February 5, 2018

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LETTER TO KEN MACKENZIE, CHAIRMAN OF THE BOARD OF 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 enclosed FTI report and in the other important related materials publicly available at www.fixingBHP.com

Dear Chairman MacKenzie:

We are writing to you on behalf of Elliott Associates, L.P. and Elliott International, L.P. (together, the **"Elliott Funds"**) on the pressing and vital topic of unifying BHP's dual-listed company (DLC) structure.

Since your appointment as Chairman, there has been a welcome increase in focus on shareholder value at BHP. The company has made encouraging progress in areas such as governance, portfolio review, capital allocation, and transparency. We commend you and the Board for these improvements.

<u>The purpose of today's letter is to highlight the next, necessary step at BHP, which is for the Board to commit to resolving, without further delay, the issue of BHP's obsolete and value-destroying DLC structure.</u>

Elliott has consistently urged BHP to conduct an independent review to provide shareholders with hard facts on the benefits and costs of unification. To move the issue forward - and in response to the demands of numerous BHP shareholders around the world for these issues to be properly examined - Elliott commissioned **FTI Consulting**, one of the world's leading independent global business advisory firms, to conduct an independent analysis of unification. A copy of the resulting report (the "**Independent Report**") is enclosed with this letter.

FTI Consulting's independent analysis found that unification would:

- ***Deliver <u>in excess of US$22 billion</u> in value to BHP shareholders***
- ***Cost only <u>c. US$391 million (including advisory fees)</u>, while preserving BHP's ability to use PLC's carry-forward tax loss assets following unification***
- ***Provide BHP with valuable strategic optionality and flexibility***

Each of these benefits is summarized in greater detail below, and we are confident that BHP's own independent review would confirm them. <u>But in order to prevent any further value destruction resulting from the current inefficient structure, it is imperative that BHP properly address and move ahead with unification without delay.</u>

BHP's income and cash position is continuing to strengthen through the positive commodities and business cycle and the potential all-cash disposal of BHP's U.S. Onshore assets. Under these circumstances, and as the Independent Report clearly demonstrates, BHP's corporate structure will greatly impact the amount of value delivered to shareholders through dividends and share buybacks utilizing BHP's excess cash.

Accordingly, given the significantly enhanced value uplift from undertaking capital returns within a unified structure, it is vital to properly address unification so as to provide optimal value to shareholders, including by way of the return of any cash proceeds from the disposal of the U.S. Onshore assets. To undertake a large capital-return program without fully reviewing the benefits of unification risks imposing a sub-optimal value outcome for BHP's owners from those dividends and buybacks.

Unification would deliver in excess of US$22 billion in value to BHP shareholders

It is beyond serious doubt that unifying BHP's current, inefficient DLC structure would create significant value for shareholders. The debate has always concerned how much value would be created. FTI Consulting has undertaken an independent evaluation which measures the magnitude of the value release opportunity: **in excess of US$22 billion, or equal to 18% of BHP's current market capitalization**.

The Independent Report found that **US$14.1 billion** of this value would derive from a substantial increase in BHP's market value reflecting the enhanced strategic, financial, organizational and structural enhancements enjoyed by a unified BHP.

The report also confirmed that the current DLC structure has restricted the optimal release of value from franking credits via dividends and off-market buybacks. According to FTI, resolving this inefficiency would also deliver **US$8.7 billion** in incremental value from unification owing to enhanced capital return benefits by way of the optimal release of franking credits *over and above* undertaking the expected capital returns via the existing DLC structure.

Unification would cost only c. US$391 million (including advisory fees) and allow PLC's carry-forward tax loss assets to be preserved

The cost of unification has been the other subject of debate, with BHP executives having made claims in the past that the costs would include losing the benefit of meaningful tax-loss assets from PLC.

On this question, the Independent Report brings unambiguous good news: the report finds that unification can be structured to preserve BHP's ability to use these tax loss assets post-unification. This independent expert finding should help to dispel the persistent market confusion on that tax point to date.

Given the preservability of these tax losses, the Independent Report finds that unification would cost only c. US$391 million, including advisory fees. That cost clearly pales in comparison to the benefits identified by the report.

Unification would provide BHP with valuable additional strategic flexibility

Despite management's claims that the current twin company structure provides two acquisition currencies, the evidence shows that BHP as a DLC has only ever paid 100% cash for acquisitions, while its industry peers have on average used 60% cash/40% stock for acquisitions. This issue is common among DLCs – the analysis of the full universe of DLC acquisitions analyzed since 1995 shows 0.5% of transactions funded with equity, whereas non-DLC peers used stock for 37.5% of deals.

A unified BHP would finally have the flexibility to optimize shareholder value when making acquisitions, with the capacity to avoid a material portion of the value destruction which has been associated with some of BHP's cash-only acquisitions. A prime case in point is the Petrohawk and Fayetteville acquisitions, where total cash acquisition costs were **US$16.9 billion**. Even with those disastrous investments, BHP could have avoided **US$2.5 billion** of unnecessary value destruction if it had paid for those assets with a mix of BHP shares and cash in line with its industry peers' average.

We also view unification as an important gateway for BHP to make the most of other value-oriented initiatives. For example, future demergers would be made simpler under a unified group structure, whether the business to be demerged comprises existing held-for-sale assets like U.S. shale, or other potential demerger candidates, such as conventional petroleum.

Next steps

BHP has recently taken a number of important steps that we view positively, including:

- **Governance** – the election of you as Chairman, with your track record of delivering shareholder value, combined with the appointment of two other new directors and a commitment to ongoing further board refreshment;

- **Portfolio review** – the announcement of commitments to exit the U.S. Onshore assets and to delay further expansion of the Jansen potash project;

- **Capital Allocation** – an increased focus on more rigorous capital allocation through a clearer and more formal framework, including the establishment of a working group comprising representatives of both management and the board;

- **Transparency** – a greater commitment to listen to shareholders and to provide the market with thorough analysis of important issues, such as BHP's membership of, and engagement with, industry bodies in relation to climate and energy policy.

While these are encouraging steps, more significant opportunities remain for BHP to maximize value and returns for its shareholders, with unification topping the list. It is not enough to point to the "*preliminary analysis*" or "*preliminary internal estimate[s]*" that BHP presented on certain aspects of unification in April 2017. That exercise was woefully inadequate to the task of assuring shareholders that the costs and benefits of this value-maximizing pathway have been comprehensively and independently explored by the company.

Given the clear value opportunity, and in order to ensure that no further value is destroyed by the inefficiencies of the current structure, it is our strongly-held view that <u>the Board should publicly commit – by the date of announcement of the company's half-year results on February 20th – to undertake an immediate, independent and transparent review of unification at BHP.</u>

Elliott's decision to commission FTI Consulting's Independent Report grew from our long-held conviction, backed by our own extensive analysis, that unification has the ability to unlock significant value for BHP's shareholders. Our conversations with dozens of BHP shareholders around the world underscored that conviction. Now that we have the report's independent analysis and findings, which very clearly demonstrate the extent of the positive value case for unification, it is time for clear and tangible action to be taken.

We appreciate your and the Board's full and timely consideration of the Independent Report. We would welcome engaging directly with you on matters pertaining to its findings, and look forward to the announcement of your own review.

Sincerely,

Elliott Advisors (HK) Limited