

May 16, 2017

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**LETTER TO THE DIRECTORS OF EACH OF BHP BILLITON LIMITED (“LIMITED”) AND BHP BILLITON PLC (“PLC” AND TOGETHER WITH LIMITED, “BHP”)**

Your attention is drawn to the important information which is set out in the Appendix to this letter. This letter and related materials are publicly available at [www.fixingbhp.com](http://www.fixingbhp.com)

To the directors of BHP:

We are writing to you again on behalf of Elliott Associates, L.P. and Elliott International, L.P. (together, the “**Elliott Funds**”).

**What other shareholders are saying on the Value Unlock Plan and BHP’s response**

When we publish a letter, as we did on April 10, 2017 to outline our Value Unlock Plan, we receive numerous communications from shareholders and other stakeholders wishing to share their views and learn more about ours. Shareholders nearly always inquire about the progress of our dialogue with the company.

Today’s letter is in response to those numerous inquiries from other BHP owners and addresses for the benefit of both the directors and shareholders the key points made in conversations we have had since our last letter of April 10, 2017.

Our goal in sharing this information with the BHP board and our fellow shareholders is to facilitate BHP in finding the best path forward to address its underperformance and unlock optimal shareholder value from its first-class portfolio of assets.

These are the four key takeaways from our interactions with a significant quorum of other shareholders representing BHP shares worth tens of billions of US\$:

- (i) There is extremely broad and deep-rooted support for pro-active steps to be taken by management to achieve an optimal value outcome for BHP’s petroleum business following a formal open review;
- (ii) Management’s response to the Elliott proposals was inadequate – chronic underperformance at BHP means that current management owes shareholders a proper in-depth review and action to optimize shareholder value, rather than running a negative campaign without making its own positive and constructive proposals;
- (iii) Shareholders want a renewed focus on capital returns, optimally achieved via buybacks - to instill greater management discipline and avoid further value-destructive acquisitions and projects, whilst retaining an appropriately strong balance sheet; and
- (iv) Given the clear benefits of unifying the existing legacy dual-listed company (DLC) structure, management should look more constructively at all options to deliver unification.

We and no doubt many other shareholders would like to see these issues properly addressed in a positive way which benefits all shareholders.

### **Shareholders want an optimal value outcome for BHP's petroleum business**

Our shareholder conversations have revealed extremely broad and deep-rooted support for proactive steps to be taken by management to achieve an optimal value outcome for BHP's petroleum business, following an in-depth, open and timely independent strategic review of that business, with full disclosure of the review results.

We recognize that there are a number of obvious possible solutions to unlock the latent value of BHP's petroleum business, including a sale or demerger of the US petroleum business and a sale or ASX listing for the Australian and other remaining petroleum assets. Our preferred approach is a full or partial demerger of the petroleum business, but in any event the logical next step to unlock optimal value from that business is the strategic review which shareholders have every right to expect.

### **Shareholders are concerned over management's response to the Elliott Value Unlock Plan**

We and other shareholders are concerned that despite the clear signs that the market is receptive to a new strategy for BHP, current management seems intent on quieting the enthusiasm for BHP to dig deeper in tackling the obvious shareholder value enhancement opportunities which exist.

These concerns over management's response on key shareholder value issues are very understandable when set in the context of BHP's chronic underperformance, which has included some of the worst value-destructive moves ever seen in BHP's peer group, including:

- c.US\$23bn destroyed through the ill-fated foray into the US onshore petroleum sector;
- c.US\$8bn spent on petroleum exploration activities with no apparent value created; and
- c.US\$9bn destroyed in share buybacks made at inflated market prices

The scale of chronic underperformance at BHP is obvious on a number of measures. As just one example, BHP's total shareholder returns from November 2008 to date have been 128% lower than Rio Tinto, its nearest peer.

Unsurprisingly, we have seen a significant groundswell of dissatisfaction among shareholders, which is rooted in BHP's chronic underperformance, the fear of further large-scale value destruction, and an as-yet unmet need for constructive proposals from management on unlocking the true value of BHP's first-class portfolio of assets. As part of this, shareholders well understand that BHP is expected to generate significant excess free cashflow in the near future and that a renewed focus on capital returns is appropriate at this point, rather than further value-destructive acquisitions or projects.

Bearing in mind the scale of underperformance at BHP, it is rather incredible that just two days after our first letter, on April 12, 2017, BHP released a detailed response to the Elliott plan, in

which it was quick to criticize, whilst failing to offer any new ideas to address BHP's chronic underperformance and obsolete corporate structure.

That wholly unconvincing attempted rebuttal missed the point – and we were struck that the constructive dialogue that we had witnessed in earlier engagements with management had been replaced by negativity and an apparent commitment to the status quo. We address in more detail certain specific issues with the BHP response arguments, in the presentation which we are publishing today – including management's wholly incorrect claims:

- of c.US\$1.1bn of phantom dual-listed company (DLC) unification costs for BHP – being the difference between what we analyze to be the real costs of unification, at c.US\$200m, compared to management's exaggerated figure of c.US\$1.3bn;
- that our conservative and illustrative post-unification BHP share price level would be a loss of value for Limited's shareholders – a criticism that ignores market precedent and the significant value unlock potential of our proposals; and
- that our capital returns proposals for BHP would be “mechanistic” – which is absolutely not the case. The truth is that our approach is designed to provide a key yardstick against which to measure all other potential uses of BHP's significant levels of surplus capital, to ensure disciplined and optimal capital allocation in the future, whilst also safeguarding a conservative balance sheet position

We were not alone in our disappointment with management's overly swift and flawed response. Shareholders and others shared our concerns that management had set a tone of retrenchment over serious engagement, rejecting rather than working constructively to address underperformance at BHP, and observing that there has been an unhelpful attempt to politicize and inflame a commercial debate.

### **Constructive solutions to unifying BHP's legacy DLC structure would show management's real commitment to value-driven simplification**

Our proposal to unify BHP's DLC structure into a single listco<sup>1</sup> - still fully Australian-headquartered and fully Australian tax resident - continues to generate healthy debate. We understood from the start that unification requires BHP to cut through certain complexity – and that Australians in particular feel passionate about BHP remaining rooted in Australia. But we also understood the clear benefits to shareholders of tackling that complexity and solving this stubborn legacy DLC structural issue.

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<sup>1</sup> The listco would, as we have always said, retain the current full listings on both ASX and the LSE.

It is obvious to us that shareholders value the clear benefits of unifying BHP's legacy DLC:

- the enhancement of BHP's market value by c.US\$5bn as a result of the share price of unified BHP being in line with or better than Limited's share price (consistent with precedent unifications);
- the ability to monetize franking credits more quickly and more efficiently via off-market buybacks. All shareholders can benefit from the incremental accretion and share demand resulting from more franking credits being released; and
- making acquisitions in return for newly issued BHP shares finally being possible – regardless of management's bogus claims that BHP currently has "two acquisition currencies", when in fact no acquisitions using BHP shares as consideration have ever occurred during the DLC period, despite there being deals where paying in shares rather than in cash would have been vastly preferable

Again, while a number of shareholders had questions about our unification proposal, what was very clear was that the vast majority agreed that the current DLC structure is obsolete, hinders the ability of BHP to reach its full potential, and creates a long-term trading mismatch between Limited and PLC shares.

We have listened carefully to all the feedback on DLC unification, including the regulatory sensitivities around the place of incorporation of a unified BHP, in relation to which we are confident that there is a solution to this point by way of the unified BHP listco being Australian-incorporated. That unified listco would remain fully Australian-headquartered and fully Australian tax resident, with a full ASX listing and a full LSE listing, per our original proposals – and all the benefits of unification as well as existing stock index inclusions can remain unaffected<sup>2</sup>.

We therefore call on BHP's management to work harder and more constructively to find a solution to the unification of BHP's legacy DLC structure, rather than running a misconceived and negative campaign against dealing with this important value-driven simplification issue.

### **BHP's current management owes shareholders a thorough review and "Bigger Thinking"**

Elliott's value-unlock proposals published on April 10, 2017 were designed to address BHP's continued underperformance and obsolete corporate structure. We made our plan public to share our thinking with all BHP shareholders, to offer a path forward, and to urge management to fully and constructively engage on the issues.

We note this week's launch of BHP's "Think Big" rebranding theme, as well as management's re-affirmed desire to gain the support and trust of its communities and stakeholders as one of the goals of the rebranding efforts. In that context, we and other shareholders look forward to an end to BHP management's negative campaign on all the shareholder value related issues raised by Elliott – to be replaced with a constructive and transparent approach to address the chronic under performance shareholders are suffering.

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<sup>2</sup> In the case of the nationality requirements for the UK FTSE indices, there are clear FTSE 100 examples of non-UK incorporated listcos with merged international businesses retaining UK FTSE index eligibility.

We believe that our proposals can unlock significant value for shareholders. We are also pragmatic and understand that debate often generates new and better ideas. We have listened to the feedback from shareholders. BHP's current management should do the same. Only then may current management gain the trust of BHP's owners.

We and other BHP shareholders therefore await positive and constructive proposals from management, with appropriate oversight from the BHP board, to put BHP on the right path to reversing the company's significant underperformance, fixing the obsolete group structure, and unlocking significant value for shareholders - capitalizing on the opportunity offered by the existing debate on the Value Unlock Plan.

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

Yours faithfully,

**Elliott Advisors (HK) Limited**

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