governance and strategy of BHP. The meetings are an important opportunity to build relationships and to engage directly with governance managers, fund managers and governance advisers. We also meet regularly with retail shareholder representatives such as the Australian Shareholders Association and the United Kingdom Shareholders Association, and in FY2017, we met with the UK Individual Shareholders Society.

We take a coordinated approach to engagement on corporate governance, and during FY2017, responded to a wide range of shareholders, their representatives and non-governmental organisations. Issues covered included Samarco, human rights, portfolio, environmental, social and governance issues, long-term value creation, culture, diversity, and executive remuneration.

Shareholder communications

Shareholders can communicate with BHP and our registrar electronically. Shareholders can contact us at any time through our Investor Relations team, with contact details available online at bhp.com. Shareholder and analyst feedback is shared with the Board through the Chairman, the Senior Independent Director, the Chairman of the Remuneration Committee, other Directors, the CEO, the CFO and the Group Company Secretary. In addition, Investor Relations and Group Governance provide regular reports to the Board on shareholder and governance manager feedback and analysis. This approach provides a robust mechanism to ensure Directors are aware of issues raised and have a good understanding of current shareholder views.

Shareholder engagement in FY2017

Topic	Led by	Purpose	FY2017 activity
Strategy, governance and	Chairman	Discuss proposals and issues with shareholders	Meetings held in Australia and the UK.

remuneration

and other stakeholders.
Meetings are scheduled to
allow for feedback and for
new policies to be
developed prior to AGMs.

Retail shareholder event,
held in conjunction with the
Australian Shareholders
Association in May. The
intention is to make this an
annual event.

148

Table of Contents

Topic	Led by	Purpose	FY2017 activity
Investor listening tour	Chairman-elect	Understand shareholder perspectives on a range of strategic issues prior to assuming the role of Chairman.	Meetings held in Australia and the UK in July, with calls into Canada, Germany, Singapore, South Africa and Sweden. Meetings held in the US in August.
Strategy, governance and remuneration	Senior Independent Director Remuneration Committee Chairman	Discuss strategy, Board succession and remuneration issues.	Meetings held by the Senior Independent Director in the UK in January and March. The Remuneration Committee Chairman met investors in Australia in May/June. In addition, the Chief People Officer led meetings in Australia in July and Group Reward held meetings in the UK in May.
Strategy, finance and operating performance	CEO, CFO, senior management and Investor Relations	Update shareholders on results or other key announcements. We also engage with other capital providers, for example through meetings with bondholders.	Live webcasts of important announcements. Face-to-face investor meetings held in Australia, Canada, China, Japan, Malaysia, Singapore, South Africa, South Korea, Spain, Sweden, Switzerland, the UK and the US. Bondholder meetings held in London in September with investors from China, Denmark, Finland, France, Ireland, the UK and the US. Bondholder teleconferences held after the full-year and half-year results and were attended by investors in Canada, France,

Health, Safety, Environment and Community (HSEC)	Head of Health, Safety and Environment	Update investors on key HSEC issues.	Netherlands, the UK and the US. Meetings held in Australia in September. The HSEC roadshow in March took place in the UK, with additional meetings in Canada, mainland Europe, South Africa and the US by conference call.
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Table of Contents

Topic	Led by	Purpose	FY2017 activity
Governance strategy and briefings	Group Governance	Provides a conduit to enable the Board and its committees to remain abreast of evolving investor expectations and to continuously enhance the governance processes of BHP.	Meetings held in Australia and the UK throughout the year, and in Scandinavia in May and the US in December. Multiple briefings on Samarco, including a site tour in June for ESG analysts to review the Samarco remediation work.
Climate Change	Head of Sustainability and Climate Change	Update investors on our strategy on climate change.	Meetings held in Australia and the UK throughout the year, and the US in December. This included the London launch of our Portfolio Analysis: Views after Paris document in October.

Understanding shareholder views**Annual General Meetings**

The AGMs provide a forum to facilitate the sharing of shareholder views, and are important events in the BHP calendar. These meetings provide an update for shareholders on our performance and offer an opportunity for shareholders to ask questions and vote.

Questions can be registered prior to the meeting. Key members of management, including the CEO and CFO, are present and available to answer questions. The External Auditor attends the AGMs and is also available to answer questions.

Proceedings at shareholder meetings are webcast live from our website. Copies of the speeches delivered by the Chairman and CEO to the AGMs are released to the stock exchanges and posted on our website. A summary of proceedings and the outcome of voting on the items of business are released to the relevant stock exchanges and posted on our website as soon as they are available following completion of the BHP Billiton Limited AGM.

Information relating to our AGMs is available online at bhp.com/meetings.

Table of Contents

2.4 Role and responsibilities of the Board

The Board's role is to represent the shareholders. It is accountable to shareholders for creating and delivering value through the effective governance of BHP. This role requires a high-performing Board, with all Directors contributing to the Board's collective decision-making processes.

The *Board Governance Document* is a statement of the practices and processes the Board has adopted to discharge its responsibilities. It includes the processes the Board has implemented to undertake its own tasks and activities; the matters it has reserved for its own consideration and decision-making; the authority it has delegated to the CEO, including the limits on the way in which the CEO can execute that authority; and guidance on the relationship between the Board and the CEO.

The *Board Governance Document* specifies the role of the Chairman, the membership of the Board and the role and conduct of Non-executive Directors. It also provides that the Group Company Secretary is accountable to the Board and advises the Chairman and, through the Chairman, the Board and individual Directors on all matters of governance process.

The CEO is required to report regularly to the Board in a spirit of openness and trust on the progress being made by BHP. Open dialogue between individual members of the Board and the CEO and other members of the management team is encouraged to enable Directors to gain a better understanding of the organisation.

For more information, refer to sections 2.5 to 2.8.

The Board Governance Document is available online at bhp.com/governance.

Table of Contents

Matters reserved for Board decision

Topic	Matter
Succession	<p>Appointing the CEO and determining the terms of the appointment.</p> <p>Succession planning for direct reports to the CEO.</p>
Strategic matters	<p>Approving the appointment of executives reporting to the CEO and membership of the ELT, and material changes to the organisational structure involving direct reports to the CEO.</p> <p>Strategy, annual budgets, balance sheet management and funding strategy.</p> <p>Commitments, capital and non-capital items, acquisitions and divestments above specified thresholds.</p> <p>Dividend policy and determining dividends.</p>
Monitoring	<p>Market risk management strategy and limits.</p> <p>Performance of the CEO and the Group.</p> <p>Board composition processes and performance.</p> <p>Reviewing and monitoring systems of risk management and internal control.</p>
Reporting and regulation	<p>Establishing and assessing measurable diversity objectives.</p> <p>Determining and adopting documents (including the publication of reports and statements to shareholders) that are required by the Group's constitutional documents, statute or by other external regulation.</p>

Determining and approving matters that are required by the Group's constitutional documents, statute or by other external regulation to be determined or approved by the Board.

Key Board activities during FY2017

The Board considered a range of matters during FY2017, as outlined below.

Strategic matters

Capital Allocation (Capital Allocation Framework, capital prioritisation and development outcomes)

Dividend policy and dividend recommendations

Funding (annual budgets, balance sheet management, liquidity management)

Capital prioritisation and portfolio development options
Two-year budget and annual funding plan

Euro medium-term note program update

Liability management

Liquidity management

Escondida long-term debt plan

NCIG debt refinance

Table of Contents

Portfolio (Group scenarios, commodity and asset review, growth options, approving commitments, capital and non-capital items and acquisitions and divestments above a specified threshold, and geopolitical and macro-environmental impacts)

Approval of the divestment of Scarborough Project

Approval of Mad Dog Phase 2: Definition to execution and Mad Dog 2 long-lead equipment funding

Approval of the WAIO South Flank pre-commitment

Shareholder activism (environment and Elliott campaign)

Petroleum strategic review

Macro environment strategy

China demand review

Approval of Samarco plan and funding

Reviewing the Group Scenarios

Energy sector update

Commodity price protocols

Dam risk review

		Approval of investment	Trion, Mexico
		Review of potential acquisitions	
		Approval of capital investment	Jansen
		Copper exploration review	
		Organic growth options review	
		Shale investment framework	
Monitoring and assurance matters	Includes matters and/or documents required by the Group's constitutional documents, statute or by other external regulation	Non-operated minerals joint venture review	
		Risk review	
		Investor relations reports	
		CEO reports	
		HSEC reports	
		Risk and Audit Committee report-outs	
		Sustainability Committee report-outs	

Nomination and Governance Committee
report-outs

Remuneration Committee report-outs

Samarco sub-committee report-outs

153

Table of Contents

Chairman s matters	Board composition, succession planning, performance and culture	Chairman succession
		Committee succession
		Board composition and succession
		Organisational culture
		Inclusion and Diversity Council FY2017 targets
		Reviewing Employee Perception Survey results
		Director evaluation and independence
		Reviewing and approving the Annual Report suite
		Reviewing the ELT succession and talent pipeline
		Site visits and Board meetings held outside of Melbourne and London

2.5 Board membership

The Board currently has nine members. With the appointment of Terry Bowen and John Mogford to the Board effective 1 October 2017, the Board will have 11 members. The Non-executive Directors are considered by the Board to be independent of management and free from any business relationship or other circumstance that could materially interfere with the exercise of objective, unfettered or independent judgement. For more information on the process for

assessing independence, refer to section 2.10.

The Nomination and Governance Committee retains the services of external recruitment specialists to assist in the identification of potential candidates for the Board.

The Board believes there is an appropriate balance between Executive and Non-executive Directors to promote shareholder interests and govern BHP effectively. While the Board includes a smaller number of Executive Directors than is common for UK-listed companies, its composition is appropriate for the Dual Listed Company structure and is in line with Australian-listed company practice. In addition, the Board has extensive access to members of senior management who frequently attend Board meetings, where they make presentations and engage in discussions with Directors, answer questions and provide input and perspective on their areas of responsibility. The CFO attends all Board meetings. The Board, led by the Chairman, also holds discussions in the absence of management at the beginning and end of Board meetings.

The Directors of BHP, along with their biographical details, are listed in section 2.2.1.

Inclusion and diversity

Our Charter and the *Our Requirements for Human Resources* standard guide management on all aspects of human resource management, including inclusion and diversity. Underpinning *Our Requirements* standards and supporting the achievement of diversity across BHP are principles and measurable objectives that define our approach to diversity and our focus on creating an inclusive work environment.

Table of Contents

The Board and management believe many facets of diversity are required, as set out in section 2.13.3, in order to meet the corporate purpose. Diversity is a core consideration in ensuring the Board and its committees have the right blend of perspectives to ensure the Board oversees BHP effectively for shareholders.

Part of the Board's role is to consider and approve measurable objectives for workforce diversity each financial year and to assess annually both the objectives and our progress in achieving those objectives. This progress will continue to be disclosed in the Annual Report, along with the proportion of women in our workforce, in senior management positions and on the Board, with our stated aim being to achieve gender balance across the business and the Board by FY2025. For more information on inclusion and diversity at BHP, including our progress against FY2017 measurable objectives and our employee profile more generally, refer to section 1.9.

2.6 Chairman

On 16 June 2017, BHP announced that the Board had elected Ken MacKenzie to succeed Jac Nasser as Chairman with effect from 1 September 2017. Mr MacKenzie was considered by the Board to be independent on his appointment as Chairman, and was an independent Non-executive Director from his appointment to the Board effective 22 September 2016. The Board is satisfied that Mr MacKenzie will make sufficient time available to serve BHP effectively. More details about the extensive Chairman search process are set out in section 2.13.3.

For the year under review, the Chairman was Jac Nasser, who was considered by the Board to be independent on his appointment. He was appointed Chairman of the Group with effect from 31 March 2010, and had been a Non-executive Director since 6 June 2006. The Board considers that none of Mr Nasser's other commitments (set out in section 2.2.1) interfered with the discharge of his responsibilities to BHP during the year under review. The Board is satisfied that as Chairman, Mr Nasser made sufficient time available to serve BHP effectively. He retired as Chairman and as a Non-executive Director on 31 August 2017.

BHP does not have a Deputy Chairman, but Shriti Vadera would act as Chairman should the need arise at short notice. Ms Vadera is the Senior Independent Director of BHP Billiton Plc (in accordance with the UK Corporate Governance Code).

2.7 Renewal and re-election

Renewal

Orderly succession is achieved as a result of careful planning, with the composition of the Board under review on an ongoing basis. This planning involves looking out over a five-year period, which provides a robust framework within which to consider Board succession and re-election. In doing this, the Board, with the assistance of the Nomination and Governance Committee:

considers the diversity of skills, background, knowledge, experience, geographic location, nationality and gender necessary to allow it to meet the corporate purpose as compared to those qualities currently represented;

identifies any key skills or attributes that could be enhanced on the Board and agrees the process necessary to ensure a candidate is selected who brings those skills and attributes to the Board;

reviews how Board performance might be enhanced, at an individual Director level and for the Board as a whole. When considering new appointments to the Board, the Nomination and Governance Committee oversees the preparation of a position specification that is provided to an independent recruitment organisation retained to conduct a global search. External search firms are instructed to consider a wide range of candidates, including taking into account the criteria and attributes set out in the *Board Governance Document*.

Table of Contents

Once a candidate is identified, the Board, with the assistance of external consultants when necessary, conducts appropriate background and reference checks. The candidate is also interviewed by each Board member ahead of the Board deciding whether to appoint the candidate to the Board.

The Board has adopted a letter of appointment that contains the terms on which Non-executive Directors will be appointed, including the basis upon which they will be indemnified by the Group. The letter of appointment clearly defines the role of Directors, including the expectations in terms of independence, participation, time commitment and continuous improvement.

A copy of the terms of appointment for Non-executive Directors is available online at bhp.com/governance.

Director re-election

The Board adopted a policy in 2011, consistent with the UK Corporate Governance Code, under which all Directors must seek re-election by shareholders annually if they wish to remain on the Board. The Board believes annual re-election promotes and supports accountability to shareholders. The combined voting outcome of the BHP Billiton Plc and BHP Billiton Limited 2016 AGMs was that each Director received more than 92 per cent in support of their re-election.

Board support for re-election is not automatic. Directors who are seeking re-election are subject to a performance appraisal overseen by the Nomination and Governance Committee. Annual re-election effectively means all Directors are subject to a performance appraisal annually. The Board, on the recommendation of the Nomination and Governance Committee, makes a determination as to whether it will endorse a retiring Director for re-election. The Board will not endorse a Director for re-election if his or her performance is not considered satisfactory. The Notice of Meeting will provide information that is material to a shareholder's decision whether or not to re-elect a Director, including whether or not re-election is supported by the Board.

2.8 Director skills, experience and attributes

Skills, experience and attributes required

The Board considers that a diversity of skills, backgrounds, knowledge, experience, geographic location, nationalities and gender is required in order to effectively govern the business. The Board and the Nomination and Governance Committee work to ensure the Board continues to have the right balance necessary to discharge its responsibilities in accordance with the highest standards of governance.

Non-executive Directors must have a clear understanding of the Group's overall strategy, together with knowledge about BHP and the industries in which it operates. Non-executive Directors must be sufficiently familiar with BHP's core business to be effective contributors to the development of strategy and to monitor performance. Part of the required understanding of our strategy and the core business is the requirement to understand the risks BHP faces and the processes in place to mitigate and manage those risks. We operate in an uncertain external environment and BHP is exposed to many material risks across our operations, including some that are systemic, such as financial risks and climate change. All those risks are factored into the Board's approach to strategy and its assessment of an optimised portfolio. The risk management governance structure is described in section 2.14.

Current Board profile

The Board considers that each of the Non-executive Directors has the following attributes: sufficient time to undertake the responsibilities of the role; honesty and integrity; and a preparedness to question, challenge and critique. The Executive Director brings additional perspectives to the Board through a deeper understanding of BHP's business and day-to-day operations.

Table of Contents

Alongside those key attributes, the skills matrix sets out the mix of skills and experience the Board considers necessary or desirable in its Directors and the extent to which they are represented on the Board and its committees.

This skills matrix is not static, and as set out in the Chairman's letter, we intend to conduct a review of the skills matrix during FY2018 for publication in the FY2018 Annual Report. That review will take account of the skills and experience we believe the Board requires for the next period of BHP's development, having regard to BHP's circumstances and the changing external environment, and will also take account of best practice in this area as it has evolved. It is anticipated that following the review, updated and amended definitions will mean that fewer Directors will meet as many of the requirements as is the case with the skills matrix included on the following page.

Board skills and experience – climate change

The strategic issues facing the Board change over time. It is important that the Board is able to identify these issues and access the best possible advice.

Climate change is a multi-faceted issue that affects investment decisions, our portfolio, oversight of the sustainability of our operations and engagement with government, investors, suppliers and customers. The Board includes an appropriate mix of skills and experience to understand the implications of climate change on our operations, market and society.

Climate change is treated as a Board-level governance issue and is discussed regularly, including during Board strategy discussions, portfolio review and investment decisions, and in the context of scenario triggers and signposts. The Sustainability Committee spends a significant amount of time considering systemic climate change matters relating to the resilience of, and opportunities for, BHP's portfolio.

Framed as a Board-level governance issue requiring experience of managing in the context of uncertainty and an understanding of the risk environment of the Group, all of the Non-executive Directors bring relevant experience to bear in our climate change discussions.

Board members bring significant sectoral experience, which equips them to consider potential implications of climate change on the Group and its operational capacity. Board members also possess extensive experience in energy, governance and sustainability. There is also wide-ranging experience in finance, economics and public policy, which helps BHP understand the nature of the debate and the international policy response as it develops. In addition, there is a deep understanding of systemic risk and the potential impacts on our portfolio.

Collectively, this means the Board has the experience and skills to assist the Group in the optimal allocation of financial, capital and human resources for the creation of long-term shareholder value. It also means the Board understands the importance of meeting the expectations of stakeholders, including in respect of the natural environment.

To enhance that experience, the Board has taken a number of measures to ensure that its decisions are appropriately informed by climate change science and expert advisers.

The Board seeks the input of management (including Dr Fiona Wild, our Vice President Sustainability and Climate Change), our Forum on Corporate Responsibility (which advises the Board on sustainability issues and includes Don Henry, former CEO of the Australian Conservation Foundation) and other independent advisers.

Table of Contents

The following table sets out the current mix of skills and experience the Board considers necessary or desirable in its Directors, and the extent to which they are represented on the Board and its committees as at 1 October 2017. The table therefore includes Terry Bowen and John Mogford in the composition of the Board. Their membership of committees will be determined in due course.

Skills and experience	Board	Risk & Audit	Nomination & Governance	Remuneration	Sustainability
Total Directors	11 Directors	4 Directors	4 Directors	4 Directors	3 Directors
Executive leadership					
Sustainable success in business at a very senior executive level in a successful career.	100%	100%	100%	100%	100%
Global experience					
Senior management or equivalent experience in multiple global locations, exposed to a range of political, cultural, regulatory and business environments.	91%	75%	100%	100%	100%
Governance					
Commitment to the highest standards of governance, including experience with a major organisation that is subject to rigorous governance standards, and an ability to assess the effectiveness of senior management.	100%	100%	100%	100%	100%
Strategy/Risk					
Track record of developing and implementing a successful strategy, including appropriately probing and challenging management on the delivery of agreed strategic planning objectives. Track record in developing an asset or business portfolio over the long term that remains	100%	100%	100%	100%	100%

resilient to systemic risk.

Financial acumen

Senior executive or equivalent experience in financial accounting and reporting, corporate finance and internal financial controls, including an ability to probe the adequacies of financial and risk controls.	100%	100%	100%	100%	100%
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Capital projects

Experience working in an industry with projects involving large-scale capital outlays and long-term investment horizons.	91%	100%	75%	75%	100%
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Health, safety and environment

Experience related to workplace health and safety, environmental and social responsibility, and community.	91%	75%	100%	100%	100%
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Table of Contents

	Board	Risk & Audit	Nomination & Governance	Remuneration	Sustainability
Skills and experience					
Remuneration					
Board Remuneration Committee membership or management experience in relation to remuneration, including incentive programs and pensions/superannuation and the legislation and contractual framework governing remuneration.	73%	100%	75%	100%	66%
Mining					
Senior executive experience in a large mining organisation combined with an understanding of the Company's corporate purpose to create long-term shareholder value through the discovery, acquisition, development and marketing of natural resources.	27%	50%	25%	25%	33%
Oil and gas					
Senior executive experience in the oil and gas industry, including in-depth knowledge of the Company's strategy, markets, competitors, operational issues, technology and regulatory concerns.	36%	25%	0%	50%	33%
Marketing					
Senior executive experience in marketing and a detailed understanding of the Company's corporate purpose to create long-term shareholder value through the discovery, acquisition, development and marketing of natural resources.	64%	100%	50%	50%	100%
Public policy					
Experience in public and regulatory policy, including how it affects corporations.	64%	75%	100%	100%	100%

2.9 Director induction, training and development

The development of industry and Group knowledge is a continuous and ongoing process. The Board's development activity reflects the diversification of the portfolio through the provision of regular updates to Directors on BHP's assets, commodities, geographies and markets, and on the changing external environment, to enable the Board to remain up-to-date.

Table of Contents

Upon appointment, each new Non-executive Director undertakes an induction program specifically tailored to his or her needs.

A copy of an indicative induction program is available online at bhp.com/governance.

Following the induction program, Non-executive Directors participate in continuous improvement activities (Training and Development Program), which are overseen by the Nomination and Governance Committee. The Training and Development Program covers a range of matters of a business nature, including environmental, social and governance matters. Programs are designed to maximise the effectiveness of the Directors throughout their tenure and reflect their individual performance evaluations.

These sessions and site visits also allow an opportunity to discuss in detail the changing risk environment and the potential for impacts on the achievement of our corporate purpose and business plans. For information on the management of principal risks, refer to sections 1.8.3 and 2.14.

The Chairman throughout the year discusses development areas with each Director. Board committees in turn review and agree their training needs. The benefit of this approach is that induction and learning opportunities can be tailored to Directors' committee memberships, as well as the Board's specific areas of focus. This approach also ensures a coordinated process in relation to succession planning, Board renewal, training and development and committee composition, which are all relevant to the Nomination and Governance Committee's role in securing the supply of talent to the Board.

Each Board committee provides a standing invitation for any Non-executive Director to attend committee meetings (rather than just limiting attendance to committee members). Committee agendas are provided to all Directors to ensure Directors are aware of matters to be considered by the committees and any Director can elect to attend meetings where appropriate.

Training and development in FY2017

Area	Purpose	FY2017 activity
Briefings	Provide each Director with a deeper understanding of the activities, environment, key issues and direction of the assets along with HSEC and public policy considerations.	Operating Model Technology update Petroleum strategic review
Development sessions	Specific topics of relevance.	Climate change

Site visits	Briefings on the assets, operations and other relevant issues and meetings with key personnel.	Shareholder activism
		Olympic Dam, Copper, Australia
		Nickel West, Nickel, Australia
		Western Australia Iron Ore, Iron Ore, Australia
		BMA, Metallurgical Coal, Australia
		Jansen Project, Potash, Canada
Samarco, Iron Ore, Brazil		

Table of Contents

Area	Purpose	FY2017 activity
		Singapore, Marketing and Supply office, Singapore
		Kuala Lumpur, Global Asset Services Centre, Malaysia
		Gulf of Mexico, Petroleum, United States
		Onshore US, Petroleum, United States
		Antamina and Spence, Copper, Chile
		Cerrejón, Energy Coal, Colombia
External speakers	Addresses by experts to provide insight into current geopolitical, economic or social themes.	From various external experts, the Board received insights on broad macro-economic themes and the rise of populism, insights into geopolitics with a particular focus on Chile, and insights into climate change and social policy.

2.10 Independence

The Board is committed to ensuring a majority of Directors is independent. The Board considers all of the current Non-executive Directors, including the Chairman, are independent.

Process to determine independence

The Board has adopted a policy which it uses to determine the independence of its Directors. This determination is carried out upon appointment, annually and at any other time where the changed circumstances of a Director warrant reconsideration.

A copy of the policy on Independence of Directors is available online at bhp.com/governance.

Under the policy, an independent Director is one who is: *independent of management and any business or other relationship that could materially interfere with the exercise of objective, unfettered or independent judgement by the Director or the Director's ability to act in the best interests of the BHP Billiton Group*.

Where a Director is considered by the Board to be independent but is affected by circumstances that appear relevant to the Board's assessment of independence, the Board has undertaken to explain the reasons why it reached its conclusion. In applying the independence test, the Board considers relationships with management, major shareholders, subsidiary and associated companies and other parties with whom BHP transacts business against pre-determined materiality thresholds, all of which are set out in the policy.

Table of Contents

Tenure

As at the end of the year under review, only Jac Nasser had served on the Board for more than nine years. As announced on 16 June 2017, Mr Nasser retired from the role of Chairman and as a Non-executive Director on 31 August 2017. This means that as at 1 September 2017, the average tenure of the Board, including Andrew Mackenzie, was five years and two months, showing the process of renewal that takes place as part of our ongoing succession planning process. With the appointment of Terry Bowen and John Mogford to the Board, the average tenure of the Board as at 1 October will be four years and four months. For further information, refer to section 2.13.3.

Relationships and associations

Lindsay Maxsted was the CEO of KPMG in Australia from 2001 until 2007. The Board believes this prior relationship with KPMG does not materially interfere with Mr Maxsted's exercise of objective, unfettered or independent judgement, or his ability to act in the best interests of BHP. The Board has determined, consistent with its policy on the independence of Directors, that Mr Maxsted is independent. The Board notes in particular that:

at the time of his appointment to the Board, more than three years had elapsed since Mr Maxsted's retirement from KPMG. The Director independence rules and guidelines that apply to the Group – which are a combination of Australian, UK and US rules and guidelines – all use three years as the benchmark 'cooling off' period for former audit firm partners;

Mr Maxsted has no financial (e.g. pension, retainer or advisory fee) or consulting arrangements with KPMG;

Mr Maxsted was not part of the KPMG audit practice after 1980, and while at KPMG was not in any way involved in, or able to influence, any audit activity associated with BHP.

The Board believes Mr Maxsted's financial acumen and extensive experience in the corporate restructuring field to be important in the discharge of the Board's responsibilities. His membership of the Board and Chairmanship of the Risk and Audit Committee are considered by the Board to be appropriate and desirable.

Some of the Directors hold, or have previously held, positions in companies with which BHP has commercial relationships. Those positions and companies are set out in the Director profiles in section 2.2.1. The Board has assessed all of the relationships between the Group and companies in which Directors hold or held positions, and has concluded that in all cases the relationships do not interfere with the Directors' exercise of objective, unfettered or independent judgement or their ability to act in the best interests of BHP.

A specific instance is Malcolm Broomhead, who on 1 January 2016 was appointed Chairman of Orica Limited (a company with which BHP has commercial dealings). Orica provides commercial explosives, blasting systems and mineral processing chemicals and services to the mining and resources industry, among others. At the time of Mr Broomhead's appointment to the Board of Orica, the BHP Board assessed the relationship between BHP and Orica and determined (and remains satisfied) that Mr Broomhead is able to apply objective, unfettered and independent judgement and to act in the best interests of BHP.

Transactions during FY2017 that amounted to related party transactions with Directors or Director-related entities under International Financial Reporting Standards (IFRS) are outlined in note 31 'Related party transactions' in section

5.

Executive Director

The Executive Director, Andrew Mackenzie, is not considered independent because of his executive responsibilities. Mr Mackenzie does not hold directorships in any other company included in the ASX 100 or FTSE 100.

Table of Contents

Conflicts of interest

The UK Companies Act 2006 requires that BHP Directors avoid a situation where they have or can have an unauthorised direct or indirect interest that conflicts, or possibly may conflict, with the Group's interests, unless approved by non-interested Directors. In accordance with the UK Companies Act 2006, BHP Billiton Plc's Articles of Association allow the Directors to authorise conflicts and potential conflicts where appropriate. A procedure operates to ensure the disclosure of conflicts and for the consideration and, if appropriate, the authorisation of those conflicts by non-conflicted Directors. The Nomination and Governance Committee supports the Board in this process by reviewing requests from Directors for authorisation of situations of actual or potential conflict and making recommendations to the Board, and by regularly reviewing any situations of actual or potential conflict that have previously been authorised by the Board, and making recommendations regarding whether the authorisation remains appropriate. In addition, in accordance with Australian law, if a situation arises for consideration in which a Director has a material personal interest, the affected Director takes no part in decision-making unless authorised by non-interested Directors. Provisions for Directors' interests are set out in the Constitution of BHP Billiton Limited.

2.11 Board evaluation

The Board is committed to transparency in determining Board membership and in assessing the performance of Directors. The Board conducts regular evaluations of its performance, the performance of its committees, the Chairman, individual Directors and the governance processes that support the Board's work. The Board evaluation process comprises both assessment and review, as summarised in the diagram below.

The evaluation considers the balance of skills, experience, independence and knowledge of the Group and the Board, its overall diversity, including gender, and how the Board works together as a unit.

Directors provide anonymous feedback on their peers' performance and individual contributions to the Board, which is passed on to the relevant Director via the Chairman. In respect of the Chairman's performance, feedback is provided directly to the Senior Independent Director. External independent advisers are engaged to assist with these processes, as necessary. The involvement of an independent third party has assisted in the evaluation processes being rigorous and fair, and ensuring continuous improvement in the operation of the Board and committees, as well as the contributions of individual Directors.

Director assessment

The assessment of individual Directors focuses on the contribution of the Director to the work of the Board and the expectations of Directors as specified in the Group's governance framework. The performance of individual Directors is assessed against a range of criteria, including the ability of the Director to:

focus on creating long-term shareholder value;

contribute to the development of strategy;

understand the major risks affecting BHP;

provide clear direction to management;

contribute to Board effectiveness;

commit the time required to fulfil the role and perform their responsibilities effectively;

listen to and respect the ideas of fellow Directors and members of management.

Table of Contents

Board effectiveness

The effectiveness of the Board as a whole and of its committees is assessed against the accountabilities set out in the *Board Governance Document* and each committee's terms of reference. Matters considered in evaluations include:

the effectiveness of discussion and debate at Board and committee meetings;

the effectiveness of the Board's and committees' processes and relationship with management;

the quality and timeliness of meeting agendas, Board and committee papers and secretariat support;

the composition of the Board and each committee, focusing on the blend of skills, experience, independence and knowledge of the Group and its diversity, including geographic location, nationality and gender.

The process is managed by the Chairman, with feedback on the Chairman's performance being provided to him by the Senior Independent Director. For information on the performance review process for executives, refer to section 2.15.

Assessments conducted in respect of FY2017

During FY2017, the Board commenced an internal assessment of the Board committees and an internal assessment of the individual directors. The assessments were undertaken with the assistance of an external service provider (Lintstock Limited) to aid collation, review and produce a report of the findings. All of these assessments were completed in early FY2018 and have been discussed with the Board.

JCA Group (during FY2016) and Heidrick & Struggles Leadership Assessment (in previous years) have provided services in respect of Director performance assessments. Both companies have also conducted external searches and assisted in the identification of potential candidates for the Board as set out in section 2.13.3. In both cases, the search and assessment services operate independently and neither firm has any other connection with BHP.

Board committee assessment

The Board committee assessment required each committee member to answer a common set of questions on the work, process and overall effectiveness of the relevant committee. In addition, following consultation with the respective committee Chairmen, additional specific, targeted, questions were developed for each committee. These targeted questions reflected the committee's key areas of focus. Executive management and Directors who regularly attend committee meetings, despite not being members of the committee, also contributed to the evaluation of the relevant committee.

As part of the assessment, the Board considered its compliance with the *Board Governance Document* and the committees considered their compliance with their terms of reference.

The outcomes of the assessment for each committee are set out in the relevant section below.

Director review

We streamlined the content of the individual Director assessments in FY2017, with a focus on consistently taking the perspective of creating shareholder value, contributing to Board cohesion and effective relationships with fellow Directors, and committing the time required to fulfil their role and effectively perform their responsibilities. Directors were specifically asked to comment on areas where their fellow directors contribute the greatest value and on potential areas for development. Feedback on the performance of the Senior Independent Director was also sought.

Table of Contents

The overall findings were presented to the Board and discussed. The outcomes of the review supported the Board's decision to endorse all Directors standing for re-election.

Board evaluation in action

A number of improvements were agreed and implemented following the FY2016 Board evaluation. These included refining the approach to Board strategy discussions and improvements to culture, training and development and Board composition.

Two particular actions agreed in the FY2016 Board evaluation that have been implemented are to provide greater opportunity to attend site visits (and to make those visits more focused), and to better tailor induction programs to the particular skills and experience of the Director.

The range of site visits that took place can be seen in section 2.9 Director induction, training and development. Not all Directors attended each site visit, but there was particular emphasis on the attendance of members of the Sustainability Committee.

Part of the site visit schedule related to the individual induction requirements of the new Directors. Ken MacKenzie visited Western Australian Iron Ore, Blackwater, Spence, Onshore US, Gulf of Mexico and Jansen. Grant King visited Onshore US, Gulf of Mexico, Spence and Western Australia Iron Ore. Alongside the standard induction manual and various governance documents, the induction program includes a tailored selection of specific Board papers and minutes for Board and Committees for the prior 12 to 18 months. In addition, specific meetings and briefings were held for the new Directors, those briefings being conducted by a range of stakeholders, including the Chairman, Committee Chairmen, CEO and other ELT members, members of Group Governance and senior management.

2.12 Board meetings and attendance

The Board meets as often as necessary to fulfil its role. Directors are required to allocate sufficient time to BHP to perform their responsibilities effectively, including adequate time to prepare for Board meetings. During the reporting year, the Board met 11 times, with seven of those meetings held in Australia, three in the United Kingdom and one in Chile. Regularly scheduled Board meetings generally run over two days (including committee meetings and Director training and development sessions).

Members of the Executive Leadership Team and other members of senior management attended meetings of the Board by invitation.

Table of Contents

Attendance at Board and standing Board committee meetings during FY2017 is set out in the table below.

Board and standing Board committee attendance in FY2017

	Board		Risk and Audit		Nomination and Governance		Remuneration		Sustainability		Tenure as at 30 June 2017
	A	B	A	B	A	B	A	B	A	B	
Malcolm Brinded	11	11					5	5	4	4	3 years 2 months
Malcolm Broomhead	11	11	12	12					4	4	7 years 3 months
Pat Davies	8	7 ⁽¹⁾					4	4	3	3	Retired on 6 April 2017
Anita Frew	11	11	12	11 ⁽²⁾							1 year 10 months
Carolyn Hewson	11	11			8	8	5	5			7 years 3 months
Grant King	4	4									3 months
Andrew Mackenzie	11	11									4 years 3 months
Ken MacKenzie	8	8							3	3	10 months
Lindsay Maxsted	11	11	12	12							6 years 3 months
Wayne Murdy	11	11	12	12			1	1			8 years
Jac Nasser	11	11			10	10					11 years
John Schubert	5	5			3	3			2	2	Retired on 17 November 2016
Shriti Vadera	11	11			10	10	5	5			6 years 5 months

Column A: Scheduled indicates the number of scheduled and ad-hoc meetings held during the period the Director was a member of the Board and/or committee.

Column B: Attended indicates the number of scheduled and ad-hoc meetings attended by the Director during the period the Director was a member of the Board and/or committee.

(1) Mr Davies was unable to attend the meeting on 21 February due to a conflicting engagement.

(2) Ms Frew was unable to attend the meeting on 19 January due to ill health.

2.13 Board committees

The Board has established committees to assist it in exercising its authority, including monitoring the performance of BHP to gain assurance that progress is being made towards the corporate purpose within the limits imposed by the Board.

Each of the permanent committees has terms of reference under which authority is delegated by the Board.

Group Governance provides secretariat services for each of the committees. Committee meeting agendas, papers and minutes are made available to all members of the Board. Subject to appropriate controls and the overriding scrutiny of

the Board, Committee Chairmen are free to use whatever resources they consider necessary to discharge their responsibilities.

Reports from each of the committees follow.

The terms of reference for each committee are available online at bhp.com/governance.

Table of Contents**2.13.1 Risk and Audit Committee Report****Role and focus**

The role of the Risk and Audit Committee (RAC) is to assist the Board in monitoring the decisions and actions of the CEO and the Group and to gain assurance that progress is being made towards achieving the corporate purpose within the limits imposed by the Board, as set out in the *Board Governance Document*.

The RAC discharges its responsibilities by overseeing:

the integrity of BHP's Financial Statements and Annual Report;

the appointment, performance and remuneration of the External Auditor and integrity of the external audit process;

the effectiveness of the systems of risk management and internal control;

the plans, performance, objectivity and leadership of the Internal Audit function and the integrity of the internal audit process;

capital management (capital structure and funding, and capital management planning and initiatives) and other matters.

For more information about our approach to risk management, refer to sections 1.5.2, 1.8.3 and 2.14.

The RAC met 12 times during FY2017. Information on meeting attendance by Committee members is included in the table below and information on Committee members' qualifications is set out in section 2.2.1.

In addition to the regular business of the year, the Committee discussed matters, including management's assessment of the appropriateness of the prior period carrying values of the Group's Onshore US assets, the internal control environment in particular in the context of the Onshore US matter, Economic Contribution Report, whistle-blower best practice, Samarco debt update, external audit tender, and cyber security and other technology risks. Further information is set out in the diagram that follows. The viability statement and the Board's confirmation that it has carried out a robust risk assessment are at section 1.8.3. Statements relating to tendering of the external audit contract, significant matters relating to the Financial Statements and the process for evaluating the external audit follow. In addition to those items of business, the RAC spent significant time dealing with matters relating to Samarco. For more information on Samarco, refer to section 1.7.

Risk and Audit Committee members during the year

Name	Independent	Status	Attendance
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Lindsay Maxsted (Chairman) ⁽¹⁾	Yes	Member for whole period	12/12
Malcolm Broomhead	Yes	Member for whole period	12/12
Anita Frew	Yes	Member for whole period	11/12 ⁽²⁾
Wayne Murdy	Yes	Member for whole period	12/12

(1) Mr Maxsted is the Committee's financial expert nominated by the Board.

(2) Ms Frew was unable to attend the meeting on 19 January due to ill health.

Table of Contents

Committee activities in FY2017

Integrity of Financial Statements and funding matters

Accounting matters for consideration, materiality limits, half-year and full-year results

SOX compliance, reserves and resources

Liquidity buffer, target cash forecasts

Capital allocation framework

External auditor and integrity of the audit process

External audit report

External audit fees

Management and external auditor closed sessions

Audit plan, review of performance and quality of service

Business RAC meetings

Taxation

Audit tender

Effectiveness of systems of internal control

Regular reports on progress against the internal audit plan

Matters of note arising from internal audits

Other governance matters

Induction, training and development program

Board committee procedures, including closed sessions

Internal and external assessments of performance of the internal audit function

Performance and leadership of the internal audit function

Group risk profile; insurance; fraud and misappropriation

Risk management and internal control review

Onshore US prior period impairment assessment matter

Business Risk and Audit Committees

Business Risk and Audit Committees, covering each asset group, assist management in providing the information necessary to allow the RAC to discharge its responsibilities. They are management committees and perform an important monitoring function in the overall governance of BHP. The meetings take place regularly as part of our financial governance framework.

As management committees, the responsible member of the Executive Leadership Team participates, but the committee is chaired by a member of the RAC.

Significant operational and risk matters raised at Business RAC meetings are reported to the RAC by the Group Financial Controller and the Group Assurance Officer.

Activities undertaken by RAC during FY2017

Fair, balanced and understandable

Directors are required to confirm that they consider the Annual Report, taken as a whole, to be fair, balanced and understandable. They are required to provide the information necessary for shareholders to assess BHP's position, performance, business model and strategy.

Table of Contents

BHP has a substantial governance framework in place for the Annual Report. This includes management representation letters, certifications, RAC oversight of the Financial Statements and a range of other financial governance procedures focused on the financial section of the Annual Report, together with verification procedures for the narrative reporting section of the Report.

The RAC advises the Board on whether the Annual Report meets the fair, balanced and understandable requirement. The process to support the giving of this confirmation involved the following:

ensuring all individuals involved in the preparation of any part of the Annual Report are briefed on the fair, balanced and understandable requirement through training sessions for each content manager that detail the key attributes of fair, balanced and understandable ;

employees who have been closely involved in the preparation of the Financial Statements review the entire narrative for the fair, balanced and understandable requirement, and sign off an appropriate sub-certification;

key members of the team preparing the Annual Report confirm they have taken the fair, balanced and understandable requirement into account and they have raised, with the Annual Report project team, any concerns they have in relation to meeting this requirement;

the Annual Report suite sub-certification incorporates a fair, balanced and understandable declaration;

in relation to the requirement for the auditor to review parts of the narrative report for consistency with the audited Financial Statements, asking the External Auditor to raise any issues of inconsistency at an early stage. As a result of the process outlined above, the RAC, and then the Directors, were able to confirm their view that BHP's Annual Report 2017 taken as a whole is fair, balanced and understandable. For the Board's statement on the Annual Report, refer to the Directors' Report in section 4.

Integrity of Financial Statements

The RAC assists the Board in assuring the integrity of the Financial Statements. The RAC evaluates and makes recommendations to the Board about the appropriateness of accounting policies and practices, areas of judgement, compliance with Accounting Standards, stock exchange and legal requirements and the results of the external audit. It reviews the half-yearly and annual Financial Statements and makes recommendations on specific actions or decisions (including formal adoption of the Financial Statements and reports) the Board should consider in order to maintain the integrity of the Financial Statements.

For the FY2017 full-year and the half-year, the CEO and CFO have certified that BHP's financial records have been properly maintained and that the FY2017 Financial Statements present a true and fair view, in all material respects, of our financial condition and operating results and are in accordance with applicable regulatory requirements.

Onshore US prior period impairment assessment matter

During the period, management identified an issue with the Onshore US impairment assessments conducted for FY2015 and the first half of FY2016. This arose from a failure to distinguish between BHP specific assumptions and market participant assumptions, including the application of deferred income taxes, in determining impairments of certain Onshore US assets. As a result, a review was conducted that confirmed the issue was confined to the valuation of the Onshore US assets and did not require any change to the carrying values of BHP's Onshore US assets at 31 December 2016 or any prior period. Accordingly, the misinterpretation did not result in a material prior period error and restatement of the financial statements for the relevant periods was neither required nor appropriate.

Table of Contents

Although there was no material prior period error, a review of the Group's internal control over financial reporting was conducted. In accordance with the reporting requirements under the US Securities Exchange Act of 1934 (as amended), the outcome of the review of internal control over financial reporting was that BHP filed an amendment to BHP's 2016 US Annual Report on Form 20-F (2016 Form 20-F/A). The 2016 Form 20-F/A restates BHP's 2016 report on internal controls over financial reporting as management concluded the controls over the determination of which deferred income tax balances to include in the carrying values of the Onshore US assets and market participant assumptions used to measure fair value less costs of disposal were ineffective for impairment assessment purposes as at 30 June 2016 and 30 June 2015.

The control issue that was identified was confined to the valuation of the Onshore US assets and the 2016 Form 20-F/A was required to update the statements from management and the auditor to reflect the identified issue with the internal controls. A remediation plan was implemented during the period and the controls are operating effectively and remediated as at 30 June 2017. Further information is set out under the significant issues section below.

Significant issues

In addition to the Group's key judgements and estimates disclosed throughout the FY2017 Financial Statements, the Committee also considered the following significant issues:

Onshore US prior period impairment assessment matter

During the year, deficiencies were identified in our internal controls over financial reporting in relation to the controls and processes that were used to determine the impairments of certain Onshore US assets for the years ended 30 June 2016 and 30 June 2015. The Committee:

examined management's assessment that, notwithstanding the control deficiencies, the prior period carrying values of the Group's Onshore US assets continue to be appropriate and concurred that a restatement of any of the Group's consolidated financial statements was neither required nor appropriate;

considered management's assessment of the severity of the identified control deficiencies and concurred with management's conclusion that they represented a material weakness in internal control over financial reporting at 30 June 2016 and 30 June 2015.

Carrying value of long-term assets

The assessment of carrying values of long-term assets uses a number of significant judgements and estimates.

The Committee examined management's review of impairment triggers and potential impairment charges or reversals, including the annual impairment assessment for goodwill. Specific consideration was given to the most recent short-, medium- and long-term prices, geological complexity, expected production volumes and mix, amended development plans, operating and capital costs, discount rates and other market indicators of fair value.

The Committee concurred with management's conclusion that no impairments or impairment reversals were appropriate.

Conclusions from these reviews are reflected in note 12 Impairment of non-current assets in section 5.

Samarco dam failure

On 5 November 2015, the Samarco Mineração S.A. (Samarco) iron ore operation in Minas Gerais, Brazil experienced a tailings dam failure that resulted in a release of mine tailings, flooding the community of Bento Rodrigues and impacting other communities downstream. Samarco is jointly owned by BHP Billiton Brasil Limitada (BHP Billiton Brasil) and Vale S.A. (Vale). BHP Billiton Brasil's 50 per cent interest in Samarco is accounted for as an equity accounted joint venture investment.

Table of Contents

Samarco's provisions and contingent liabilities

The Committee reviewed updates to matters relating to the Samarco dam failure, including developments on existing and new legal proceedings and changes to the estimated costs of remediation and stabilisation works.

BHP Billiton Brasil has recognised a share of additional losses recorded by Samarco during the year ended 30 June 2017.

Potential direct financial impacts to BHP Billiton Brasil

The Committee considered:

the accounting implications of funding provided to Samarco to support activities under the Framework Agreement, carry out remediation and stabilisation work and support Samarco's operations;

changes to the estimated cost of remediation and stabilisation works and the impact of developments in existing and new legal proceedings on the provisions recognised and contingent liabilities disclosed by BHP Billiton Brasil or other BHP entities.

Based on currently available information, the Committee concluded that the accounting for the equity investment in Samarco, the provision recognised by BHP Billiton Brasil and contingent liabilities disclosed in the Group's Financial Statements are appropriate.

For further information refer to note 3 Significant events Samarco dam failure in section 5.

Tax and royalty liabilities

The Group is subject to a range of tax and royalty matters across many jurisdictions. The Committee considered updates on changes to the wider tax landscape, estimates and judgements supporting the measurement and disclosure of tax and royalty provisions and contingent liabilities, including the following:

tax risks (including transfer pricing risks) arising from the Group's cross-border operations and transactions;

changes in the foreign tax law, including concessional tax rate available on intra-group dividends paid by the Group's Chilean entities;

other matters where uncertainty exists in the application of the law.

The Committee concluded that provisions recognised and contingent liabilities disclosed for these matters were appropriate considering the range of possible outcomes, currently available information and legal advice obtained.

For further information, refer to note 5 Income tax expense and note 33 Contingent liabilities in section 5.

Closure and rehabilitation provisions

Determining the closure and rehabilitation provision is a complex area requiring significant judgement and estimates, particularly given the timing and quantum of future costs, the unique nature of each site and the long timescales involved.

The Committee reviewed the findings of a global review of the closure cost and valuation process undertaken during the year and the associated updates to the governance framework developed to manage closure risk.

The Committee considered the various changes in estimates for closure and rehabilitation provisions recognised during the year. Consideration was given to the results of the most recently completed surveying data, current cost estimates and appropriate inclusion of contingency in cost estimates to allow for both known and residual risks. The Committee concluded that the assumptions and inputs for closure and rehabilitation cost estimates were reasonable and the related provisions recorded were appropriate.

For further information, refer to note 14 Closure and rehabilitation provisions in section 5.

Table of Contents*Regulator engagement in FY2017*

During FY2017, the Group received letters from the UK Financial Reporting Council's Corporate Reporting Review team (CRRT) and the US Securities and Exchange Commission (SEC). The letters sought clarification of certain significant judgements and estimates and related disclosures in the Group's 2016 Annual Report, including the impairment charges recognised on the Onshore US assets and, in the case of the CRRT, also on the disclosures relating to closure and rehabilitation provisions.

The RAC examined the responses from management to the CRRT and the SEC, and discussed the matters with the External Auditor. Senior management and the Chairman of the RAC met with the CRRT to discuss the circumstances surrounding the Onshore US prior period impairment matter. At the meeting, discussions focused on the analysis conducted by management, the material weakness identified and the RAC's and the Board's examination of the matter.

The Group has expanded its disclosures in relation to these matters. The RAC is satisfied that the Group's 2017 Annual Report disclosures reflect the observations of the reviews conducted by the CRRT⁽¹⁾ and the SEC. The CRRT and the SEC have notified the Group that their respective reviews in relation to these matters are complete.

External Auditor

The RAC manages the relationship with the External Auditor on behalf of the Board. It considers the reappointment of the External Auditor each year, as well as remuneration and other terms of engagement and makes a recommendation to the Board. There are no contractual obligations that restrict the RAC's capacity to recommend a particular firm for appointment as auditor.

The lead audit engagement partners in both Australia and the United Kingdom have been rotated every five years. The current Australian audit engagement partner was appointed at the start of FY2015. A new UK audit engagement partner was appointed for the FY2013 year-end and therefore FY2017 was scheduled to be his last year as lead audit engagement partner. There has been a transition period to the new engagement partner who took formal responsibility at the start of FY2018.

Audit tender

The previous audit tender was in 2002, at which time BHP had three External Auditors following the implementation of the DLC structure. The tender resulted in KPMG and PricewaterhouseCoopers being appointed as joint auditors for FY2003. A competitive audit review was undertaken in 2003, which resulted in KPMG being appointed as the External Auditor by the Board on the recommendation of the RAC.

Consistent with the UK and EU requirements in regard to audit firm tender and rotation, during the March quarter of FY2017 the Committee commenced a tender process for the appointment of a new External Auditor, as described in the Operational Review for the nine months ended 31 March 2017. In August 2017, the Board announced that it had selected EY, with the planned commencement date of 1 July 2019.

(1) The CRRT's review was based on the Group's 2016 Annual Report and did not benefit from detailed knowledge of the Group's business or the transactions entered into. The closure of the CRRT's enquiries provides no assurance that the Group's 2016 Annual Report is correct in all material respects, as the role of the Financial Reporting Council (FRC) is not to verify information but to consider compliance with reporting requirements. The FRC

accepts no liability for reliance on its closure letter from the Group or any third party, including but not limited to investors and shareholders.

Table of Contents*Governance*

The RAC was responsible for the tender process and took the key decisions, concerning tender timing, approach, evaluation criteria, proposal evaluation and recommendation. A Tender Committee was appointed by the RAC to oversee the tender process, and was chaired by the Chairman of the RAC and also included Peter Beaven, Chief Financial Officer; Arnoud Balhuizen, President, Marketing and Supply; and Graham Tiver, Group Financial Controller. The Tender Committee managed the process day-to-day and reported to the RAC. In addition, senior management responsible for activities of direct relevance to the Group's External Audit were consulted during the process and participated in firm-led interviews with each tendering firm, and had the opportunity to ask questions, complete a feedback form and review certain aspects of the firms' written tender submissions.

Evaluation framework

BHP's requirements of the new External Auditor and applicable evaluation criteria were set out in the Request for Proposal (RFP) that was issued to firms. BHP's requirements of the new External Auditor and applicable evaluation criteria (including that the firm has the global capability and experience to audit a corporation the size of BHP) were set out in the Request for Proposal (RFP) that was issued to firms. Based on the applicable evaluation criteria, BHP issued the RFP to three Tier One audit firms. KPMG, BHP's existing Auditor, did not participate due to the EU regulations and the UK Competition and Markets Authority rules, which require a new External Auditor to be in place by 1 July 2023 to conduct the FY2024 audit.

The evaluation framework comprised three key areas: Quality and Capability, Cultural Fit and Relationship, and Terms of Engagement, of which, Quality and Capability was paramount. The evaluation framework was applied consistently throughout all stages of the tender process. Mandatory requirements regarding independence, the review of existing non-audit services work for BHP, insurance, anti-corruption and security were applied, reference checks were performed, and findings in reports published by competent authorities were examined.

Feedback was collected on the firms' proposals at the completion of each tender activity, including interviews with management, submissions of written proposals, presentations to the RAC, and workshops to agree scope and terms. The quantitative and qualitative feedback was provided to the Tender Committee and the RAC. Each of the three key areas of the evaluation framework was assessed separately.

Evaluation

The RAC was then asked to evaluate each firm and feedback was incorporated into the overall evaluation. Following completion, the RAC provided the Board with a recommendation. After considering the RAC's recommendation, on 22 August 2017, we announced that the Board had selected EY as BHP's External Auditor for FY2020 subject to the approval of shareholders at the 2019 AGM. The planned commencement date is 1 July 2019, which provides adequate time for EY to meet all relevant independence criteria before commencement of the appointment.

Compliance with the Competition and Markets Authority Order

BHP confirms that during FY2017 it was in compliance with the provisions of The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014.

Table of Contents

Evaluation of External Auditor and external audit process

The RAC evaluates the performance of the External Auditor during its term of appointment against specified criteria, including delivering value to shareholders and BHP, and also assesses the effectiveness of the external audit process. It does so through a range of means:

the Committee considers the External Audit Plan, in particular to gain assurance that it is tailored to reflect changes in circumstances from the prior year;

throughout the year, the Committee meets with the audit partners, particularly the lead Australian and UK audit engagement partners, without management present;

following the completion of the audit, the Committee considers the quality of the External Auditor's performance drawing on survey results. The survey is based on a two-way feedback model where the BHP and KPMG teams assess each other against a range of criteria. The criteria against which the BHP team evaluates KPMG's performance include ethics and integrity, insight, service quality, communication and reporting, and responsiveness;

reviewing the terms of engagement of the External Auditor;

discussing with the audit engagement partners the skills and experience of the broader audit team;

reviewing audit quality inspection reports on KPMG published by the UK Financial Reporting Council;

overseeing (and approving where relevant) non-audit services as described below.

The RAC also reviews the integrity, independence and objectivity of the External Auditor and assesses whether there is any element of the relationship that impairs, or appears to impair, the External Auditor's judgement or independence. This review includes:

confirming the External Auditor is, in its judgement, independent of BHP;

obtaining from the External Auditor an account of all relationships between the External Auditor and BHP;

monitoring the number of former employees of the External Auditor currently employed in senior positions within BHP;

considering the various relationships between BHP and the External Auditor;

determining whether the compensation of individuals employed by the External Auditor who conduct the audit is tied to the provision of non-audit services;

reviewing the economic importance of BHP to the External Auditor.

The External Auditor also certifies its independence to the RAC.

Non-audit services

Although the External Auditor does provide some non-audit services, the objectivity and independence of the External Auditor are safeguarded through restrictions on the provision of these services. For example, certain types of non-audit services may be undertaken by the External Auditor only with the prior approval of the RAC (as described below), while other services may not be undertaken at all, including services where the External Auditor:

may be required to audit its own work;

participates in activities that would normally be undertaken by management;

is remunerated through a success fee structure;

acts in an advocacy role for BHP.

Table of Contents

The RAC has adopted a policy entitled "Provision of Audit and Other Services by the External Auditor" covering the RAC's pre-approval policies and procedures to maintain the independence of the External Auditor.

Our policy on Provision of Audit and Other Services by the External Auditor is available online at bhp.com/governance.

In addition to audit services, the External Auditor is permitted to provide other (non-audit) services that are not, and are not perceived to be, in conflict with the role of the External Auditor. In accordance with the requirements of the Exchange Act and guidance contained in Public Company Accounting Oversight Board (PCAOB) Release 2004-001, certain specific activities are listed in our detailed policy that have been pre-approved by the RAC.

The categories of pre-approved services are as follows:

Audit and audit-related services – work that constitutes the agreed scope of the statutory audit and includes the statutory audits of BHP and its entities (including interim reviews). This category also includes work that is reasonably related to the performance of an audit or review and is a logical extension of the audit or review scope. The RAC monitors the audit services engagements and if necessary approves any changes in terms and conditions resulting from changes in audit scope, Group structure or other relevant events.

Other assurance services – work that is outside the required scope of the statutory audit but is consistent with the role of the external statutory auditor, is of an assurance or compliance nature and is work the External Auditor must or is best placed to undertake.

Other services – work of an advisory nature that does not compromise the independence of the External Auditor. Activities not listed specifically are therefore not pre-approved and must be approved by the RAC prior to engagement, regardless of the dollar value involved. Additionally, any engagement for other services with a value over US\$100,000, even if listed as a pre-approved service, requires the approval of the RAC. All engagements for other services whether pre-approved or not and regardless of the dollar value involved are reported quarterly to the RAC.

While not specifically prohibited by BHP's policy, any proposed non-audit engagement of the External Auditor relating to internal control (such as a review of internal controls or assistance with implementing the regulatory requirements, including those of the Exchange Act) requires specific prior approval from the RAC. With the exception of the external audit of BHP's Financial Statements, any engagement identified that contains an internal control-related element is not considered to be pre-approved. In addition, while the categories shown above include a list of certain pre-approved services, the use of the External Auditor to perform such services will always be subject to our overriding governance practices as articulated in the policy.

An exception can be made to the above policy where it is in BHP's interests and appropriate arrangements are put in place to ensure the integrity and independence of the External Auditor. Any such exception requires the specific prior approval of the RAC and must be reported to the Board. No exceptions were approved during the year ended 30 June 2017.

In addition, the RAC approved no services during the year ended 30 June 2017 pursuant to paragraph (c)(7)(i)(C) of Rule 2-01 of SEC Regulation S-X (provision of services other than audit).

Fees paid to BHP's External Auditor during FY2017 for audit and other services were US\$16.5 million, of which 63 per cent comprised audit fees, 33 per cent related to legislative requirements (including US Sarbanes-Oxley of 2002) as amended (SOX) and four per cent was for other services. Details of the fees paid are set out in note 36 Auditors remuneration in section 5.

Based on the review by the RAC, the Board is satisfied that the External Auditor is independent and that the incoming auditor is also independent.

Table of Contents

Internal Audit

The Internal Audit function is carried out by Group Risk Assessment and Assurance (RAA). The role of RAA is to provide assurance as to whether risk management, control and governance processes are adequate and functioning. The Internal Audit function is independent of the External Auditor. The RAC reviews the terms of reference of RAA, the staffing levels and its scope of work to ensure it is appropriate in light of the key risks we face. It also reviews and approves the annual internal audit plan and monitors and reviews the overall effectiveness of the internal audit activities.

The RAC also approves the appointment and dismissal of the Group Assurance Officer and assesses his or her performance, independence and objectivity. The role of the Group Assurance Officer includes achievement of the internal audit objectives, risk management policies and insurance strategy. The position was held until 18 April 2017 by Alistair Mytton when Kirsty Wallace assumed the role of Group Assurance Officer. Alistair Mytton reported directly to the RAC, and Kirsty Wallace continues to do so as at the date of this report. During the period, functional oversight of RAA was provided by the Chief External Affairs Officer.

Effectiveness of systems of internal control and risk management

In delegating authority to the CEO, the Board has established CEO limits set out in the *Board Governance Document*. Limits on the CEO's authority require the CEO to ensure there is a system of control in place for identifying and managing risk in BHP. Through the RAC, the Directors review the systems that have been established for this purpose and regularly review their effectiveness. These reviews include assessing whether processes continue to meet evolving external governance requirements.

The RAC oversees and reviews the internal controls and risk management systems. In undertaking this role, the RAC reviews the following:

procedures for identifying business and operational risks and controlling their financial impact on BHP and the operational effectiveness of the policies and procedures related to risk and control;

budgeting and forecasting systems, financial reporting systems and controls;

policies and practices put in place by the CEO for detecting, reporting and preventing fraud and serious breaches of business conduct and whistle-blowing procedures;

procedures for ensuring compliance with relevant regulatory and legal requirements;

arrangements for protecting intellectual property and other non-physical assets;

operational effectiveness of the Business RAC structures;

overseeing the adequacy of the internal controls and allocation of responsibilities for monitoring internal financial controls.

For more information on our approach to risk management, refer to sections 1.5.2 and 2.14. Section 1.8.3 includes a description of the material risks that could affect BHP, including, but not limited to, economic, environment and social sustainability risks to which the Group has a material exposure. Section 1.8.4 also provides an explanation of how those risks are managed.

Table of Contents

During FY2017, benchmarking of the design of BHP's Risk Management Framework to industry best practices and standards found that the Framework meets its legal and governance requirements in all relevant jurisdictions. In addition, the Board conducted reviews of the effectiveness of BHP's systems of risk management and internal controls for the financial year and up to the date of this Annual Report in accordance with the UK Corporate Governance Code, the Guidance on Risk Management, Internal Control and Related Financial and Business Reporting and the Corporate Governance Principles and Recommendations published by the Australian Securities Exchange (ASX) Corporate Governance Council (ASX Principles and Recommendations). These reviews covered financial, operational and compliance controls and risk assessment. During FY2017, management presented an assessment of the material business risks facing BHP and the level of effectiveness of risk management over the material business risks. The reviews were overseen by the RAC, with findings and recommendations reported to the Board. In addition to considering key risks facing BHP, the Board received an assessment of the effectiveness of internal controls over key risks identified through the work of the Board committees. The Board is satisfied that the effectiveness of the internal controls has been properly reviewed. Further information is set out above in relation to the Onshore US prior period impairment assessment matter.

Management's assessment of our internal control over financial reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) and Rule 15d-15(f) under the Exchange Act).

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements and, even when determined to be effective, can only provide reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of our management, including our CEO and CFO, the effectiveness of BHP's internal control over financial reporting has been evaluated based on the framework and criteria established in Internal Controls – Integrated Framework (2013), issued by the Committee of the Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation, management has concluded that internal control over financial reporting was effective as at 30 June 2017. There were no material weaknesses in BHP's internal controls over financial reporting identified by management as at 30 June 2017.

BHP has engaged our independent registered public accounting firms, KPMG and KPMG LLP, to issue an audit report on our internal control over financial reporting for inclusion in the Financial Statements section of this Annual Report on Form 20-F as filed with the SEC.

There have been no changes in our internal control over financial reporting during FY2017, other than the remediation of the previously reported material weakness referred to below, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

The CEO and CFO have certified to the Board that the Financial Statements for the full-year and half-year are founded on a sound system of risk management and internal control and the system is operating efficiently and effectively.

During FY2017, the RAC reviewed our compliance with the obligations imposed by SOX, including evaluating and documenting internal controls as required by section 404 of SOX.

Remediation of previously reported material weakness

As previously reported in our amended 2016 US Annual Report on Form 20-F (2016 Form 20-F/A), management concluded that while isolated to the Onshore US assets, there was a material weakness in our internal control over financial reporting and disclosure controls and procedures. The material weakness arose due to a lack of understanding, by both the process owner and control operator, of how to distinguish between assumptions specific to BHP and those of a market participant, including the application of deferred income taxes, in determining impairment of the Onshore US assets. A remediation plan was implemented and as at 30 June 2017, the Group had completed the documentation and testing of the effectiveness of the remediation actions taken, and management concluded that the previously reported material weakness was remediated.

Table of Contents

Management s assessment of our disclosure controls and procedures

Management, with the participation of our CEO and CFO, performed an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as at 30 June 2017. Disclosure controls and procedures are designed to provide reasonable assurance that the material financial and non-financial information required to be disclosed by BHP, including in the reports that it files or submits under the Exchange Act, is recorded, processed, summarised and reported on a timely basis and that such information is accumulated and communicated to BHP s management, including our CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure. Based on the foregoing, management, including the CEO and CFO, has concluded that as at 30 June 2017, our disclosure controls and procedures are effective in providing that reasonable assurance.

There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives.

Further, in the design and evaluation of our disclosure controls and procedures, management was required to apply its judgement in evaluating the cost-benefit relationship of possible controls and procedures.

Committee assessment

An internal assessment was conducted with the assistance of an external service provider, Lintstock, during FY2017. The targeted questions focused on overall effectiveness, composition, training, testing management in key areas of responsibility and testing the work of the External Auditor. Key areas of focus for FY2018 include streamlining agenda items and providing additional background and context to certain matters as relevant during the year. In addition, the RAC was satisfied that it had continued to meet its terms of reference in FY2017.

The terms of reference for the RAC are available online at bhp.com/governance.

2.13.2 Remuneration Committee Report

Role and focus

The role of the Remuneration Committee is to assist the Board in overseeing:

the remuneration policy and its specific application to the CEO and other members of the OMC, and its general application to all employees;

the adoption of annual and longer-term incentive plans;

the determination of levels of reward for the CEO and approval of reward for the OMC;

the annual evaluation of the performance of the CEO, by giving guidance to the Chairman;

leaving entitlements;

the preparation of the Remuneration Report for inclusion in the Annual Report;

compliance with applicable legal and regulatory requirements associated with remuneration matters;

the review, at least annually, of remuneration by gender.

The Sustainability Committee and the Risk and Audit Committee assist the Remuneration Committee in determining appropriate HSEC and financial metrics, respectively, to be included in OMC scorecards and in assessing performance against those measures.

Table of Contents

The Remuneration Committee met five times during FY2017. Information on meeting attendance by Committee members is included in the table below.

For full details of the Committee's work on behalf of the Board, refer to the Remuneration Report in section 3.

Remuneration Committee members during the year

Name	Independent	Status	Attendance
Carolyn Hewson (Chairman)	Yes	Member for whole period	5/5
Malcolm Brinded	Yes	Member for whole period	5/5
Pat Davies	Yes	Member until 6 April 2017	4/4
Wayne Murdy	Yes	Member from 6 April 2017	1/1
Shriti Vadera	Yes	Member for whole period	5/5

Committee activities in FY2017***Remuneration policy review***

Link to strategy; alignment between pay and performance

Changes to components of the policy

Level of reward and performance measures

Other remuneration matters

Shareplus; employee incentive outcomes

Remuneration by gender

Shareholder consultation

Committee assessment

An internal assessment was conducted with the assistance of an external service provider, Lintstock, during FY2017. The targeted questions focused on quality of information, management engagement, training and development and

Remuneration of the OMC and the Board

Remuneration of CEO and other OMC members

KPIs; performance levels; award outcomes

Chairman and Non-executive Director fees

Other governance matters

Induction, training and development program

Board committee procedures, including closed sessions

setting of policy. Key areas of focus for FY2018 include prioritising issues for the Committee, more regular briefings about the external environment and deeper focus on trends. In addition, the Remuneration Committee was satisfied that it had continued to meet its terms of reference in FY2017.

The terms of reference for the Remuneration Committee are available online at bhp.com/governance.

Table of Contents

2.13.3 Nomination and Governance Committee Report

Role and focus

The role of the Nomination and Governance Committee is to assist the Board in ensuring that the Board comprises individuals who are best able to discharge the responsibilities of a Director, having regard to the highest standards of governance, the strategic direction of BHP and the diversity aspirations of the Board. It does so by focusing on:

the succession planning process for the Board and its committees, including the identification of the skills, experience, independence and knowledge required on the Board, as well as the attributes required of potential Directors;

the identification of suitable candidates for appointment to the Board, taking into account the skills, experience and diversity required on the Board and the attributes required of Directors;

the succession planning process for the Chairman;

the succession planning process for the CEO and periodic evaluation of the process;

Board and Director performance evaluation, including evaluation of Directors seeking re-election prior to their endorsement by the Board as set out in sections 2.7 and 2.11;

the provision of appropriate training and development opportunities for Directors;

the independence of Non-executive Directors;

the time required from Non-executive Directors;

the assessment and, if appropriate, authorisation of situations of actual and potential conflict notified by Directors;

BHP's corporate governance practices.

For details on the process the Board adopts for its own succession, with the assistance of the Nomination and Governance Committee, refer to section 2.8.

The Nomination and Governance Committee met 10 times during FY2017. Information on meeting attendance by Committee members is included in the next table. In addition to the regular business of the year, the Committee

considered the appointments of Ken MacKenzie, Grant King, Terry Bowen and John Mogford as Non-executive Directors, and the appointment of the new Chairman. After year end, the Committee also considered the retirements of Grant King and Malcolm Brinded as set out in more detail below.

Chairman succession

A major part of the Committee's work in FY2017 was devoted to the Chairman succession process. This process was led by Shriti Vadera, Senior Independent Director, on behalf of the Board. Ms Vadera chaired the Board and the Committee when the Chairman succession process and matters were being discussed.

Jac Nasser announced at the 2016 Plc AGM that he would not seek re-election at the 2017 AGMs. As noted at the time, Mr Nasser held the position longer than he had originally intended, but the Board believed it was important for Mr Nasser to continue on as Chairman to provide stability as BHP responded to Samarco. With the Samarco response framework now in place, the cause report findings having been published and the compensation and remediation programs underway, Mr Nasser decided to announce that he would be retiring, and the formal chairman succession process was instigated.

In framing the succession process, our starting point was the governance considerations of the UK Corporate Governance Code, the ASX Corporate Governance Principles and Recommendations and governance standards in the United States. This was designed to ensure the process reflected best practice and the importance which BHP places on good governance.

Table of Contents

At the outset of the formal process, a set of principles to underpin the succession process was developed and agreed by the Board, as well as a role profile for the new Chairman. The overarching principle governing the process was that the process was owned by the Board, which made all decisions in relation to Chairman succession. Any discussions that were related to the substantive elements of the choice (for example, requirements, priorities, individuals) were discussed and approved at the Board rather than the Nomination and Governance Committee.

The Nomination and Governance Committee, on behalf of the Board, engaged Heidrick & Struggles as advisers to assist with the process. Heidrick & Struggles undertook the following:

meetings with each member of the Board to understand their perspectives on the Chairman role, in addition to presenting to the Board on a number of occasions;

a full external search and benchmarking of internal candidates against the brief in the same way as any external candidates;

preparation of in-depth reports on short-listed candidates following detailed interviews and external referencing. The selection of the new Chairman was by formal secret ballot conducted by an independent external lawyer as returning officer in accordance with voting procedures approved by the Board.

The Board interviewed each of the candidates and, in the absence of the CEO and the Chairman, met the chosen candidate after the vote and before confirmation to ensure their expectations of the new Chairman were made clear.

Board changes

In addition to the appointment of Ken MacKenzie as a Non-executive Director, and as the new Chairman, the Committee also considered the appointments of Terry Bowen, John Mogford and Grant King.

Mr Bowen has over 25 years of strategic, operational and financial experience across a range of sectors. He has been the Finance Director of Wesfarmers Limited for the past eight years. (He will retire from that position towards the end of this calendar year.) During his time as Finance Director of Wesfarmers, Mr Bowen has been responsible for the disciplined allocation of capital among its 38 businesses across different industries. Mr Bowen has also had extensive experience transforming and operating businesses in the Wesfarmers structure, with a focus on improved cash flow and cost efficiency. He will join the Board on 1 October 2017.

Mr Mogford has over 40 years of experience in the oil and gas sector, including 33 years at BP Plc in technical, operational and leadership roles. While at BP, Mr Mogford acquired deep experience across the oil and gas business, working in the areas of exploration, downstream, upstream, safety and technology. Mr Mogford also has investment and strategic experience in the energy sector, holding the roles of Managing Director and Operating Partner at First Reserve Corporation from 2009 to 2015, and as a Senior Adviser to the Head of the Oil and Gas Practice at Nomura Investment Bank from 2010 to 2013. He will also join the Board on 1 October 2017.

Mr King joined the Board on 1 March 2017 as an independent Non-executive Director. From 2000 until 2016, he served as Managing Director and Chief Executive of Origin Energy, a leading Australian energy retailer with diverse operations spanning the energy supply chain. Mr King is the President of the Business Council of Australia. He has

extensive executive experience leading a company that has operated in a volatile and changing global environment, as well as broad oil and gas industry experience.

Owing to concerns expressed by some investors, Mr King decided that he would not stand for election at the 2017 Annual General Meetings of BHP, and he retired from the Board on 31 August 2017.

Table of Contents

On 23 August 2017, we announced that, given his involvement in ongoing legal proceedings in Italy relating to his prior employment with Shell, Malcolm Brinded has decided not to stand for re-election as a Non-executive Director at the 2017 Annual General Meetings of BHP. His final day on the Board of BHP will be 18 October 2017.

John Schubert retired from the Board with effect from 17 November 2016, and Pat Davies retired with effect from 6 April 2017.

Board policy on inclusion and diversity

Our Charter and *Our Requirements for Human Resources* standard guide management on all aspects of human resource management, including inclusion and diversity. Underpinning *Our Requirements* standards and supporting the achievement of diversity across BHP are principles and measurable objectives that define our approach to diversity and our focus on creating an inclusive work environment.

The Board and management believe that many facets of diversity are required in order to meet the corporate purpose as set out in section 2.8. Diversity is a core consideration in ensuring the Board and its committees have the right blend of perspectives to ensure the Board oversees BHP effectively for shareholders.

For the past four years, two executive search firms, JCA Group and Heidrick & Struggles, have produced all-women short lists focused on the United Kingdom, Europe, Australia and the United States. These lists are continually refreshed. The two lists combined with our skills and experience profile five-year matrix ensure we maximise the number of female candidates with whom we engage and consider for appointment. Short-listed candidates are considered by the Nomination and Governance Committee. During FY2017, the Chairman met with several potential female candidates from a range of backgrounds.

The Board believes that critical mass is important for diversity, and diversity of all types remains a priority as the Board continues to be refreshed and renewed, as set out in section 2.8. This is in line with our aspiration to achieve gender balance across our workforce and on our Board by FY2025. We believe this will help create a more diverse, inclusive, empowered and connected workforce, underpinned by *Our Charter* values.

Part of the Board's role is to consider and approve BHP's measurable objectives for workforce diversity each financial year and to oversee our progress in achieving those objectives. BHP's progress will continue to be disclosed in the Annual Report, along with the proportion of women in our workforce, in senior management positions and on the Board. For more information on inclusion and diversity at BHP, including our progress against FY2017 measurable objectives and our employee profile more generally, refer to sections 1.9.2 and 1.9.4.

External recruitment specialists

The Committee retained the services of external recruitment specialists Heidrick & Struggles and JCA Group.

Nomination and Governance Committee members during the year

Name	Independent	Status	Attendance
Jac Nasser (Chairman)	Chairman of the Board	Member for whole period	10/10
Carolyn Hewson	Yes	Member from 18 October 2016	8/8
John Schubert	Yes	Member until 17 November 2016	3/3

Shriti Vadera

Yes

Member for whole period

10/10

182

Table of Contents

Committee activities in FY2017

Chairman succession

Framing of the succession process

Appointment of the independent adviser

Discussion and deliberation in relation to the internal and external candidates

Succession planning processes

Skills and experience matrix

Identification of suitable Non-executive Director candidates

Committee composition

Board and committee succession

Corporate governance practices

Independence of Non-executive Directors

Authorisation of situations of actual or potential conflict

Corporate Governance Statement

Evaluation and Training

Board and Director performance evaluation

Provision of appropriate training and development opportunities

Induction

Other governance matters

Induction, training and development program

Board committee procedures, including closed sessions

Committee assessment

An internal assessment was conducted with the assistance of an external service provider, Lintstock, during FY2017. The targeted questions focused on use of the Committee's time, levels of engagement, overall effectiveness, training and support. Key areas of focus for FY2018 include additional emphasis on the end-to-end process for identifying and assessing potential Board candidates, the skills and experience matrix and the ongoing process for regular review, engagement with potential Non-executive Director candidates, and a review of overall Committee composition and succession. In addition, the Nomination and Governance Committee was satisfied that it had continued to meet its terms of reference in FY2017.

The terms of reference for the Nomination and Governance Committee are available online at bhp.com/governance.

2.13.4 Sustainability Committee Report

Role and focus

The role of the Sustainability Committee is to assist the Board in its oversight of the Group's health, safety, environment and community (HSEC) performance and the adequacy of the Group's HSEC Framework, and in relation to various other governance responsibilities related to HSE and Community.

The Group's HSEC framework consists of:

the CEO limits set out in the *Board Governance Document*. The *Board Governance Document* establishes the remit of the Board and delegates authority to the CEO, including in respect of the HSEC Management System, subject to CEO limits;

the Sustainability Committee, which is responsible for assisting the Board in overseeing the adequacy of the Group's HSEC Framework and HSEC Management System (among other things);

Table of Contents

the HSEC Management System, established by management in accordance with the CEO's delegated authority. The HSEC Management System provides the processes, resources, structures and performance standards for the identification, management and reporting of HSEC risks and the investigation of any HSEC incidents;

a robust and independent internal audit process overseen by the RAC, in accordance with its terms of reference;

independent advice on HSEC matters, which may be requested by the Board and its Committees where deemed necessary in order to meet their respective obligations.

Our approach to sustainability is reflected in *Our Charter*, which defines our values, purpose and how we measure success, and in our sustainability performance targets, which define our public commitments to safety, health, environment and community. More information is available in our Sustainability Report 2017.

A copy of the Sustainability Report is available online at bhp.com.

The Committee provides oversight of the preparation and presentation of the Sustainability Report by management, and reviewed and recommended to the Board the approval of the Report for publication. The Sustainability Report identifies our targets for HSEC matters and our performance against those targets. Our emphasis in setting those targets is on fact-based measurement and quality data and a desire to move BHP to a position of industry leadership.

The Sustainability Committee met four times during FY2017. Information on meeting attendance by Committee members is included in the table below. In addition, the Committee met with the Forum on Corporate Responsibility and discussed a range of topics, including societal trust in corporations, tax and transparency, climate change and Indigenous Peoples.

Members of the Sustainability Committee also visited a number of operated and non-operated sites during FY2017, including Olympic Dam, Nickel West, Samarco, Gulf of Mexico, Onshore US, Antamina and Cerrejón. During these site visits, Committee members received briefings on relevant HSEC matters and the management of material HSEC risks, and met with key personnel.

The Sustainability Committee continued to assist the Board in its oversight of HSEC issues and performance during FY2017. For a summary of the main areas discussed, refer to the diagram that follows.

Sustainability Committee members during the year

Name	Independent	Status	Attendance
John Schubert (Chairman) ⁽¹⁾	Yes	Member until 17 November 2016	2/2
Malcolm Brinded (Chairman) ⁽²⁾	Yes	Member for whole period	4/4
Malcolm Broomhead	Yes	Member for whole period	4/4
Pat Davies	Yes	Member until 6 April 2017	3/3
Ken MacKenzie	Yes	Member from 22 September 2016	3/3

- (1) John Schubert was Chairman of the Committee until 21 September 2016.
- (2) Malcolm Brinded took over the role of Chairman with effect from 22 September 2016.

Table of Contents

Committee activities in FY2017

Assurance and adequacy of HSEC framework and HSEC management system

Key HSEC risks, including aviation management, the dam risk review and fatality risk management, BHP's mental health framework, HSE capability, and HSE assurance processes

Audit planning and reporting in relation to HSEC risks and processes

Performance

Performance of BHP in relation to HSEC matters, including the Community sub-function of the External Affairs function

Considering proposed HSEC KPIs for OMC scorecard and considering performance against such KPIs

Monitoring performance against the HSEC performance targets

Approved the FY2018-FY2022 HSEC performance targets

Reports on HSEC performance

Updates on Samarco remediation and Fundação Renova

Compliance and reporting

Compliance with HSEC legal and regulatory requirements

Updates on key legal and regulatory changes

Sustainability Report, including consideration of processes for preparation and assurance provided by KPMG

Other governance matters

Induction, training and development

HSEC benchmarking and emerging trends

Site visits and site visit reports

Board committee procedures, including closed sessions

Incident and near miss investigation outcomes

Performance and key issues on sustainable development and community relations, including Indigenous Peoples Strategy update

Climate change updates

Sustainable development governance

Our approach to HSEC and sustainable development governance is characterised by:

the Sustainability Committee assisting the Board in its oversight of material HSEC matters and risks across BHP, including seeking continuous improvement and policy advocacy as applicable;

management having primary responsibility for the design and implementation of an effective HSEC Management System;

management having accountability for HSEC performance;

the HSE function and Community sub-function providing advice and guidance directly to the Sustainability Committee and the Board;

the Board, Sustainability Committee and management seeking input and insight from external experts, such as the BHP Billiton Forum on Corporate Responsibility;

clear links between executive remuneration and HSEC performance.

Table of Contents

The key areas of focus for the Committee, management and the HSE function and Community sub-function are outlined on pages 6 and 7 of the Sustainability Report.

Climate change

Climate change is treated as a Board-level governance issue, with the Sustainability Committee playing a key supporting role. The Committee work during FY2017 included receiving updates on BHP's climate change strategic priorities, updates on BHP's Low Emissions Technology initiatives, and an update on carbon capture and storage technology. In addition, in October 2016, BHP published the Climate Change: Portfolio Analysis Views after Paris document, which described some of our observations from the past 12 months and their potential portfolio impacts. For more information on our climate change position and how we consider the impacts on our portfolio, refer to section 1.10.6.

Social investment

We also continued to monitor our progress in relation to our social investment and met our target for investments in community programs, with such investments comprising cash towards community development programs and administrative costs. This was the equivalent of one per cent of our pre-tax profit, calculated on the average of the previous three years' pre-tax profit. During FY2017, our voluntary social investment totalled US\$80.1 million, comprising US\$75.1 million of cash towards community development programs and administrative costs and a US\$5 million contribution to the US-based charity, the BHP Billiton Foundation.

HSEC matters and remuneration

In order to link HSEC matters to remuneration, 25 per cent of the short-term incentive opportunity for OMC members was based on HSEC performance during FY2017. The Sustainability Committee assists the Remuneration Committee in determining appropriate HSEC metrics to be included in the OMC scorecard and also assists in relation to assessment of performance against those measures. The Board believes this method of assessment is transparent, rigorous and balanced, and provides an appropriate, objective and comprehensive assessment of performance. For more information on the metrics and their assessment, refer to the Remuneration Report in section 3.

Committee assessment

An internal assessment was conducted with the assistance of an external service provider, Lintstock, during FY2017. The targeted questions focused on Committee composition, process and overall effectiveness and the Committee's key areas of focus. The assessment indicated that the Committee is operating effectively and is receiving high-quality information. Key areas of focus for FY2018 include background briefings in advance of deep dives and further enhancements to the Director induction and training programs. In addition, the Sustainability Committee was satisfied that it had continued to meet its terms of reference in FY2017.

The terms of reference for the Sustainability Committee are available online at bhp.com/governance.

2.13.5 Samarco sub-committee

On 17 November 2015, following the tragedy at Samarco Mineração S.A., a sub-committee of the Board was established to assist the Board with its consideration and oversight of matters relating to the failure at Samarco.

During the period, the Samarco Sub-committee comprised John Schubert (Chairman), Jac Nasser, Lindsay Maxsted and Malcolm Brinded. Malcolm Brinded was appointed Chairman of the Committee with effect from 22 September 2016, and John Schubert remained a member until he retired on 17 November 2016. Specific matters considered by the Committee included BHP's support of the recovery and response effort by Samarco, investigation of the cause of the dam failure and our engagement with key stakeholders.

Table of Contents

The Sub-committee met four times during FY2017 and also considered certain items out of session. Following a review, it was determined that with effect from 1 January 2017, the work that had been delegated to the Samarco Sub-committee should revert to the Board and formal committees of the Board, in particular the Sustainability Committee.

2.14 Risk management governance structure

We believe the identification and management of risk are central to achieving the corporate purpose of creating long-term shareholder value. Our approach to risk is set out in section 1.5.2.

The principal aim of BHP's risk management governance structure and internal control systems is to identify, evaluate and manage business risks with a view to enhancing the value of shareholders' investments and safeguarding assets.

The Board reviews and considers BHP's risk profile each year, which covers both operational and strategic risks. Our material risk profile is assessed to ensure it supports the achievement of BHP's strategy while seeking to maintain a strong balance sheet. The Board's approach to investment decision-making, portfolio management and the consideration of risk in that process is set out in sections 1.5 and 1.8, and includes a broad range of scenarios to assess our portfolio. This process allows us to be able to continually adjust the shape of our portfolio to match energy and commodity demand and meet society's expectations, while maximising shareholder returns.

The Risk and Audit Committee (RAC) assists the Board with the oversight of risk management, although the Board retains overall accountability for BHP's risk profile. In addition, the Board specifically requires the CEO to implement a system of control for identifying and managing risk. The Directors, through the RAC, review the systems that have been established for this purpose, regularly review the effectiveness of those systems and monitor that necessary actions have been taken to remedy any significant failings or weaknesses identified from that review. The RAC regularly reports to the Board to enable the Board to review our risk framework.

The RAC has established review processes for the nature and extent of material risks taken in achieving our corporate purpose. These processes include the application of materiality and tolerance criteria to determine and assess material risks. Materiality criteria include maximum foreseeable loss and residual risk thresholds and are set at the Group level. Tolerance criteria additionally assess the control effectiveness of material risks.

Table of Contents

The diagram below outlines the risk reporting process.

Management has put in place a number of key policies, processes, performance requirements and independent controls to provide assurance to the Board and the RAC as to the integrity of our reporting and effectiveness of our systems of internal control and risk management. Some of the more significant internal control systems include Board and management committees, Business RACs and internal audit.

Business Risk and Audit committees

The Business RACs assist the RAC to monitor BHP's obligations in relation to financial reporting, internal control structure, risk management processes and the internal and external audit functions.

Board committees

Directors also monitor risks and controls through the RAC, the Remuneration Committee and the Sustainability Committee.

Management committees

Management committees also perform roles in relation to risk and control. Strategic risks and opportunities arising from changes in our business environment are regularly reviewed by the ELT and discussed by the Board. The Financial Risk Management Committee (FRMC) reviews the effectiveness of internal controls relating to commodity price risk, counterparty credit risk, currency risk, financing risk, interest rate risk and insurance. Minutes of the FRMC meetings are provided to the Board through the RAC. The Investment Committee (IC) provides oversight for investment processes across BHP and coordinates the investment toll-gating process for major investments. Reports are made to the Board on findings by the IC in relation to major capital projects. The Disclosure Committee oversees BHP's compliance with securities dealing and continuous and periodic disclosure requirements, including reviewing information that may require disclosure through stock exchanges and overseeing processes to ensure information disclosed is timely, accurate and complete.

Table of Contents

2.15 Management

Below the level of the Board, key management decisions are made by the CEO, the OMC, the ELT, other management committees and individual members of management to whom authority has been delegated.

The diagram below describes the responsibilities of the CEO and four key management committees.

Table of Contents

Performance evaluation for executives

The performance of executives and other senior employees is reviewed on an annual basis. For the members of the ELT, this review includes their contribution, engagement and interaction at Board level. The annual performance review process that we employ considers the performance of executives against criteria designed to capture both what is achieved and how it is achieved. All performance assessments of executives consider how effective they have been in undertaking their role; what they have achieved against their specified key performance indicators; how they match up to the behaviours prescribed in our leadership model; and how those behaviours align with *Our Charter* values. The assessment is therefore holistic and balances absolute achievement with the way performance has been delivered. Progression within BHP is driven equally by personal leadership behaviours and capability to produce excellent results.

A performance evaluation as outlined above was conducted for all members of the ELT during FY2017. For the CEO, the performance evaluation was led by the Chairman of the Board on behalf of all the Non-executive Directors, drawing on guidance from the Remuneration Committee.

2.16 Business conduct

Our Charter and our Code of Business Conduct

Our Charter is central to our business. It articulates the values we uphold, our strategy and how we measure success.

Our *BHP Code of Business Conduct* (Code) is based on *Our Charter* values and describes the behaviours that we expect of those who work for or on behalf of BHP. The Code applies to employees, directors, officers and controlled entities. Consultants and contractors are also expected to act in accordance with the Code when working for BHP.

The Code describes the behaviours expected to support a safe, respectful and legally compliant working environment, when interacting with governments and the communities in which we operate, when dealing with third parties and when using BHP resources.

Working with integrity is a condition of employment with BHP and in some cases a contractual obligation of many of our contractors and suppliers. All employees are required to undertake annual training in relation to the Code to promote awareness and understanding in the behaviours expected of them. Demonstration of the values described in *Our Charter* and the Code is part of the annual employee performance review process.

Our *Code of Business Conduct* is available online at bhp.com/ourcode.

EthicsPoint, BHP's business conduct advisory service

Where an employee or third party has a concern regarding behaviour that may not be consistent with the Code, there are reporting options available which include BHP's business conduct advisory service, EthicsPoint. EthicsPoint is a worldwide service available to internal and external stakeholders that facilitates the raising, management and resolution of business conduct questions and concerns via a confidential 24-hour, multilingual hotline and online case management system. Reports can be made anonymously and without fear of retaliation. Arrangements are in place to investigate all matters appropriately. Levels of activity and support processes for EthicsPoint are monitored, with activity reports presented to the Board. More information on EthicsPoint can be found in the Code, available online at

bhp.com.

Table of Contents

Political donations

We maintain a position of impartiality with respect to party politics and do not make political contributions/donations for political purposes to any political party, politician, elected official or candidate for public office. We do, however, contribute to the public debate of policy issues that may affect BHP in the countries in which we operate. As explained in the Directors' Report, the Australian Electoral Commission (AEC) disclosure requirements are broad such that amounts that are not political donations can be reportable for AEC purposes. For example, where a political party or organisation owns shares in BHP, the AEC filing requires the political party or organisation to disclose the dividend payments received for their shareholding.

2.17 Market disclosure

We are committed to maintaining the highest standards of disclosure, ensuring that all investors and potential investors have the same access to high-quality, relevant information in an accessible and timely manner to assist them in making informed decisions. The Disclosure Committee manages our compliance with market disclosure obligations and is responsible for implementing reporting processes and controls and setting guidelines for the release of information. As part of our commitment to continuous improvement, we continue to ensure alignment with best practice as it develops in the jurisdictions in which BHP is listed.

Disclosure officers have been appointed in BHP's asset groups, Marketing and Supply, and functions. These officers are responsible for identifying and providing the Disclosure Committee with referral information about the activities of the asset or functional areas using disclosure guidelines developed by the Committee. The Committee then makes the decision whether a particular piece of information is material and therefore needs to be disclosed to the market.

To safeguard the effective dissemination of information, we have developed a market disclosure and communications document, which outlines how we identify and distribute information to shareholders and market participants.

A copy of the market disclosure and communications document is available online at bhp.com/governance.

Copies of announcements to the stock exchanges on which we are listed, investor briefings, Financial Statements, the Annual Report and other relevant information can be found online at bhp.com. Any person wishing to receive advice by email of news releases can subscribe at bhp.com.

2.18 Remuneration

Details of our remuneration policies and practices, and the remuneration paid to the Directors (Executive and Non-executive) and members of the OMC, are set out in the Remuneration Report in section 3.

2.19 Directors' share ownership

Non-executive Directors have agreed to apply at least 25 per cent of their remuneration (base fees plus committee fees) to the purchase of BHP shares until they achieve a shareholding equivalent in value to one year's remuneration (base fees plus committee fees). Thereafter, they must maintain at least that level of shareholding throughout their tenure. All dealings by Directors are subject to the *Our Requirements for Securities Dealing* standard and are reported to the Board and to the stock exchanges.

Information on our policy governing the use of hedging arrangements over shares in BHP by Directors and members of the OMC is set out in section 3.3.19.

Details of the shares held by Directors are set out in section 3.3.18.

Table of Contents

2.20 Conformance with corporate governance standards

Our compliance with the governance standards in our home jurisdictions of Australia and the United Kingdom, and with the governance requirements that apply to us as a result of our New York Stock Exchange (NYSE) listing and our registration with the SEC in the United States, is summarised in this Corporate Governance Statement, the Remuneration Report, the Directors' Report and the Financial Statements.

The Listing Rules and the Disclosure and Transparency Rules of the UK Financial Conduct Authority require companies listed in the United Kingdom to report how they have applied the Main Principles and the extent to which they have complied with the provisions of the UK Corporate Governance Code (UK Code), and explain the reasons for any non-compliance. The UK Code is available online at frc.org.uk/Our-Work/Corporate-Governance-Reporting/Corporate-governance.aspx.

The Listing Rules of the ASX require ASX-listed companies to report on the extent to which they meet the ASX Principles and Recommendations and explain the reasons for any non-compliance. The ASX Principles and Recommendations are available online at asx.com.au/regulation/corporate-governance-council.htm.

Both the UK Code and the ASX Principles and Recommendations require the Board to consider the application of the relevant corporate governance principles, while recognising that departures from those principles are appropriate in some circumstances. We have applied the Main Principles and complied with the provisions set out in the UK Code and with the ASX Principles and Recommendations during the financial period, with no exceptions.

Appendix 4G, summarising our compliance with the ASX Principles and Recommendations is available online at bhp.com/governance.

BHP Billiton Limited and BHP Billiton Plc are registrants with the SEC in the United States. Each company is classified as a foreign private issuer and each has American Depositary Shares listed on the NYSE.

We have reviewed the governance requirements applicable to foreign private issuers under SOX, including the rules promulgated by the SEC and the rules of the NYSE and are satisfied that we comply with those requirements.

Section 303A of the NYSE-Listed Company Manual contains a broad regime of corporate governance requirements for NYSE-listed companies. Under the NYSE rules, foreign private issuers, such as ourselves, are permitted to follow home country practice in lieu of the requirements of Section 303A, except for the rule relating to compliance with Rule 10A-3 of the Exchange Act (audit committee independence) and certain notification provisions contained in Section 303A of the Listed Company Manual. Section 303A.11 of the Listed Company Manual, however, requires us to disclose any significant ways in which our corporate governance practices differ from those followed by US companies under the NYSE corporate governance standards. After a comparison of our corporate governance practices with the requirements of Section 303A of the Listed Company Manual followed by US companies, the following significant difference was identified:

Rule 10A-3 of the Exchange Act requires NYSE-listed companies to ensure their audit committees are directly responsible for the appointment, compensation, retention and oversight of the work of the External Auditor unless the company's governing law or documents or other home country legal requirements require or permit

shareholders to ultimately vote on or approve these matters. While the RAC is directly responsible for remuneration and oversight of the External Auditor, the ultimate responsibility for appointment and retention of the External Auditor rests with our shareholders, in accordance with UK law and our constitutional documents. The RAC does, however, make recommendations to the Board on these matters, which are in turn reported to shareholders.

Table of Contents

While the Board is satisfied with its level of compliance with the governance requirements in Australia, the United Kingdom and the United States, it recognises that practices and procedures can always be improved and there is merit in continuously reviewing its own standards against those in a variety of jurisdictions. The Board's program of review will continue throughout the year ahead.

2.21 Additional UK disclosure

The information specified in the UK Financial Conduct Authority Disclosure Guidance and Transparency Rules, DTR 7.2.6, is located elsewhere in this Annual Report. The Directors' Report in section 4 provides cross-references to where the information is located.

This Corporate Governance Statement was current, and approved by the Board, on 7 September 2017 and signed on its behalf by:

Ken MacKenzie

Chairman

7 September 2017

Table of Contents**3 Remuneration Report****In this section**

This Remuneration Report describes the remuneration policies, practices, outcomes and governance for the KMP of BHP.

BHP's dual listed structure means that we are subject to remuneration disclosure requirements in both the United Kingdom and Australia. This results in some complexity in our disclosures, as there are some key differences in the requirements, as explained below.

The UK requirements focus on the remuneration of executive and non-executive directors. At BHP, this is our Board and our CEO, who is our sole Executive Director. In contrast, the Australian requirements focus on the remuneration of KMP, defined as those who have authority and responsibility for planning, directing and controlling the activities of the Group directly or indirectly. KMP includes the Board, as well as our senior executive team who are members of our OMC. The role of the OMC is to make key management decisions under the authorities that have been delegated to it by the Board.

The following individuals have held their positions and were KMP for the whole of FY2017, unless stated otherwise:

CEO and Executive Director, Andrew Mackenzie;

Non-executive Directors – see section 3.3.11 for details of the Non-executive Directors, including dates of appointment or cessation (where relevant);

OMC members, as set out in the table below.

Name	Title
Peter Beaven	Chief Financial Officer
Geoff Healy	Chief External Affairs Officer
Mike Henry	President Operations, Minerals Australia
Daniel Malchuk	President Operations, Minerals Americas
Steve Pastor	President Operations, Petroleum
Athalie Williams	Chief People Officer

The information that must be disclosed also differs in the United Kingdom and Australia. For example, UK requirements give shareholders the right to a binding vote on remuneration policy every three years, and as a result, the remuneration policy needs to be described in a separate section in the Remuneration Report. Our remuneration policy is set out in section 3.2. In Australia, BHP is required to make certain disclosures for KMP as defined by the Australian Corporations Act 2001, Australian Accounting Standards and IFRS.

Contents

- 3.1 Annual statement by the Remuneration Committee Chairman
- 3.2 Remuneration policy report
 - Remuneration policy for the Executive Director
 - Remuneration policy for Non-executive Directors
- 3.3 Annual report on remuneration
 - Remuneration outcomes for the Executive Director (the CEO)
 - Remuneration for members of the OMC (other than the CEO)
 - Remuneration outcomes for Non-executive Directors
 - Remuneration governance
 - Other statutory disclosures

Table of Contents

Abbreviation	Item
AGM	Annual General Meeting
CEO	Chief Executive Officer
DEP	Dividend Equivalent Payment
DLC	Dual Listed Company
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation
GSTIP	Group Short-Term Incentive Plan
HSEC	Health, Safety, Environment and Community
IFRS	International Financial Reporting Standards
KMP	Key Management Personnel
KPI	Key Performance Indicator
LTI	Long-Term Incentive
LTIP	Long-Term Incentive Plan
MAP	Management Award Plan
MSR	Minimum Shareholding Requirement
OMC	Operations Management Committee
STI	Short-Term Incentive
STIP	Short-Term Incentive Plan
TRIF	Total Recordable Injury Frequency
TSR	Total Shareholder Return
UAP	Underlying Attributable Profit

Table of Contents**3.1 Annual statement by the Remuneration Committee Chairman**

Dear Shareholder,

I am pleased to introduce BHP's Remuneration Report for the financial year to 30 June 2017. First, a key focus for the Remuneration Committee this year has been a detailed review of our remuneration policy ahead of it being submitted for shareholder approval at our 2017 AGMs. You will see we are not proposing any significant change, as the Board and Committee believe the current policy remains appropriate and has served all stakeholders well over many years, a view supported by extensive shareholder consultation. Secondly, the Committee has continued its work to achieve remuneration outcomes that fairly reflect the performance of BHP, its businesses and individuals. FY2017 has seen a significant improvement in performance in comparison with last year, and this is reflected in the FY2017 remuneration outcomes.

Link to strategy

Our Charter sets out our values, placing health and safety first, upon which the Remuneration Committee places great weight in the determination of performance-based remuneration outcomes for BHP executives. *Our Charter* also sets out our purpose, our strategy and how we measure success. The Committee is guided by those measures and aims to support our executives in taking a long-term approach to decision-making in order to build a sustainable and value-adding business.

Our approach

The Committee commenced its review of our remuneration policy in mid-2016 with a remuneration risk assessment, together with selected Board, Committee and management interviews. Key items reviewed included the level of remuneration (and of the individual components), measures used in the STIP and LTIP, the method of delivery of LTIP awards, the LTIP vesting schedule and minimum shareholding requirements. In addition, the Committee reviewed the alignment of the policy with the critical need to attract, retain and appropriately reward world-class talent. The Committee has incorporated shareholder feedback into our deliberations on Executive and Non-executive Director pay through shareholder consultations.

The conclusion reached at the end of the review was that significant change was not required, consistent with the Committee's view that our policy has served us well. This also aligns with the views of our shareholders who have given strong support to our approach to remuneration, with over 97 per cent voting for the Remuneration Report at last year's AGMs, and over 96 per cent support in each of the prior five years.

A minor change has been proposed in the remuneration policy to the LTIP vesting schedule for future LTIP grants, whereby in future, maximum vesting may only occur where BHP's TSR equals or exceeds the weighted 80th percentile of the relevant comparator group, rather than equalling or exceeding the prior fixed 5.5 per cent per annum, or a compounded 30.7 per cent, outperformance over the five-year performance period. This proposed change is more aligned to contemporary market practice in Australia and the United Kingdom, and back-testing has confirmed that it would not have had any material impact on LTIP vesting outcomes in prior years. In discussions with shareholders earlier in the year, the proposed change was widely supported.

The exercise of appropriate downward discretion where the status quo or a formulaic outcome does not align with the overall shareholder experience has been a feature of BHP's approach over many years, and this will continue unchanged. Examples in recent years include reducing the CEO's remuneration package by 25 per cent in 2013, reducing the LTIP award vesting by 35 per cent in 2013, zero STI outcomes for the CEO and Chief Executive

Petroleum in 2012 as a result of shale impairments, the reduction in Chairman and Non-executive Director fees in 2015, and the zero STI outcome for the CEO in 2016 as a result of the dam failure at Samarco, and the ongoing decline in commodity markets and the associated negative impact on our performance. We will continue to balance our judgements on remuneration to be fair to all stakeholders and, as a consequence, remuneration outcomes will continue to appropriately reflect the performance of BHP, of businesses and of individuals.

Table of Contents

We are aware of various proposals put forward by some shareholders and other groups to consider alternative remuneration arrangements, particularly in the United Kingdom, but we also note there is not an aligned view on the way forward. While our recent review has confirmed the appropriateness of our current approach, we will continue to monitor the debate, as our shareholders would expect. We are keen to understand any alternate arrangements that simplify remuneration, drive a balanced focus on the short and long-term, align outcomes with Group performance, limit the potential for excessive outcomes, and yet still deliver on the primary purpose: to attract, retain and appropriately reward talented executives. We will continue to have discussions with our shareholders on these matters.

Remuneration outcomes for the CEO

Andrew Mackenzie, on his appointment as CEO in 2013, supported the view of the Board and Committee that his remuneration package should be rebased downwards relative to that of the former CEO. His base salary has not been increased since then, and again, after review in 2017, it will remain unchanged at US\$1.700 million per annum. In addition, the other components of his total target remuneration (pension contributions, benefits and short-term and long-term incentive targets) are also unchanged since 2013. Mr Mackenzie is BHP's only Executive Director.

Mr Mackenzie's annual STI is focussed on incentivising controllable annual performance and is at-risk with a target of 160 per cent of base salary linked to achieving stretching performance, a maximum of 240 per cent of base salary only realisable in circumstances of significant outperformance, and a minimum outcome of zero.

The scorecard against which his short-term performance is assessed comprises stretching performance measures including HSEC, financial and personal elements. For FY2017, the Remuneration Committee has assessed Mr Mackenzie's performance and determined a STI outcome of 86 per cent of the target of 100 per cent (or 138 per cent of base salary).

This outcome took into account HSEC performance which primarily reflects the fatality that occurred at Escondida in October 2016, with the Remuneration Committee, after taking advice from the Sustainability Committee, giving the Group's safety performance the greatest weighting when determining the CEO's HSEC STI outcome. On other HSEC measures, positive outcomes were achieved, such as lower injury frequency rates, occupational illnesses and significant events with injury potential.

BHP's overall financial performance was significantly improved in FY2017, however, controllable financial performance was below the stretching financial target set at the commencement of the year. This was mainly due to the negative impacts on production volumes and operating costs at Escondida as a consequence of industrial action in early 2017. While the idle capacity impacts of the industrial action at Escondida have been reported as an exceptional item in the accounts, the Committee concluded the entire negative impact of this event should be included in measuring STI outcomes.

The Committee also considered the CEO's strong performance against personal objectives, including delivering significant further material productivity and capital expenditure improvements, delivery on key strategic milestones, and an acceleration of BHP's inclusion and diversity objectives through the public adoption of an aspiration to have gender balance by 2025 and progress made towards this in FY2017.

Mr Mackenzie's LTI is also at-risk, and forms an important part of recognising long-term performance, including the impacts of long-dated capital allocation and portfolio decisions. In relation to the LTI awards granted in 2012, BHP's five-year TSR performance was negative 32.0 per cent over the five-year period from 1 July 2012 to 30 June 2017. This is below the weighted median TSR of peer companies of negative 23.3 per cent and below the TSR of the MSCI World index of positive 69.0 per cent. This level of performance results in zero vesting for the 2012 LTIP awards, and

accordingly the awards have lapsed.

Table of Contents

Overall, Mr Mackenzie's actual total remuneration for FY2017 was US\$4.554 million, compared with US\$2.241 million for FY2016. The key driver of this difference is that Mr Mackenzie did not receive any STI in FY2016 as a consequence of the dam failure at Samarco, along with the ongoing decline in commodity markets and its associated impact on our performance, in that year. The LTI outcome in FY2016 was also zero, the same as in FY2017.

In line with the approach for Mr Mackenzie, the base salaries and total target remuneration packages for all other OMC members will also be held constant in FY2018.

FY2018 CEO remuneration

Fixed remuneration	STI	LTI
Base salary US\$1.700 million per annum	Target STI of 160 per cent of base salary (maximum 240 per cent of base salary)	The normal LTI grant is based on a face value of 400 per cent of base salary
Pension contributions of 25 per cent of base salary	No change to either target or maximum percentages for FY2018	Our LTI awards have rigorous relative TSR performance hurdles measured over 5 years
No change to either base salary or pension contribution for FY2018	Three performance categories:	
	HSEC 25 per cent	
	Financial 45 per cent	
	Individual performance 30 per cent	

Remuneration outcomes for the Chairman and Non-executive Directors

Fee levels for the Chairman and Non-executive Directors are reviewed annually, including benchmarking against peer companies. Based on the most recent review, a decision has been made to reduce the Chairman's fee by approximately eight per cent from US\$0.960 million to US\$0.880 million with effect from 1 July 2017, an outcome supported by the new Chairman, Mr Ken MacKenzie. This follows an earlier reduction, effective 1 July 2015, of approximately 13 per cent from US\$1.100 million to US\$0.960 million per annum. Base fee levels for Non-executive Directors were also

reduced, effective 1 July 2015, by approximately six per cent from US\$0.170 million to US\$0.160 million per annum and fees will remain at these levels. Prior to the above reductions in fee levels for the Chairman and Non-executive Directors, their fees had remained unchanged since 2011.

Table of Contents

Summary

The remuneration outcomes for FY2017 are aligned with the Group's performance during the year. In late 2017, our remuneration policy will be put before shareholders at the AGMs for the required three-yearly re-approval. After our review this year, the Committee concluded that, at this time, we should not make any material change to the policy which has been supported strongly by shareholders through their votes at BHP's AGMs over many years. We remain confident our philosophy, framework and remuneration policy continue to be appropriate and support long-term value creation, but we will continue to look for opportunities to improve it. We welcome shareholder feedback and comments on the review outcomes, or on any other aspect of this Report.

Carolyn Hewson

Chairman, Remuneration Committee

7 September 2017

Table of Contents

3.2 Remuneration policy report

BHP has an overarching remuneration policy that guides the Remuneration Committee's decisions. The Committee undertook a review of the policy during the past year and determined that the policy remains appropriate and aligned to the delivery of our strategic priorities. This remuneration policy is subject to a binding vote by shareholders at the 2017 AGMs, and if approved, will apply with effect from the November 2017 AGM. This remuneration policy contains no material changes from the previous remuneration policy approved by shareholders in 2014 other than those set out in sections 3.2.3 and 3.2.8.

3.2.1 Framework

BHP's remuneration policy is designed to reward and recognise the delivery of our strategy, promote long-term success, align management and shareholder interests and encourage behaviours to be aligned to the values in *Our Charter*, as set out in the framework below.

3.2.2 How remuneration policy is set

The Remuneration Committee sets the remuneration policy for the CEO and KMP based on the principles and framework outlined above. The Committee is briefed on and considers prevailing market conditions, the competitive environment and the positioning and relativities of pay and employment conditions across the wider BHP workforce. The Committee takes into account the annual base salary increases for our employee population when determining any change in the CEO's base salary. Salary increases in Australia, where the CEO is located, are particularly relevant, as they reflect the local economic conditions.

Although BHP does not consult directly with employees on CEO and KMP remuneration, BHP conducts regular employee engagement surveys that give employees an opportunity to provide feedback on a wide range of employee matters. Further, many employees are ordinary shareholders through our all-employee share purchase plan, Shareplus, and therefore have the opportunity to vote on AGM resolutions.

Table of Contents

As part of the Board's commitment to good governance, the Committee also considers shareholder views when setting the remuneration policy for the CEO and KMP. We are committed to engaging and communicating with shareholders regularly and, as our shareholders are spread across the globe, we are proactive with our engagement on remuneration and governance matters with institutional shareholders and investor representative organisations. Feedback from shareholders and investors is shared with, and used as input into decision-making by, the Board and Remuneration Committee in respect of our remuneration policy and its application. The Committee considers that this approach provides a robust mechanism to ensure Directors are aware of matters raised, have a good understanding of current shareholder views, and can formulate policy and make decisions as appropriate. We encourage shareholders to always make their views known to us by directly contacting our Investor Relations team (contact details available on our website at bhp.com).

Remuneration policy for the Executive Director

This section only refers to the remuneration policy for our CEO, who is our sole Executive Director. If any other executive were to be appointed an Executive Director, this remuneration policy would apply to that new role. The principles that underpin the remuneration policy for the CEO are the same as those that apply to other employees, although the CEO's arrangements have a greater emphasis on, and a higher proportion of remuneration in the form of, performance-related variable pay. Similarly, the performance measures used to determine STI outcomes for the CEO and all other employees are linked to the delivery of our strategy and behaviours that are aligned to the values in *Our Charter*.

3.2.3 Components of remuneration

The following table shows the components of total remuneration, the link to strategy, the applicable operation and performance frameworks, and the maximum opportunity for each component. The Remuneration Committee's discretion in respect of each remuneration component applies up to the maximum shown. Any remuneration elements awarded or granted under the previous remuneration policy approved by shareholders in 2014, but which have not yet vested or been paid, shall continue to be capable of vesting and payment on their existing terms

Remuneration component and link to strategy

Base salary

A competitive base salary is paid in order to attract and retain a high-quality and experienced CEO, and to provide appropriate remuneration for this important role in the Group.

Operation and performance framework

Base salary, denominated in US dollars, is broadly aligned with salaries for comparable roles in global companies of similar global complexity, size, reach and industry, and reflects the CEO's responsibilities, location, skills, performance, qualifications and experience.

Base salary is reviewed annually with effect from 1 September. Reviews are informed, but not led, by benchmarking to comparable roles (as above), changes in responsibility and general economic conditions. Substantial weight is also given to the general base salary increases for employees.

Maximum ⁽¹⁾

8% increase per annum (annualised), or inflation if higher in Australia.

Base salary is not subject to separate performance conditions.

Table of Contents**Remuneration component and link to strategy****Pension contributions**

Provides a market-competitive level of post-employment benefits provided to attract and retain a high-quality and experienced CEO.

Operation and performance framework

Pension contributions are benchmarked to comparable roles in 25% of base salary. global companies and have been determined after considering the pension contributions provided to the wider workforce.

A choice of funding vehicles is offered, including a defined contribution plan, an unfunded retirement savings plan, an international retirement plan or a self-managed superannuation fund. Alternatively, a cash payment may be provided in lieu.

Maximum⁽¹⁾**Benefits**

Provides personal insurances, relocation benefits and tax assistance where BHP's structure gives rise to tax obligations across multiple jurisdictions, and a market-competitive level of benefits to attract and retain a high-quality and experienced CEO.

Benefits may be provided, as determined by the Committee, and currently include costs of private family health insurance, death and disability insurance, car parking, and personal tax return preparation in the required countries where BHP has requested the CEO relocate internationally, or where BHP's structure requires personal tax returns in multiple jurisdictions.

Costs associated with business-related travel for the CEO's spouse/partner, including for Board meetings, may be covered. Where these costs are deemed to be taxable benefits for the CEO, BHP may reimburse the CEO for these tax costs.

Benefits as determined by the Committee but to a limit not exceeding 10% of base salary and (if applicable) a one-off taxable relocation allowance up to US\$700,000.

The CEO is eligible to participate in Shareplus, BHP's all-employee share purchase plan.

A relocation allowance and assistance is provided only where a change of location is made at BHP's request. The Group's mobility policies provide one-off payments with no trailing entitlements.

STI

The purpose of STI is to encourage and focus the CEO's efforts on the delivery of the Group's strategic priorities for the relevant financial year, and to motivate the CEO to strive to achieve stretch

Setting performance measures and targets

The Committee sets a balanced scorecard of HSEC, financial and individual performance measures, with targets and relative weightings, at the beginning of the financial year in order to appropriately motivate the CEO to achieve outperformance that contributes to the long-term sustainability of the Group and shareholder wealth creation.

Maximum award

240% of base salary (cash 120% and 120% in deferred equity).

Target performance

performance objectives.	Specific financial measures will constitute the largest weighting and are derived from the annual budget as approved by the Board for the relevant financial year.	160% of base salary (cash 80% and 80% in deferred equity).
The performance measures for each year are chosen on the basis that they are expected to have a significant short- and long-term impact on the success of the Group.	Appropriate HSEC measures and weightings are determined by the Remuneration Committee with the assistance of the Sustainability Committee.	<p>Threshold performance</p> <p>80% of base salary (cash 40% and 40% in deferred equity).</p>
Deferral of a portion of STI awards in deferred equity	For HSEC and for individual measures the target is ordinarily expressed in narrative form and will be disclosed near the beginning of the performance period. However, the target for each financial measure will be disclosed retrospectively. In the rare instances	<p>Minimum award</p> <p>Zero.</p>

Table of Contents

Remuneration component and link to strategy

over BHP shares encourages a longer-term focus aligned to that of shareholders.

Operation and performance framework

where this may not be prudent on grounds of commercial sensitivity, we will seek to explain why and give an indication of when the target may be disclosed.

Maximum ⁽¹⁾

Should any other performance measures be added at the discretion of the Committee, we will determine the timing of disclosure of the relevant target with due consideration of commercial sensitivity.

Assessment of performance

At the conclusion of the financial year, the CEO's achievement against each measure is assessed by the Remuneration Committee and the Board, with guidance provided by other relevant Board Committees in respect of HSEC and other measures, and an STI award determined. If performance is below the Threshold level for any measure, no STI will be provided in respect of that portion of the STI opportunity.

The Board believes this method of assessment is transparent, rigorous and balanced, and provides an appropriate, objective and comprehensive assessment of performance.

In the event that the Remuneration Committee does not consider the outcome that would otherwise apply to be a true reflection of the performance of the Group or should it consider that individual performance or other circumstances makes this an inappropriate outcome, it retains the discretion to not provide all or a part of any STI award. This is an important mitigation against the risk of unintended award outcomes.

Delivery of award

STI awards are provided under the STIP and the value is delivered half in cash and half in an award of the equivalent

value of BHP equity, which is deferred for two years and may be forfeited if the CEO leaves the Group within the deferral period.

The award of deferred equity comprises rights to receive ordinary BHP shares in the future at the end of the deferral period. Before the awards vest (or are exercised), these rights are not ordinary shares and do not carry entitlements to ordinary dividends or other shareholder rights; however, a DEP is provided on vested awards. The Committee also has a discretion to settle STI awards in cash.

Both cash and equity STI awards are subject to malus and clawback as described below.

Table of Contents**Remuneration component and link to strategy LTI**

The purpose of the LTI is to focus the CEO's efforts on the achievement of sustainable long-term value creation and success of the Group (including appropriate management of business risks).

It also encourages retention through long-term share exposure for the CEO over the five-year performance period (consistent with the long-term nature of resources), and aligns the long-term interests of the CEO and shareholders.

The LTI aligns the CEO's reward with sustained shareholder wealth creation in excess of that of relevant comparator group(s), through the relative TSR performance condition.

Relative TSR has been chosen as an appropriate measure as it allows for an objective external assessment over a sustained period on a basis that is familiar to shareholders.

Operation and performance framework Relative TSR performance condition

The LTIP award is conditional on achieving five-year relative TSR⁽²⁾ performance conditions as set out below.

The relevant comparator group(s) and the weighting between relevant comparator group(s) will be determined by the Committee in relation to each LTIP grant.

Level of performance required for vesting

Vesting of the award is dependent on BHP's TSR relative to the TSR of relevant comparator group(s) over a five-year performance period.

25% of the award will vest where BHP's TSR is equal to the median TSR of the relevant comparator group(s), as measured over the performance period. Where TSR is below the median, awards will not vest.

Vesting occurs on a sliding scale between the median TSR of the relevant comparator group(s) up to a nominated level of TSR outperformance⁽⁴⁾ over the relevant comparator group(s), as determined by the Committee, above which 100% of the award will vest.

Where the TSR performance condition is not met, there is no retesting and awards will lapse. The Committee also retains discretion to lapse any portion or all of the award where it considers the vesting outcome is not appropriate given Group or individual performance. This is an important mitigation against the risk of unintended outcomes.

Further performance measures**Maximum⁽¹⁾ Normal Maximum Award**

Face value of 400% of base salary.

Exceptional Maximum Award⁽³⁾

Face value of 488% of base salary.

The Committee may add further performance conditions, in which case the vesting of a portion of any LTI award may instead be linked to performance against the new condition(s). However, the Committee expects that in the event of introducing an additional performance condition(s), the weighting on relative TSR would remain the majority weighting.

Delivery of award

LTI awards are provided under the LTIP approved by shareholders at the 2013 AGMs. When considering the value of the award to be provided, the Committee primarily considers the face value of the award, and also considers its fair value which includes consideration of the performance conditions.⁽⁵⁾

Table of Contents**Remuneration component
and link to strategy****Operation and performance framework****Maximum ⁽¹⁾**

LTI awards consist of rights to receive ordinary BHP shares in the future if the performance and service conditions are met. Before vesting (or exercise), these rights are not ordinary shares and do not carry entitlements to ordinary dividends or other shareholder rights; however, a DEP is provided on vested awards. The Committee has a discretion to settle LTI awards in cash.

LTI awards are subject to malus and clawback as described below.

- (1) UK regulations require the disclosure of the maximum that may be paid in respect of each remuneration component. Where that is expressed as a maximum annual percentage increase which is annualised it should not be interpreted that it is BHP's current intention to award an increase of that size in total in any one year, or in each year, and instead it is a maximum required to be disclosed under the regulations.
- (2) BHP's TSR is a weighted average of the TSRs of BHP Billiton Limited and BHP Billiton Plc.
- (3) The Exceptional Maximum Award permitted under the LTIP rules is expressed as a fair value equal to 200 per cent of base salary which represents 41 per cent of face value (200 per cent divided by 41 per cent = 488 per cent). All LTI awards to the CEO will only be provided with prior approval by shareholders in the relevant AGMs.
- (4) The updated remuneration policy for the Executive Director contains no material changes from the previous policy with the exception of the Committee's revised approach to measuring TSR outperformance when determining whether the award vests at maximum. Maximum vesting will now be determined with reference to a position against each comparator group, instead of specifically measuring TSR relative to the weighted median TSR and index value and a fixed level of outperformance. Consistent with this, the policy wording now describes outperformance more broadly, instead of stipulating it be measured on a per annum basis or on a compounded basis over the five-year period, as was provided for in the 2014 policy. The Committee consulted with shareholders and shareholder groups on these changes and took their feedback into account.
- (5) Fair value is calculated by the Committee's independent adviser and is different to fair value used for IFRS disclosures (which do not take into account forfeiture conditions on the awards). It reflects outcomes weighted by probability, taking into account the difficulty of achieving the performance conditions and the correlation between these and share price appreciation, together with other factors, including volatility and forfeiture risks. The current fair value is 41 per cent of the face value of an award, which may change should the Committee vary elements (such as adding a performance measure or altering the level of relative TSR outperformance).

3.2.4 Malus and clawback

The STIP and LTIP provisions allow the Committee to reduce or clawback awards in the following circumstances:

the participant acting fraudulently or dishonestly or being in material breach of their obligations to the Group; where BHP becomes aware of a material misstatement or omission in the financial statements of a Group company or the Group; or any circumstances occur that the Committee determines in good faith to have resulted in an unfair benefit to the participant.

These malus and clawback provisions apply whether or not awards are made in the form of cash or equity, and whether or not the equity has vested.

3.2.5 Potential remuneration outcomes

The Remuneration Committee recognises that market forces necessarily influence remuneration practices and it strongly believes the fundamental driver of remuneration outcomes should be business performance. It also believes that overall remuneration should be both fair to the individual, such that remuneration levels accurately reflect the CEO's responsibilities and contributions, and align with the expectations of our shareholders, while considering the positioning and relativities of pay and employment conditions across the wider BHP workforce.

Table of Contents

The amount of remuneration actually received each year depends on the achievement of superior business and individual performance generating sustained shareholder value. Before deciding on the final incentive outcomes for the CEO, the Committee first considers the achievement against the pre-determined performance conditions. The Committee then applies its overarching discretion on the basis of what it considers to be a fair and commensurate remuneration level to decide if the outcome should be reduced. When the CEO was appointed in May 2013, the Board advised him that the Committee would exercise its discretion on the basis of what it considered to be a fair and commensurate remuneration level to decide if the outcome should be reduced.

In this way, the Committee believes it can set a remuneration level for the CEO that is sufficient to incentivise him and that is also fair to him and commensurate with shareholder expectations and prevailing market conditions.

The diagram below provides the scenario for the potential total remuneration of the CEO at different levels of performance.

Minimum: consists of fixed remuneration, which comprises base salary (US\$1.700 million), pension contributions (25 per cent of base salary) and other benefits (US\$0.090million).

Target: consists of fixed remuneration, target STI (160 per cent of base salary) and target LTI. The LTI target value is based on the fair value of the award, which is 41 per cent of the face value of 400 per cent of base salary. The potential impact of future share price movements is not included in the value of deferred STI awards or LTI awards.

Maximum: consists of fixed remuneration, maximum STI (240 per cent of base salary), and maximum LTI (face value of 400 per cent of base salary). This is lower than the maximum permissible award size under the plan rules. The potential impact of future share price movements is not included in the value of deferred STI awards or LTI awards.

The maximum opportunity represented above is the most that could potentially be paid of each remuneration component, as required by UK regulations. It does not reflect any intention by the Group to award that amount. The Remuneration Committee reviews relevant benchmarking data and industry practices, and believes the maximum remuneration opportunity is appropriate and in line with our remuneration principles.

3.2.6 Approach to recruitment and promotion remuneration

The remuneration policy as set out in section 3.2 of this Report will apply to the remuneration arrangements for a newly recruited or promoted CEO, or for another Executive Director should one be appointed. A market-competitive level of remuneration comprising base salary, pension contributions, benefits, STI and LTI will be provided. Having considered views expressed by shareholders, the Committee has determined it will review the maximum pension contributions for any newly recruited or promoted CEO, or for another Executive Director should one be appointed, based on market practice at the time. The same maximum STI and LTI opportunity will continue to apply as detailed in the remuneration policy.

Table of Contents

For external appointments, the Remuneration Committee may determine that it is appropriate to provide additional cash and/or equity components to replace any remuneration forfeited from a former employer. It is anticipated that any foregone equity awards would be replaced by equity. The value of the replacement remuneration would not be any greater than the fair value of the awards forgone (as determined by the Committee's independent adviser). The Committee would determine appropriate service conditions and performance conditions within BHP's framework, taking into account the conditions attached to the forgone awards. The Committee is mindful of limiting such payments and not providing any more compensation than is necessary. For any internal CEO (or another Executive Director) appointment, any entitlements provided under former arrangements will be honoured according to their existing terms.

Table of Contents**3.2.7 Service contracts and policy on loss of office**

The terms of employment for the CEO are formalised in his employment contract. Key terms of the current contract and relevant payments on loss of office are shown below. If a new CEO or another Executive Director was appointed, similar contractual terms would apply, other than where the Remuneration Committee determines that different terms should apply for reasons specific to the individual.

The CEO's current contract has no fixed term. It can be terminated by BHP on 12 months' notice. BHP can terminate the contract immediately by paying base salary plus pension contributions for the notice period. The CEO must give six months' notice for voluntary resignation. The table below sets out the basis on which payments on loss of office may be made.

	Leaving reason ⁽¹⁾⁽²⁾			
	Voluntary resignation	Termination for cause	Death, serious injury, illness, disability or total and permanent disablement	Cessation of employment as agreed with the Board ⁽³⁾
Base salary	Paid as a lump sum for the notice period or progressively over the notice period.	No payment will be made.	Paid for a period of up to four months, after which time employment may cease.	Paid as a lump sum for the notice period or progressively over the notice period.
Pension contributions	Paid as a lump sum for the notice period or progressively over the notice period.	No contributions will be provided.	Paid for a period of up to four months, after which time employment may cease.	Paid as a lump sum for the notice period or progressively over the notice period.
Benefits	May continue to be provided during the notice period.	No benefits will be provided.	May continue to be provided during the notice period.	May continue to be provided for year in which employment ceases.
	Accumulated annual leave entitlements and any statutory payments will be paid.	Accumulated annual leave entitlements and any statutory payments will be paid.	Accumulated annual leave entitlements and any statutory payments will be paid.	Accumulated annual leave entitlements and any statutory payments will be paid.
	May pay repatriation expenses to the home location where a relocation	May pay repatriation expenses to the home location where a relocation was at the request of	May pay repatriation expenses to the	May pay repatriation

was at the request of
BHP.

BHP.

home location
where a relocation
was at the request
of BHP.

expenses to the
home location
where a relocation
was at the request
of BHP.

Any unvested
Shareplus Matched
Shares held will
lapse.

Any unvested
Shareplus Matched
Shares held will
lapse.

Any unvested
Shareplus Matched
Shares held will
vest in full.

Any unvested
Shareplus Matched
Shares held will
vest in full.

Table of Contents

	Leaving reason ⁽¹⁾⁽²⁾			
	Voluntary resignation	Termination for cause	Death, serious injury, illness, disability or total and permanent disablement	Cessation of employment as agreed with the Board ⁽³⁾
STI cash and deferred equity	No cash STI will be paid.	No cash STI will be paid.	The Committee has discretion to pay and/or award an amount in respect of the CEO's performance for that year.	The Committee has discretion to pay and/or award an amount in respect of the CEO's performance for that year.
Where CEO leaves either during or after the end of the financial year, but before an award is provided.	Unvested STIP will lapse.	Unvested STIP will lapse.	Unvested STIP will vest in full and, where applicable become exercisable.	Unvested STIP continue to be held on the existing terms for the deferral period before vesting (subject to Committee discretion to lapse some or all of the award).
	Vested but unexercised STIP will remain exercisable for the remaining exercise period unless the Committee determines they will lapse.	Vested but unexercised STIP will remain exercisable for the remaining exercise period unless the Committee determines they will lapse.	Vested but unexercised STIP will remain exercisable for the remaining exercise period.	Vested but unexercised STIP remain exercisable for the remaining exercise period, or a reduced period, or may lapse, as determined by the Committee.
				Unvested and vested but unexercised awards remain subject to malus and clawback.

Table of Contents

	Leaving reason ^{(1) (2)}			
LTI unvested and vested but unexercised awards	Voluntary resignation	Termination for cause	Death, serious injury, illness, disability or total and permanent disablement	Cessation of employment as agreed with the Board ⁽³⁾
	Unvested awards will lapse.	Unvested awards will lapse.	Unvested awards will vest in full.	A pro-rata portion of unvested awards (based on the proportion of the performance period served) will continue to be held subject to the LTIP rules and terms of grant. The balance will lapse.
	Vested but unexercised awards will remain exercisable for the remaining exercise period, or for a reduced period, or may lapse, as determined by the Committee.	Vested but unexercised awards will remain exercisable for the remaining exercise period, or for a reduced period, or may lapse, as determined by the Committee.	Vested but unexercised awards will remain exercisable for remaining exercise period.	Vested but unexercised awards will remain exercisable for the remaining exercise period, or for a reduced period, or may lapse, as determined by the Committee.
				Unvested and vested but unexercised awards remain subject to malus and clawback.

(1) If the Committee deems it necessary, BHP may enter into agreements with a CEO, which may include the settlement of liabilities in return for payment(s), including reimbursement of legal fees subject to appropriate conditions; or to enter into new arrangements with the departing CEO (for example, entering into consultancy arrangements).

(2)

In the event of a change in control event (for example, takeover, compromise or arrangement, winding up of the Group) as defined in the STIP and LTIP rules:

base salary, pension contributions and benefits will be paid until the date of the change of control event;

the Committee may determine that a cash payment be made in respect of performance during the current financial year and all unvested STI equity awards would vest in full;

Table of Contents

the Committee may determine that unvested LTI awards will either (i) be pro-rated (based on the proportion of the performance period served up to the date of the change of control event) and vest to the extent the Committee determines appropriate (with reference to performance against the performance condition up to the date of the change of control event and expectations regarding future performance) or (ii) be lapsed if the Committee determines the holders will participate in an acceptable alternative employee equity plan as a term of the change of control event.

- (3) Defined as occurring when a participant leaves BHP due to forced early retirement, retrenchment or redundancy, termination by mutual agreement or retirement with the agreement of the Group, or such other circumstances that do not constitute resignation or termination for cause.

Remuneration policy for Non-executive Directors

Our Non-executive Directors are paid in line with the UK Corporate Governance Code (April 2016) and the ASX Corporate Governance Council's Principles and Recommendations (3rd Edition).

3.2.8 Components of remuneration

The following table shows the components of total remuneration, the link to strategy, the applicable operation and performance frameworks, and the maximum opportunity for each component.

Remuneration**component and link to strategy****Fees** ⁽²⁾

Competitive base fees are paid in order to attract and retain high-quality individuals, and to provide appropriate remuneration for the role undertaken.

Committee fees are provided to recognise the additional responsibilities, time and commitment required.

Operation and performance framework

The Chairman is paid a single fee for all responsibilities.

Non-executive Directors are paid a base fee and relevant committee membership fees.

Committee Chairmen and the Senior Independent Director are paid an additional fee to reflect their extra responsibilities.

All fee levels are reviewed annually and any changes are effective from 1 July.

Maximum ⁽¹⁾

8% increase per annum (annualised), or inflation if higher in the location in which duties are primarily performed, on a per fee basis.

Fees are set at a competitive level based on benchmarks and advice provided by external advisers. Fee levels reflect the size and complexity of the Group, the multi-jurisdictional environment arising from the DLC structure, the multiple stock exchange listings and the geographies in which the Group operates. The economic environment and the financial performance of the Group are taken into account. Consideration is also given to salary reviews across the rest of the Group.

Where the payment of pension contributions is required by law, these contributions are deducted from the Director's overall fee entitlements.

Table of Contents**Remuneration component and link to strategy****Benefits** ⁽²⁾

Competitive benefits are paid in order to attract and retain high-quality individuals and adequately remunerate them for the role undertaken, including the considerable travel burden.

Operation and performance framework

Travel allowances are paid on a per-trip basis reflecting the considerable travel burden imposed on members of the Board as a consequence of the global nature of the organisation and apply when a Director needs to travel internationally to attend a Board meeting or site visits at our multiple geographic locations.

As a consequence of the DLC structure, Non-executive Directors are required to prepare personal tax returns in both Australia and the UK, regardless of whether they reside in one or neither of those countries. They are accordingly reimbursed for the costs of personal tax return preparation in whichever of the UK and/or Australia is not their place of residence (including payment of the tax cost associated with the provision of the benefit).

Non-executive Directors are not eligible to participate in any STI or LTI arrangements.

There are no provisions in any of the Non-executive Directors' appointment arrangements for compensation payable on early termination of their directorship.

Maximum ⁽¹⁾

8% increase per annum (annualised), or inflation if higher in the location in which duties are primarily performed, on a per-trip basis.

Up to a limit not exceeding 20% of fees.

STI and LTI**Payments on early termination**

⁽¹⁾ UK regulations require the disclosure of the maximum that may be paid in respect of each remuneration component. Where that is expressed as a maximum annual percentage increase which is annualised it should not be interpreted that it is BHP's current intention to award an increase of that size in total in any one year, or in each year, and instead it is a maximum required to be disclosed under the regulations.