

**BHP Billiton Finance Limited**

ABN 82 008 519 319

**General Purpose Financial Report  
for the year ended 30 June 2019**

**BHP Billiton Finance Limited**  
**General Purpose Financial Report**  
**30 June 2019**

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## **Directors' report**

The directors present their report on BHP Billiton Finance Limited (the Company) for the year ended 30 June 2019 and the auditor's report thereon.

### **Directors**

The following persons were directors of the Company at any time during or since the end of the financial year until the date of this report:

Graham Clifford Tiver  
Roderick John Douglas Mainland  
Vandita Pant (Resigned on 30 June 2019)  
Carolyn Louise Pedic (Resigned on 28 February 2019)  
Bradford Paul Aldred Smith (Appointed on 1 July 2019)  
James Joseph Sharp (Appointed on 1 July 2019)

### **Company Secretary**

Angeli Gayfer

### **Principal activities**

During the year the principal activities of the Company were to issue non-USD denominated bonds including Euro and Sterling Bonds, as well as provide finance to related corporations. There have been no significant changes in the nature of the activities of the Company.

BHP Billiton Finance Limited is a Company limited by shares, the registered office is located at:

Level 15  
171 Collins Street  
Melbourne VIC 3000  
Australia

BHP Billiton Finance Limited is a wholly owned subsidiary of BHP Group Limited. BHP Group Plc and its subsidiaries and BHP Group Limited (the ultimate parent entity of the Company) and its subsidiaries operate together as a single economic entity and are referred to hereafter as the Group.

### **Dividends**

No dividends were paid, declared or recommended during the financial year ended 30 June 2019 (2018: US\$nil).

As at the date of this report and since year end, the directors have not declared, determined or publicly recommended the payment of any dividends.

### **Review of operations**

The net loss after tax for the financial year ended 30 June 2019 is US\$161,587 thousand (2018: net profit of US\$62,174 thousand).

The increase in net loss by US\$223,761 thousand is due to higher net finance costs partially offset by higher operating income during the year. The Company incurred a higher net finance cost on higher interest expense incurred on loans from related parties, partially offset by an increase in operating income due to execution of the synthetic deposit strategy.

The Company repaid US\$1,427,500 thousand of long term debt upon maturity of the Euro Medium Term Note (EMTN) 1250M bond during the year.

**Directors' report (continued)**

**Significant changes in the state of affairs**

There were no significant changes in the state of affairs of the Company during the year ended 30 June 2019.

**Matters subsequent to the end of the financial year and likely developments**

There have been no significant events affecting the Company since the end of the financial year.

**Insurance of officers**

During the financial year the Company has insured against amounts that it may be liable to pay directors, secretaries or certain employees if applicable.

The insurance policy insures directors, secretaries and employees of the Company (if applicable) against certain liabilities (including legal costs) they may incur in carrying out their duties for the Company.

The premium is borne by the ultimate parent entity, BHP Group Limited, and is not allocated directly to the Company.

**Directors' remuneration**

The directors of the Company do not receive compensation in direct exchange for services rendered to the Company.

Each person who held the office of director at the date the directors resolved to approve this directors' report makes the following statement:

- So far as the director is aware, there is no relevant audit information of which the external auditors are unaware;
- The director has taken all steps that he or she ought to have taken as a director to make him or herself aware of any relevant audit information and to establish that the external auditors are aware of that information.

**Rounding of amounts**

The Company is a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and in accordance with that Instrument, amounts in the financial statements and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

**Auditor's independence declaration**

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 6 and forms part of the directors' report for the year ended 30 June 2019.

**Going concern**

The financial statements have been prepared on the going concern basis. The Company has net current liabilities of US\$367,264 thousand (2018: net current liabilities US\$3,091,901 thousand) and net assets of US\$380,944 thousand (2018: US\$579,274 thousand) at 30 June 2019. The directors believe that the going concern basis is appropriate, given the Company expect further funding as necessary to be available from the ultimate parent entity. Although the Company is in a net current liability position, the ultimate parent entity has committed to provide financial support to the Company to meet its liabilities as they fall due. Subsequent to 30 June 2019, the ultimate parent entity provided a letter of comfort for the next twelve months outlining the above.

This report is made in accordance with a resolution of directors pursuant to section 298 (2) of the Corporations Act 2001.

A handwritten signature in black ink, appearing to read 'James Joseph Sharp', written over a horizontal line.

James Joseph Sharp  
Director

Dated at Melbourne this 23<sup>rd</sup> day of October 2019



## Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of BHP Billiton Finance Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of BHP Billiton Finance Limited for the financial year ended 30 June 2019 there have been:

- i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- ii. no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Maritza Araneda

*Partner*

Melbourne

23 October 2019

**BHP Billiton Finance Limited**  
**Income Statement**  
**For the year ended 30 June 2019**

|                                                          | Note | <b>2019</b><br><b>US\$'000</b> | <b>2018</b><br><b>US\$'000</b> |
|----------------------------------------------------------|------|--------------------------------|--------------------------------|
| Guarantee fees income                                    | 16   | <b>7,866</b>                   | 8,869                          |
| Operating income / (expense) excluding net finance costs | 2    | <b>93,740</b>                  | (10,444)                       |
| <b>Profit / (Loss) from operations</b>                   |      | <b>101,606</b>                 | (1,575)                        |
| Finance income                                           | 3    | <b>1,416,463</b>               | 1,372,931                      |
| Finance costs                                            | 3    | <b>(1,745,685)</b>             | (1,412,942)                    |
| Net finance costs                                        |      | <b>(329,222)</b>               | (40,011)                       |
| <b>Loss before income tax</b>                            |      | <b>(227,616)</b>               | (41,586)                       |
| Income tax benefit                                       | 4    | <b>66,029</b>                  | 103,760                        |
| <b>(Loss) / Profit after income tax</b>                  |      | <b>(161,587)</b>               | 62,174                         |

*The accompanying notes form part of these financial statements*

**BHP Billiton Finance Limited**  
**Statement of Other Comprehensive Income**  
**For the year ended 30 June 2019**

|                                                                |    | <b>2019</b><br><b>US\$'000</b> | <b>2018</b><br><b>US\$'000</b> |
|----------------------------------------------------------------|----|--------------------------------|--------------------------------|
| <b>(Loss) / Profit after income tax</b>                        |    | <b>(161,587)</b>               | <b>62,174</b>                  |
| <b>Other comprehensive income</b>                              |    |                                |                                |
| Items that may be reclassified subsequently to profit or loss: |    |                                |                                |
| Cash flow hedges:                                              |    |                                |                                |
| (Losses) / Gains taken to equity                               | 14 | <b>(318,120)</b>               | 64,494                         |
| Gains / (Losses) transferred to the income statement           | 14 | <b>298,898</b>                 | (215,445)                      |
| Deferred tax relating to cash flow hedges                      | 14 | <b>5,767</b>                   | 45,285                         |
| Total other comprehensive loss, net of tax                     |    | <b>(13,455)</b>                | <b>(105,666)</b>               |
| <b>Total comprehensive loss for the year</b>                   |    | <b>(175,042)</b>               | <b>(43,492)</b>                |
| Attributable to member of BHP Billiton Finance Limited         |    | <b>(175,042)</b>               | <b>(43,492)</b>                |

*The accompanying notes form part of these financial statements*



**BHP Billiton Finance Limited**  
**Balance Sheet**  
**As at 30 June 2019**

|                                | Note | 2019<br>US\$'000         | 2018<br>US\$'000         |
|--------------------------------|------|--------------------------|--------------------------|
| <b>ASSETS</b>                  |      |                          |                          |
| <b>Current assets</b>          |      |                          |                          |
| Cash and cash equivalents      | 15   | 6,240,088                | 10,099,341               |
| Receivables                    | 6    | 321,566                  | 195,354                  |
| Other financial assets         | 7    | 16,010,288               | 14,120,070               |
| Total current assets           |      | <u>22,571,942</u>        | <u>24,414,765</u>        |
| <b>Non-current assets</b>      |      |                          |                          |
| Other financial assets         | 7    | 22,084,067               | 25,635,362               |
| Total non-current assets       |      | <u>22,084,067</u>        | <u>25,635,362</u>        |
| <b>Total assets</b>            |      | <u><b>44,656,009</b></u> | <u><b>50,050,127</b></u> |
| <b>LIABILITIES</b>             |      |                          |                          |
| <b>Current liabilities</b>     |      |                          |                          |
| Payables                       | 8    | 299,937                  | 332,819                  |
| Interest bearing liabilities   | 9    | 22,561,116               | 27,055,665               |
| Other financial liabilities    | 10   | 78,153                   | 118,182                  |
| Total current liabilities      |      | <u>22,939,206</u>        | <u>27,506,666</u>        |
| <b>Non-current liabilities</b> |      |                          |                          |
| Interest bearing liabilities   | 9    | 20,430,188               | 21,327,350               |
| Other financial liabilities    | 10   | 853,183                  | 590,437                  |
| Deferred tax liabilities       | 4    | 52,488                   | 46,400                   |
| Total non-current liabilities  |      | <u>21,335,859</u>        | <u>21,964,187</u>        |
| <b>Total liabilities</b>       |      | <u><b>44,275,065</b></u> | <u><b>49,470,853</b></u> |
| <b>NET ASSETS</b>              |      | <u><b>380,944</b></u>    | <u><b>579,274</b></u>    |
| <b>EQUITY</b>                  |      |                          |                          |
| Share capital                  | 11   | 783,370                  | 783,370                  |
| Reserves                       | 12   | 39,491                   | 52,946                   |
| Accumulated losses             | 13   | (441,917)                | (257,042)                |
| <b>Total equity</b>            |      | <u><b>380,944</b></u>    | <u><b>579,274</b></u>    |

*The accompanying notes form part of these financial statements*

**BHP Billiton Finance Limited**  
**Cash Flow Statement**  
**For the year ended 30 June 2019**

|                                                                               | <u>2019</u><br><u>US\$'000</u> | <u>2018</u><br><u>US\$'000</u> |
|-------------------------------------------------------------------------------|--------------------------------|--------------------------------|
| <b>Operating activities</b>                                                   |                                |                                |
| Loss before income tax                                                        |                                |                                |
| Profit / (Loss) from operations                                               | 101,606                        | (1,575)                        |
| Finance income                                                                | 1,416,463                      | 1,372,931                      |
| Finance costs                                                                 | <u>(1,745,685)</u>             | <u>(1,412,942)</u>             |
|                                                                               | (227,616)                      | (41,586)                       |
| <i>Adjustments for:</i>                                                       |                                |                                |
| Interest received / receivable                                                | (1,416,463)                    | (1,372,931)                    |
| Interest paid / payable                                                       | 1,733,602                      | 1,412,942                      |
| Net foreign exchange differences on cash                                      | (30,847)                       | 2,228                          |
| Net foreign exchange differences on receivables from related parties          | (1,495)                        | (1,488)                        |
| Net foreign exchange differences on derivatives                               | 354,539                        | (200,428)                      |
| Net foreign exchange differences on debt                                      | (310,961)                      | 245,374                        |
| Interest income from bank balances and deposits                               | (93,994)                       | -                              |
| Expected credit loss                                                          | (1,664)                        | -                              |
| Change in assets and liabilities:                                             |                                |                                |
| Net other financial assets and liabilities                                    | <u>(98,141)</u>                | <u>81,917</u>                  |
| Cash generated from operations                                                | (93,040)                       | 126,028                        |
| Interest received                                                             | 1,498,414                      | 1,323,873                      |
| Interest paid                                                                 | (1,766,484)                    | (1,430,168)                    |
| Income taxes paid                                                             | <u>(34,816)</u>                | <u>(6,282)</u>                 |
| <b>Net operating cash flows</b>                                               | (395,926)                      | 13,451                         |
| <b>Financing activities</b>                                                   |                                |                                |
| Loans to related parties                                                      | (4,731,983)                    | (910,542)                      |
| Repayments of loans from related parties                                      | 7,700,869                      | 5,708,941                      |
| Repayments of borrowings to related parties                                   | (19,647,377)                   | (6,148,810)                    |
| Proceeds of borrowings from related parties                                   | 14,771,805                     | 4,874,440                      |
| Repayments of borrowings to third parties                                     | (1,427,500)                    | (2,736,004)                    |
| Settlement of derivatives and cash management related instruments             | <u>(159,988)</u>               | <u>(318,100)</u>               |
| <b>Net financing cash flows</b>                                               | (3,494,174)                    | 469,925                        |
| <b>Net (decrease) / increase in cash and cash equivalents</b>                 | (3,890,100)                    | 483,376                        |
| Cash and cash equivalents at the beginning of the financial year              | 10,099,341                     | 9,618,193                      |
| Effect of foreign currency exchange rate changes on cash and cash equivalents | <u>30,847</u>                  | <u>(2,228)</u>                 |
| <b>Cash and cash equivalents at end of year</b>                               | <u>6,240,088</u>               | <u>10,099,341</u>              |

*The accompanying notes form part of these financial statements*

**BHP Billiton Finance Limited**  
**Statement of Changes in Equity**  
**For the year ended 30 June 2019**

|                                       | Share capital<br>US\$'000 | Capital<br>redemption<br>reserve<br>US\$'000 | Hedging<br>reserve<br>US\$'000 | Accumulated<br>losses<br>US\$'000 | Total<br>US\$'000 |
|---------------------------------------|---------------------------|----------------------------------------------|--------------------------------|-----------------------------------|-------------------|
| <b>Balance at 1 July 2018</b>         | 783,370                   | 505                                          | 52,441                         | (257,042)                         | 579,274           |
| Impact of adopting IFRS 9/ AASB 9     | -                         | -                                            | -                              | (23,288)                          | (23,288)          |
| <b>Balance at 1 July 2018</b>         | <u>783,370</u>            | <u>505</u>                                   | <u>52,441</u>                  | <u>(280,330)</u>                  | <u>555,986</u>    |
| Total comprehensive loss for the year | -                         | -                                            | (13,455)                       | (161,587)                         | (175,042)         |
| <b>Balance at 30 June 2019</b>        | <u>783,370</u>            | <u>505</u>                                   | <u>38,986</u>                  | <u>(441,917)</u>                  | <u>380,944</u>    |

|                                       | Share capital<br>US\$'000 | Capital<br>redemption<br>reserve<br>US\$'000 | Hedging<br>reserve<br>US\$'000 | Accumulated<br>losses<br>US\$'000 | Total<br>US\$'000 |
|---------------------------------------|---------------------------|----------------------------------------------|--------------------------------|-----------------------------------|-------------------|
| Balance at 1 July 2017                | 783,370                   | 505                                          | 158,107                        | (319,216)                         | 622,766           |
| Total comprehensive loss for the year | -                         | -                                            | (105,666)                      | 62,174                            | (43,492)          |
| Balance at 30 June 2018               | <u>783,370</u>            | <u>505</u>                                   | <u>52,441</u>                  | <u>(257,042)</u>                  | <u>579,274</u>    |

*The accompanying notes form part of these financial statements*

## **1 Accounting policies**

The principal accounting policies adopted in the preparation of this general purpose financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

BHP Billiton Finance Limited (hereafter referred to as the Company) is a wholly owned subsidiary of BHP Group Limited. BHP Group Limited and its subsidiaries and BHP Group Plc and its subsidiaries operate together as a single economic entity and are referred to hereafter as the Group. The nature of the operations and principal activities of the Company are described in the Directors' report.

### **Basis of preparation**

This general purpose, for-profit financial report for the year ended 30 June 2019 has been prepared on a going concern basis and in accordance with the requirements of the Australian Corporations Act 2001 and with Australian Accounting Standards, being Australian equivalents to International Financial Reporting Standards (IFRS) and interpretations as issued by the Australian Accounting Standards Board (AASB) effective for the year ended 30 June 2019.

### **IFRS 9/AASB 9 Financial Instruments**

This standard replaces IAS 39/AASB 139 'Financial Instruments: Recognition and measurement (IAS 39). It revises the classification and measurement of financial assets and financial liabilities, introduces a forward looking 'expected credit loss' impairment model and modifies the approach to hedge accounting. Adoption impacts include:

- At 1 July 2018, the Company reassessed the classification and measurement of financial assets and liabilities based on the business model by which they are managed and their cash flow characteristics.  
Financial assets previously classified as cash and cash equivalents as well as trade and other receivables of US\$49,615,447 thousand were recategorised as amortised cost.
- Financial assets carried at amortised cost are tested for impairment based on expected losses, whereas the previous policy required that impairments were recognised only when there was objective evidence that a credit loss was present. Upon adoption of IFRS 9/AASB 9, an expected credit loss provision of US\$23,288 thousand against intercompany receivables was recognised in retained earnings.
- From 1 July 2018, the Company has applied the amended rules on hedge accounting which enable closer alignment between the Group's risk management strategy and the accounting outcomes. IFRS 9/AASB 9 broadens the scope of arrangements that may qualify for hedge accounting and allows for simplification of hedge designations. Other changes under the standard mean that hedge effectiveness is only considered on a prospective basis with no set quantitative thresholds and voluntary de-designation of hedges is prohibited.

Certain of the Company's existing derivatives hedging foreign currency notes and debentures, were in qualifying fair value and cash flow hedge relationships and have been treated as continuing hedges. The opportunity to apply simplified hedge designations under IFRS 9/AASB 9 will continue to be assessed for future hedge relationships. Risks present in the derivative only, such as counterparty credit risk, are not part of the hedge designation and will continue to be recognised through the income statement.

## **1 Accounting policies (continued)**

Foreign currency basis has been separately measured as a cost of hedging and movements continue to be recognised in reserves, with US\$175,681 thousand being reclassified into the cost of hedging reserve on transition. The hedging reserves at transition will continue to be transferred to the income statement over the life of the underlying notes and debentures.

The table below summarises the change in classification and measurement of financial assets and liabilities upon adoption of IFRS 9/AASB 9 on 1 July 2018.

|                              | Measurement category under<br>IAS 39/AASB 139 | Measurement category under<br>IFRS 9/AASB 9 |
|------------------------------|-----------------------------------------------|---------------------------------------------|
| <b>Financial assets</b>      |                                               |                                             |
| Derivative contracts         | FVTPL                                         | FVTPL                                       |
| Cash and cash equivalents    | Loans and receivables                         | Amortised cost                              |
| Trade and other receivables  | Loans and receivables                         | Amortised cost                              |
| <b>Financial liabilities</b> |                                               |                                             |
| Other financial liabilities  | FVTPL                                         | FVTPL                                       |
| Trade and other payables     | Amortised cost                                | Amortised cost                              |
| Bank overdrafts              | Amortised cost                                | Amortised cost                              |
| Notes and debentures         | Amortised cost                                | Amortised cost                              |

### **Other interpretations issued but not yet effective**

The adoption of other changes to IFRS applicable from 1 July 2019, including IFRIC 23 'Uncertainty over Income Tax Treatments', are not expected to have a significant impact on the Company's financial statements.

A number of other accounting standards and interpretations, along with revisions to the Conceptual Framework for Financial Reporting, have been issued and will be applicable in future periods. While these remain subject to ongoing assessment, no significant impacts have been identified to date. These standards have not been applied in the preparation of these financial statements.

### **Basis of measurement**

The financial statements are drawn up on the basis of historical cost principles, except for derivative financial instruments and certain other financial assets, which are carried at fair value.

### **Rounding of amounts**

The Company is a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and in accordance with that instrument, amounts in the financial statements have been rounded off to the nearest thousand dollars, unless otherwise stated.

## **1 Accounting policies (continued)**

### **Going concern basis**

The financial statements have been prepared on the going concern basis. The Company has net current liabilities of US\$367,264 thousand (2018: net current liabilities US\$3,091,901 thousand) and net assets of US\$380,944 thousand (2018: US\$579,274 thousand) at 30 June 2019. The directors believe that the going concern basis is appropriate, given the Company expect further funding as necessary to be available from the ultimate parent entity. Although the Company is in a net current liability position, the ultimate parent entity has committed to provide financial support to the Company to meet its liabilities as they fall due. Subsequent to 30 June 2019, the ultimate parent entity provided a letter of comfort for the next twelve months outlining the above.

### **Comparatives**

Where applicable, comparatives have been adjusted to measure or present them on the same basis as current period figures.

### **Foreign currencies**

The Company's presentation currency and functional currency is the US dollar as this is assessed to be the principal currency of the economic environments in which it operates.

Transactions denominated in foreign currencies (currencies other than the functional currency) are recorded using the exchange rate ruling at the date of the underlying transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange prevailing at year-end and the gains or losses on retranslation are included in the income statement.

### **Exchange rates**

The following exchange rates relative to the US dollar have been applied in the financial statements:

|                   | <b>Average<br/>year ended<br/>30 June 2019</b> | <b>Average<br/>year ended<br/>30 June 2018</b> | <b>As at<br/>30 June 2019</b> | <b>As at<br/>30 June 2018</b> |
|-------------------|------------------------------------------------|------------------------------------------------|-------------------------------|-------------------------------|
| Australian dollar | <b>0.69</b>                                    | 0.78                                           | <b>0.70</b>                   | 0.74                          |
| Canadian dollar   | <b>1.33</b>                                    | 1.27                                           | <b>1.31</b>                   | 1.31                          |
| Euro              | <b>0.89</b>                                    | 0.84                                           | <b>0.88</b>                   | 0.86                          |
| UK pound sterling | <b>0.79</b>                                    | 0.74                                           | <b>0.79</b>                   | 0.75                          |

### **Financial income and costs**

Financial income comprises, where applicable, interest income on funds invested; and exchange gains on net debt. Interest income is recognised as it accrues in the income statement using the applicable effective interest rate.

Financial costs comprises where applicable interest expense on borrowings, unwinding of the discount on borrowings, net fair value losses on liabilities which are subject to fair value hedge accounting and related hedging derivatives, exchange losses on net debt and expected credit losses recognised on financial assets. Realised fair value changes on non-hedging derivatives used to manage interest rate exposure on debt securities are recognised in interest and finance charges paid/payable. Unrealised fair value changes on non-hedging derivatives used to manage interest rate exposure on debt securities are recognised in fair value changes on derivatives. All borrowing costs are recognised through the income statement using the effective interest rate method for external borrowings and the applicable effective interest rate for other borrowings.

Foreign currency gains and losses are reported on a net basis.

## **1 Accounting policies (continued)**

### **Taxation**

Taxation on the profit or loss for the year comprises current and deferred tax. Taxation is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case the tax is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year using rates enacted or substantively enacted at the year-end, and includes any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for the tax effect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for tax assessment or deduction purposes. Where an asset has no deductible or depreciable amount for income tax purposes, but has a deductible amount on sale or abandonment for capital gains tax purposes, that amount is included in the determination of temporary differences.

The tax effect of certain temporary differences is not recognised, principally with respect to: goodwill; temporary differences arising on the initial recognition of assets or liabilities (other than those arising in a business combination or in a manner that initially impacted accounting or taxable profit); and temporary differences relating to investments in subsidiaries, jointly controlled entities and associates to the extent that the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The amount of deferred tax recognised is based on the expected manner and timing of realisation or settlement of the carrying amount of assets and liabilities, with the exception of items that have a tax base solely derived under capital gains tax legislation, using tax rates enacted or substantively enacted at period end. To the extent that an item's tax base is solely derived from the amount deductible under capital gains tax legislation, deferred tax is determined as if such amounts are deductible in determining future assessable income.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each balance sheet date and amended to the extent that it is no longer probable that the related tax benefit will be realised. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Company has both the right and the intention to settle its current tax assets and liabilities on a net or simultaneous basis.

### **Tax consolidation**

The Company is part of an Australian tax consolidated group, whereby members are taxed as a single entity. The head entity within the tax consolidated group is BHP Group Limited. The entities within the tax consolidated group have entered into a tax sharing agreement and a tax contribution agreement with the head entity.

The accounting for taxes of each entity in the consolidated tax group are determined and recognised as if it continued to be a separately taxable entity in its own right. This method of accounting for taxes requires the calculation of income tax expense as if the entity had not been a member of the tax consolidated group.

## **1 Accounting policies (continued)**

### **Tax consolidation (continued)**

Under the tax contribution agreement the entities in the tax consolidated group agree to pay a tax equivalent amount to the head entity for current income tax payable or to receive a tax equivalent amount from the head entity for current income tax receivable and/or tax losses.

The tax sharing agreement provides the method of allocating tax liabilities should the head entity default on its tax payment obligations.

### *Dividend franking account*

Tax consolidation legislation requires a tax consolidated group to keep a single franking account. Accordingly, upon formation of the tax consolidated group, franking credits were transferred to the ultimate parent entity.

### **Financial instruments**

All financial assets are initially recognised at the fair value of consideration paid. Subsequently, financial assets are carried at fair value or amortised cost less impairment. Where non-derivative financial assets are carried at fair value, gains and losses on remeasurement are recognised directly in equity unless the financial assets have been designated as being held at fair value through profit or loss, in which case the gains and losses are recognised directly in the income statement. Financial assets are designated as being held at fair value through profit or loss where this is necessary to reduce measurement inconsistencies for related assets and liabilities. All financial liabilities other than derivatives are initially recognised at fair value of consideration received net of transaction costs as appropriate (initial cost) and, with the exception of financial liabilities which have been designated in fair value hedging relationships, are subsequently carried at amortised cost.

Derivatives, including those embedded in other contractual arrangements but separated for accounting purposes because they are not clearly and closely related to the host contract, are initially recognised at fair value on the date the contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss on remeasurement depends on whether the derivative is designated as a hedging instrument, and, if so, the nature of the item being hedged. The measurement of fair value is based on quoted market prices. Where no price information is available from a quoted market source, alternative market mechanisms or recent comparable transactions, fair value is estimated based on the Company's views on relevant future prices, net of valuation allowances to accommodate liquidity, modelling credit and other risks implicit in such estimates.

Forward exchange contracts and interest rate swaps held for hedging purposes are accounted for as either cash flow or fair value hedges. Derivatives embedded within other contractual arrangements and the majority of commodity-based transactions executed through derivative contracts do not qualify for hedge accounting.

### *Fair value hedges*

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. Any difference between the change in fair value of the derivative and the hedged risk constitutes ineffectiveness of the hedge and is recognised immediately in the income statement.



## **1 Accounting policies (continued)**

### *Cash flow hedges*

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled to the income statement in the periods when the hedged item affects profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, plant and equipment purchases) or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the measurement of the initial carrying amount of the asset or liability.

When a hedging instrument expires or is sold or terminated, or when a hedge ceases to meet the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a hedged forecast transaction is no longer expected to occur, the cumulative hedge gain or loss that was reported in equity is immediately transferred to the income statement.

### **Application of critical accounting policies and estimates**

The preparation of these 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.

The Company has identified the following critical accounting policies under which significant judgements, estimates and assumptions are made and where actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

### *Recoverability of receivables*

Under IFRS 9/AASB 9, the simplified approach is applied for receivables from related parties, whereby lifetime expected credit losses is recognised on receivables from related parties regardless of any changes in the counterparty credit risk. Further description is contained in Credit risk section in Note 14 Financial risk management.

### *Quantitative and qualitative disclosures about market risk*

The Company's principal market risks are identified in Note 14 Financial risk management. A description of how the Company manage its market risks, including both quantitative and qualitative information about market risk sensitive instruments outstanding at 30 June 2019, is contained in Note 14 Financial risk management.

**BHP Billiton Finance Limited**  
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**2 Operating income / (expense) excluding net finance costs**

|                                                 | 2019<br>US\$'000 | 2018<br>US\$'000 |
|-------------------------------------------------|------------------|------------------|
| Interest income from bank balances and deposits | 93,994           | (2,228)          |
| Management fees                                 | (85)             | (107)            |
| Consultant fees                                 | (1,787)          | (7,190)          |
| Expected credit losses                          | 1,664            | -                |
| All other operating expenses                    | (46)             | (919)            |
|                                                 | <u>93,740</u>    | <u>(10,444)</u>  |

**3 Net finance costs**

|                                                                 | 2019<br>US\$'000   | 2018<br>US\$'000   |
|-----------------------------------------------------------------|--------------------|--------------------|
| <i>Finance income</i>                                           |                    |                    |
| Interest received / receivable from non related parties         | 91,239             | 169,781            |
| Interest received / receivable from related parties             | 1,325,224          | 1,203,150          |
|                                                                 | <u>1,416,463</u>   | <u>1,372,931</u>   |
| <i>Finance costs</i>                                            |                    |                    |
| Interest paid / payable to non-related parties                  | (408,265)          | (471,160)          |
| Interest paid / payable to related parties <sup>(a)</sup>       | (1,323,842)        | (920,752)          |
| Fair value change on hedged loans – (loss)                      | (380,833)          | (1,917)            |
| Fair value change on derivatives – gain / (loss) <sup>(b)</sup> | 374,060            | (28,640)           |
| Net exchange differences on loans and derivatives transactions  | (6,805)            | 9,527              |
|                                                                 | <u>(1,745,685)</u> | <u>(1,412,942)</u> |
|                                                                 | <u>(329,222)</u>   | <u>(40,011)</u>    |

- (a) Interest paid / payable to related parties exclude any realised fair value losses on non-hedging derivatives used to manage interest rate exposure on debt securities. The net realised and unrealised gain on these derivatives is US\$nil (2018: US\$nil), refer to (b).
- (b) Gain on fair value changes of derivatives of US\$374,060 thousand (2018: loss of US\$28,640 thousand) include fair value gain of US\$397,786 thousand on hedging derivatives used to manage interest rate exposure on debt securities (2018: fair value loss of US\$17,013 thousand), and fair value gain on foreign exchange trades amounting to US\$23,727 thousand (2018: loss of US\$11,627 thousand).

**4 Income tax benefit**

|                               | 2019<br>US\$'000 | 2018<br>US\$'000 |
|-------------------------------|------------------|------------------|
| Income tax benefit comprises: |                  |                  |
| - Current tax benefit         | 69,329           | 29,802           |
| - Prior year over provision   | 8,555            | 99,028           |
| Deferred tax expense          | (11,855)         | (25,070)         |
|                               | <u>66,029</u>    | <u>103,760</u>   |

#### 4 Income tax benefit (continued)

The reconciliation of the Company's income tax benefit is as follows: □

|                                                                                           | 2019<br>US\$'000 | 2018<br>US\$'000 |
|-------------------------------------------------------------------------------------------|------------------|------------------|
| <b>Factors affecting income tax benefit for the period</b>                                |                  |                  |
| Income tax expense differs to the standard rate of corporation tax as follows:            |                  |                  |
| Loss before income tax                                                                    | (227,616)        | (41,586)         |
| Tax at the standard Australian tax rate of 30 per cent                                    | 68,285           | 12,476           |
| Tax effect of amounts which are (not deductible) / taxable in calculating taxable income: |                  |                  |
| Foreign exchange losses on income tax receivable                                          | (10,811)         | (7,744)          |
| Prior year over provision                                                                 | 8,555            | 99,028           |
| <b>Income taxation benefit</b>                                                            | <b>66,029</b>    | <b>103,760</b>   |

The movement for the year in the Company's net deferred tax position is as follows:

|                                                              | 2019<br>US\$'000 | 2018<br>US\$'000 |
|--------------------------------------------------------------|------------------|------------------|
| <b>Net deferred tax liability</b>                            |                  |                  |
| At the beginning of the financial year                       | (46,400)         | (66,614)         |
| Income tax credit recorded in the income statement           | (11,855)         | (25,070)         |
| Income tax credit recorded directly in equity <sup>(a)</sup> | 5,767            | 45,284           |
| <b>At the end of the financial year</b>                      | <b>(52,488)</b>  | <b>(46,400)</b>  |

(a) The amounts charged directly to other comprehensive income relate to deferred tax relating to fair value gains/losses on effective cash flow hedges.

The composition of the Company's net deferred tax asset and liability recognised in the balance sheet and the deferred tax expense credited to the income statement is as follows:

|                                                        | Net deferred tax liability |                  | Credited to the income statement |                  |
|--------------------------------------------------------|----------------------------|------------------|----------------------------------|------------------|
|                                                        | 2019<br>US\$'000           | 2018<br>US\$'000 | 2019<br>US\$'000                 | 2018<br>US\$'000 |
| Type of temporary difference                           |                            |                  |                                  |                  |
| Foreign exchange gains                                 | (79,693)                   | (80,479)         | 4,057                            | (9,422)          |
| Fair value adjustment on related party swaps and loans | 27,704                     | 34,079           | (15,413)                         | (15,648)         |
| Provision for doubtful debts                           | (499)                      | -                | (499)                            | -                |
|                                                        | <b>(52,488)</b>            | <b>(46,400)</b>  | <b>(11,855)</b>                  | <b>(25,070)</b>  |

#### 5 Dividends

During the year, no dividends were paid to BHP Group Limited (2018: US\$nil).

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**Notes to Financial Statements**  
**For the year ended 30 June 2019**

**6 Receivables**

|                                                                                              | 2019<br>US\$'000 | 2018<br>US\$'000 |
|----------------------------------------------------------------------------------------------|------------------|------------------|
| <b>Current</b>                                                                               |                  |                  |
| Related party receivable - Income tax receivable by ultimate parent on behalf of the Company | 242,024          | 129,324          |
| Accrued interest due from related parties                                                    | 77,539           | 65,496           |
| Withholding tax receivable                                                                   | 2,003            | 534              |
| <b>Total current receivables</b>                                                             | <b>321,566</b>   | <b>195,354</b>   |

**7 Other financial assets**

|                                                          | 2019<br>US\$'000  | 2018<br>US\$'000  |
|----------------------------------------------------------|-------------------|-------------------|
| <b>Current</b>                                           |                   |                   |
| <b>At fair value</b>                                     |                   |                   |
| Cross currency and interest rate swaps - related parties | 14,513            | 8,121             |
| Forward exchange contracts - related parties             | 49,333            | 16                |
|                                                          | <b>63,846</b>     | <b>8,137</b>      |
| <b>At amortised cost</b>                                 |                   |                   |
| Receivables from related parties - interest bearing      | 15,946,085        | 14,110,808        |
| Capitalised fees                                         | 357               | 1,125             |
|                                                          | <b>15,946,442</b> | <b>14,111,933</b> |
| <b>Total current other financial assets</b>              | <b>16,010,288</b> | <b>14,120,070</b> |
| <b>Non-current</b>                                       |                   |                   |
| Cross currency and interest rate swaps – related parties | 825,273           | 425,418           |
|                                                          | <b>825,273</b>    | <b>425,418</b>    |
| <b>At amortised cost</b>                                 |                   |                   |
| Receivables from related parties - interest bearing      | 21,258,466        | 25,209,944        |
| Capitalised fees                                         | 328               | -                 |
|                                                          | <b>21,258,794</b> | <b>25,209,944</b> |
| <b>Total non-current other financial assets</b>          | <b>22,084,067</b> | <b>25,635,362</b> |

**8 Payables**

|                                                 | 2019<br>US\$'000 | 2018<br>US\$'000 |
|-------------------------------------------------|------------------|------------------|
| <b>Current</b>                                  |                  |                  |
| Payables – accrued interest related parties     | 107,236          | 116,347          |
| Payables – accrued interest non-related parties | 192,701          | 216,472          |
|                                                 | <b>299,937</b>   | <b>332,819</b>   |

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**9 Interest bearing liabilities**

|                                                       | <b>2019</b><br><b>US\$'000</b> | <b>2018</b><br><b>US\$'000</b> |
|-------------------------------------------------------|--------------------------------|--------------------------------|
| <b>Current</b>                                        |                                |                                |
| Notes and debentures                                  | 1,001,774                      | 1,455,721                      |
| Loans from ultimate parent entity                     | 620,561                        | 13,450,920                     |
| Loans from other related parties                      | 20,938,781                     | 12,111,180                     |
| Bank overdraft                                        | -                              | 37,844                         |
| <b>Total current interest bearing liabilities</b>     | <b>22,561,116</b>              | <b>27,055,665</b>              |
| <b>Non-current</b>                                    |                                |                                |
| Notes and debentures                                  | 11,190,339                     | 12,087,501                     |
| Loans from other related parties                      | 9,239,849                      | 9,239,849                      |
| <b>Total non-current interest bearing liabilities</b> | <b>20,430,188</b>              | <b>21,327,350</b>              |

**10 Other financial liabilities**

|                                                          | <b>2019</b><br><b>US\$'000</b> | <b>2018</b><br><b>US\$'000</b> |
|----------------------------------------------------------|--------------------------------|--------------------------------|
| <b>Current</b>                                           |                                |                                |
| <b>At fair value</b>                                     |                                |                                |
| Cross currency and interest rate swaps - related parties | 63,046                         | 117,969                        |
| Forward exchange contracts - related parties             | 15,107                         | 213                            |
| <b>Total current other financial liabilities</b>         | <b>78,153</b>                  | <b>118,182</b>                 |
| <b>Non-current</b>                                       |                                |                                |
| Cross currency and interest rate swaps - related parties | 853,183                        | 590,437                        |
| <b>Total non-current other financial liabilities</b>     | <b>853,183</b>                 | <b>590,437</b>                 |

**11 Share capital**

|                              | <b>2019</b><br><b>Shares</b> | <b>2018</b><br><b>Shares</b> | <b>2019</b><br><b>US\$'000</b> | <b>2018</b><br><b>US\$'000</b> |
|------------------------------|------------------------------|------------------------------|--------------------------------|--------------------------------|
| <b>Share capital</b>         |                              |                              |                                |                                |
| Ordinary shares - fully paid | 1,550,000,002                | 1,550,000,002                | 783,370                        | 783,370                        |

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

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**12 Reserves**

|                                           | Note | 2019<br>US\$'000 | 2018<br>US\$'000 |
|-------------------------------------------|------|------------------|------------------|
| Capital redemption reserve <sup>(1)</sup> |      | 505              | 505              |
| Hedging reserve                           | 14   | 38,986           | 52,441           |
| <b>Total reserves</b>                     |      | <b>39,491</b>    | <b>52,946</b>    |

(1) Capital redemption reserve represents the redemption of share capital from shareholders, in relation to redeemed preference shares.

**13 Accumulated losses**

|                                                                        | 2019<br>US\$'000 | 2018<br>US\$'000 |
|------------------------------------------------------------------------|------------------|------------------|
| Opening balance                                                        | (257,042)        | (319,216)        |
| Impact of adopting IFRS 9/AASB 9                                       | (23,288)         | -                |
| (Loss) / Profit attributable to member of BHP Billiton Finance Limited | (161,587)        | 62,174           |
| Closing balance                                                        | <b>(441,917)</b> | <b>(257,042)</b> |

**14 Financial risk management**

**Financial and capital risk management strategy**

BHP Billiton Finance Limited is a wholly owned subsidiary of the Group and hence the Company's key financial risks are managed as part of the Group's financial risk management strategy.

The financial risks arising from the Company's operations comprise market, liquidity and credit risk. These risks arise in the normal course of business and the Company manages its exposure to them in accordance with the Group's portfolio risk management strategy. The objective of the strategy is to support the delivery of the Group's financial targets, while protecting its future financial security and flexibility by taking advantage of the natural diversification provided by the scale, diversity and flexibility of the Group's operations and activities.

A Cash Flow at Risk (CFaR) framework is used to measure the aggregate and diversified impact of financial risks upon the Group's financial targets. The principal measurement of risk is CFaR measured on a portfolio basis, which is defined as the worst expected loss relative to projected business plan cash flows over a one-year horizon under normal market conditions at a confidence level of 90 per cent.

## 14 Financial risk management (continued)

### Market risk

The Company's activities expose it to market risks associated with movements in interest rates and foreign currencies. Under the strategy outlined above, the Company seeks to achieve financing costs and currency impacts on a floating or index basis. This strategy gives rise to a risk of variability in earnings, which is measured under the CFaR framework.

In executing the strategy, financial instruments are potentially employed in three distinct but related activities. The following table summarises these activities and the key risk management processes:

| Activity                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Key risk management processes                                                                                                                                                                                        |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>1. Risk mitigation</b><br>On an exception basis, hedging for the purposes of mitigating risk related to specific and significant expenditure on investments or capital projects will be executed if necessary to support the Group's strategic objectives.                                                                                                                                                                                                                                                                                                                       | <ul style="list-style-type: none"> <li>• Execution of transactions within approved mandates.</li> </ul>                                                                                                              |
| <b>2. Economic hedging of short-term cash deposits and debt instruments</b><br>Where debt is issued in a currency other than the US dollar and/or at a fixed interest rate, fair value and cash flow hedges may be executed to align the debt exposure with the Group's functional currency of US dollars and/or to swap to a floating interest rate.<br><br>Where short-term cash deposits are held in a currency other than US dollars, derivative financial instruments may be executed to align the foreign exchange exposure to the Group's functional currency of US dollars. | <ul style="list-style-type: none"> <li>• Measuring and reporting the exposure in issued debt instruments.</li> <li>• Executing hedging derivatives to align the total Group exposure to the index target.</li> </ul> |
| <b>3. Strategic financial transactions</b><br>Opportunistic transactions may be executed with financial instruments to capture value from perceived market over/under valuations.                                                                                                                                                                                                                                                                                                                                                                                                   | <ul style="list-style-type: none"> <li>• Execution of transactions within approved mandates.</li> </ul>                                                                                                              |

Primary responsibility for the identification and control of financial risks, including authorising and monitoring the use of financial instruments for the above activities and stipulating policy thereon, rests with the Group Financial Risk Management Committee under authority delegated by the Chief Executive Officer.

### Interest rate risk

The Company is exposed to interest rate risk on its outstanding borrowings and short-term cash deposits from the possibility that changes in interest rates will affect future cash flows or the fair value of fixed interest rate financial instruments. Interest rate risk is managed as part of the Group's portfolio risk management strategy.

## **14 Financial risk management (continued)**

### **Interest rate risk (continued)**

The majority of the Company's debt is issued at fixed interest rates. The Company has entered into interest rate swaps and cross currency interest rate swaps to convert most of its fixed interest rate exposure to floating US dollar interest rate exposure. As at 30 June 2019, 93 per cent of the Company's borrowings were exposed to floating interest rates inclusive of the effect of swaps (2018: 94 per cent).

The fair value of interest rate swaps and cross currency interest rate swaps in hedge relationships used to hedge both interest rate and foreign currency risks are shown in the fair values section of this note.

Based on the net debt position as at 30 June 2019, taking into account interest rate swaps and cross currency interest rate swaps, it is estimated that a one percentage point increase in the US LIBOR interest rate will decrease the Company's equity and profit after taxation by US\$32,694 thousand (2018: decrease of US\$33,255 thousand). This assumes the change in interest rates is effective from the beginning of the financial year and the fixed/floating mix and balances are constant over the year. However, interest rates and the net debt profile of the Group may not remain constant over the coming financial year and therefore such sensitivity analysis should be used with care.

### **Currency risk**

The US dollar is the predominant functional currency within the Company and as a result, currency exposures arise from transactions and balances in currencies other than the US dollar. The Company's potential currency exposures comprise:

- translational exposure in respect of non-functional currency monetary items;
- transactional exposure in respect of non-functional currency expenditure and revenues.

The Company's foreign currency risk is managed as part of the Group's portfolio risk management strategy.

### **Translational exposure in respect of non-functional currency monetary items**

Monetary items, including financial assets and liabilities, denominated in currencies other than the functional currency of an operation are periodically restated to US dollar equivalents and the associated gain or loss is taken to the income statement.

The Company has entered into cross currency interest rate swaps and foreign exchange forwards to convert its significant foreign currency exposures in respect of monetary items into US dollars. Changes in foreign exchange rates will therefore have an insignificant impact on equity and profit after tax.

The principal non-functional currency to which the Company is exposed are the Australian dollar. Based on the Company's net financial assets and liabilities as at 30 June 2019, a weakening of the US dollar against the Australian dollar (one cent strengthening in Australian dollar), with all other variables held constant, would decrease the Company's equity and profit after taxation by US\$6,476 thousand (2018: decrease of US\$693 thousand).



## **14 Financial risk management (continued)**

### **Credit risk**

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument, leading to a financial loss. The Company is exposed to credit risk from its financing activities, including deposits with banks and financial institutions, other short-term investments and interest rate and currency derivative contracts and other financial instruments.

### **Recognition and measurement (Following the adoption of IFRS 9/AASB 9)**

All financial assets and liabilities, other than derivatives, are initially recognised at the fair value of consideration paid or received, net of transaction costs as appropriate.

Financial assets are subsequently carried at fair value or amortised cost based on:

- the Company's purpose, or business model, for holding the financial asset; and
- whether the financial asset's contractual terms give rise to cash flows that are solely payments of principal and interest.

The resulting financial statement classifications of financial assets can be summarised as follows:

| <b>Contractual cash flows</b> | <b>Business model</b>                                    | <b>Category</b>                               |
|-------------------------------|----------------------------------------------------------|-----------------------------------------------|
| Solely principal and interest | Hold in order to collect contractual cash flows          | Amortised cost                                |
| Solely principal and interest | Hold in order to collect contractual cash flows and sell | Fair value through other comprehensive income |
| Solely principal and interest | Other business model                                     | Fair value through profit or loss             |
| Others                        | Any of those mentioned above                             | Fair value through profit or loss             |

Solely principal and interest refers to the Company receiving returns only for the time value of money and the credit risk of the counterparty for financial assets held. The main exceptions for the Company are provisionally priced receivables and derivatives.

With the exception of derivative contracts, including embedded derivatives separated from the host contracts, the Company's financial liabilities are classified as subsequently measured at amortised cost.

The Company may in addition elect to designate certain financial assets or liabilities at fair value through profit or loss or to apply hedge accounting where they are not mandatorily held at fair value through profit or loss.

Derivatives are initially recognised at fair value on the date the contract is entered into and are subsequently remeasured at their fair value.

## **14 Financial risk management (continued)**

### **Credit risk (continued)**

At the end of the reporting period, the Company has significant concentrations of credit risk for loans and receivables entered into with multiple internal counterparties. Management does not anticipate any credit losses arising from these counterparties as they are part of the Group with high credit-ratings assigned by international credit-rating agencies.

The simplified approach is applied for receivables from related parties, whereby lifetime expected credit losses is recognised on receivables from related parties regardless of any changes in the counterparty credit risk.

Under IFRS 9/AASB 9 the Company will measure expected credit losses using:

- Unbiased and probability weighted outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort.

At 30 June 2019, intercompany receivables are stated net of provisions for expected credit losses of US\$158,804 thousand (2018: US\$137,180 thousand under IAS 39/AASB 139). As at the reporting date, there are no indications that the debtors will not meet their payment obligations.

### **Liquidity risk**

The Company's liquidity risk arises from the possibility that it may not be able to settle or meet its obligations as they fall due and is managed as part of the Group's portfolio risk management strategy. Operational, capital and regulatory requirements are considered in the management of liquidity risk, in conjunction with short-term and long-term forecast information.

The Group's strong credit profile, diversified funding sources, its minimum cash buffer and its committed credit facilities ensure that sufficient liquid funds are maintained to meet its daily cash requirements.

Standard & Poor's credit rating of the Group remained at the A level with stable outlook throughout FY2019. Moody's upgraded its credit rating of the Group from A3 to A2 on 31 October 2018 with a stable outlook thereafter in FY2019.

There were no defaults on loans payable during the period.

### **Standby arrangements and unused credit facilities**

The Company is a participant in the Group's committed revolving credit facility which operates as a back-stop to the Group'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 2019, US\$ nil commercial paper was drawn (2018: US\$ nil). The revolving credit facility has a five-year maturity ending 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 Group's credit rating.

#### 14 Financial risk management (continued)

##### Liquidity risk (continued)

##### Maturity profile of financial liabilities

The maturity profile of the Company's financial liabilities based on the contractual amounts, taking into account the derivatives related to debt, is as follows:

| 2019<br>US\$000                                       | Bank loans,<br>debentures and<br>other loans | Expected<br>future interest<br>payments | Derivatives<br>related to net<br>debt | Other<br>Derivatives | Trade and<br>other<br>payables | Total             |
|-------------------------------------------------------|----------------------------------------------|-----------------------------------------|---------------------------------------|----------------------|--------------------------------|-------------------|
| <b>Due for payment:</b>                               |                                              |                                         |                                       |                      |                                |                   |
| In one year or less or on demand                      | 998,352                                      | 384,029                                 | 187,350                               | 15,107               | 21,859,279                     | 23,444,117        |
| In more than one year but not more than two years     | 2,375,373                                    | 339,141                                 | 228,568                               | -                    | -                              | 2,943,082         |
| In more than two years but not more than three years  | -                                            | 279,222                                 | 68,920                                | -                    | 1,231,971                      | 1,580,113         |
| In more than three years but not more than four years | 1,762,332                                    | 240,709                                 | 373,373                               | -                    | -                              | 2,376,414         |
| In more than four years but not more than five years  | 637,601                                      | 206,403                                 | 121,501                               | -                    | 734,413                        | 1,699,918         |
| In more than five years                               | 5,271,063                                    | 1,415,320                               | 1,054,461                             | -                    | 7,273,465                      | 15,014,309        |
| <b>Total</b>                                          | <b>11,044,721</b>                            | <b>2,864,824</b>                        | <b>2,034,173</b>                      | <b>15,107</b>        | <b>31,099,128</b>              | <b>47,057,953</b> |
| <b>Carrying amount</b>                                | <b>12,192,113</b>                            |                                         | <b>916,229</b>                        | <b>15,107</b>        | <b>31,099,128</b>              | <b>44,222,577</b> |

| 2018<br>US\$000                                       | Bank loans,<br>debentures and<br>other loans | Expected<br>future interest<br>payments | Derivatives<br>related to net<br>debt | Other<br>Derivatives | Trade and<br>other<br>payables | Total             |
|-------------------------------------------------------|----------------------------------------------|-----------------------------------------|---------------------------------------|----------------------|--------------------------------|-------------------|
| <b>Due for payment:</b>                               |                                              |                                         |                                       |                      |                                |                   |
| In one year or less or on demand                      | 1,492,907                                    | 196,241                                 | 248,738                               | 213                  | 25,894,919                     | 27,833,018        |
| In more than one year but not more than two years     | 1,041,689                                    | 394,215                                 | 111,047                               | -                    | -                              | 1,546,951         |
| In more than two years but not more than three years  | 2,429,107                                    | 347,783                                 | 211,054                               | -                    | -                              | 2,987,944         |
| In more than three years but not more than four years | -                                            | 286,509                                 | 81,067                                | -                    | -                              | 367,576           |
| In more than four years but not more than five years  | 1,792,326                                    | 246,760                                 | 356,101                               | -                    | 1,231,971                      | 3,627,158         |
| In more than five years                               | 6,066,612                                    | 1,672,990                               | 839,297                               | -                    | 8,007,878                      | 16,586,777        |
| <b>Total</b>                                          | <b>12,822,641</b>                            | <b>3,144,498</b>                        | <b>1,847,304</b>                      | <b>213</b>           | <b>35,134,768</b>              | <b>52,949,424</b> |
| <b>Carrying amount</b>                                | <b>13,581,066</b>                            |                                         | <b>708,619</b>                        | <b>-</b>             | <b>35,134,768</b>              | <b>49,424,453</b> |

## **14 Financial risk management (continued)**

### **Derivatives and hedging**

Derivatives are included within financial assets or liabilities at fair value through profit or loss unless they are designated as effective hedging instruments. Financial instruments in this category are classified as current if they are expected to be settled within 12 months; otherwise they are classified as non-current.

The Company uses derivatives to hedge its exposure to certain market risks and may elect to apply hedge accounting. Where hedge accounting is applied, at the start of the transaction, the Company documents the type of hedge, the relationship between the hedging instrument and hedged items and its risk management objective and strategy for undertaking various hedge transactions. The documentation also demonstrates that the hedge is expected to be effective.

The Company applies the following types of hedge accounting to its derivatives hedging the interest rate and currency risks in its notes and debentures described above:

- Fair value hedges - the fair value gain or loss on interest rate and cross currency swaps relating to interest rate risk, together with the change in the fair value of the hedged fixed rate borrowings attributable to interest rate risk are recognised immediately in the income statement.

If the hedge no longer meets the criteria for hedge accounting, the fair value adjustment on the note or debenture is amortised to the income statement over the period to maturity using a recalculated effective interest rate.

- Cash flow hedges – changes in the fair value of cross currency interest rate swaps which hedge foreign currency cash flows on the notes and debentures are recognised directly in other comprehensive income and accumulated in the cash flow hedging reserve. To the extent a hedge is ineffective, changes in fair value are recognised immediately in the income statement.

When a hedging instrument expires, or is sold, terminated or exercised, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is amortised to the income statement over the period to the hedged item's maturity.

When hedged, the Company hedges the full notional value of notes or debentures. However, certain components of the fair value of derivatives are not permitted under IFRS 9/AASB 9 to be included in the hedge accounting above. Certain costs of hedging are permitted to be recognised in other comprehensive income. Any change in the fair value of a derivative that does not qualify for hedge accounting, or is ineffective in hedging the designated risk due to contractual differences between the hedged item and hedging instrument, is recognised immediately in the income statement.

The table below shows the carrying amounts of the Company's notes and debentures by currency and the derivatives which hedge them:

- The carrying amount of the notes and debentures includes foreign exchange remeasurement to period end rates and fair value adjustments when included in a fair value hedge.
- The breakdown of the hedging derivatives includes remeasurement of foreign currency notional values at period end rates, fair value movements due to interest rate risk, foreign currency cash flows designated into cash flow hedges, costs of hedging recognised in other comprehensive income, ineffectiveness recognised in the income statement and accruals or prepayments.
- The hedged value of notes and debentures includes their carrying amounts adjusted for the offsetting derivative fair value movements due to foreign currency and interest rate risk remeasurement.

14 Financial risk management (continued)

Derivatives and hedging (continued)

| 2019<br>US\$000 | Fair value of derivatives                             |                                                              |                            |                                                  |                                                |                                          |                       | Total     | Hedged<br>value of<br>notes and<br>debentures<br>A+B+C |
|-----------------|-------------------------------------------------------|--------------------------------------------------------------|----------------------------|--------------------------------------------------|------------------------------------------------|------------------------------------------|-----------------------|-----------|--------------------------------------------------------|
|                 | Carrying<br>amount of<br>notes and<br>debentures<br>A | Foreign<br>exchange<br>and<br>notional at<br>spot rates<br>B | Interest rate<br>risk<br>C | Recognised<br>in cash flow<br>hedging<br>reserve | Recognised<br>in cost of<br>hedging<br>reserve | Recognised<br>in the income<br>statement | Accrued<br>cash flows |           |                                                        |
|                 |                                                       |                                                              |                            |                                                  |                                                |                                          |                       |           |                                                        |
| GBP             | 3,158,983                                             | 677,503                                                      | (558,789)                  | (59,802)                                         | 69,973                                         | (102,632)                                | 106,104               | 132,357   | 3,277,697                                              |
| EUR             | 7,735,184                                             | 378,973                                                      | (619,243)                  | (96,094)                                         | 32,873                                         | (93,806)                                 | 130,784               | (266,513) | 7,494,914                                              |
| CAD             | 593,850                                               | 174,515                                                      | (22,001)                   | (4,929)                                          | 3,377                                          | (3,819)                                  | 410                   | 147,553   | 746,364                                                |
| AUD             | 704,096                                               | 73,450                                                       | (4,272)                    | (1,092)                                          | -                                              | 79                                       | (5,119)               | 63,046    | 773,274                                                |
| Total           | 12,192,113                                            | 1,304,441                                                    | (1,204,305)                | (161,917)                                        | 106,223                                        | (200,178)                                | 232,179               | 76,443    | 12,292,249                                             |

The weighted average interest rate payable is USD LIBOR + 2.03%.

The following table shows a reconciliation of the components of equity and an analysis of the movements in reserves for all hedges.

| 2019<br>US\$000                                                               | Cash flow hedging reserve |          |           | Cost of hedging reserve |          |           |           |
|-------------------------------------------------------------------------------|---------------------------|----------|-----------|-------------------------|----------|-----------|-----------|
|                                                                               | Gross                     | Tax      | Net       | Gross                   | Tax      | Net       | Total     |
| At the beginning of the financial year                                        | 74,916                    | (22,475) | 52,441    | -                       | -        | -         | 52,441    |
| Impact of adoption of IFRS 9/AASB 9                                           | 175,681                   | (52,704) | 122,977   | (175,681)               | 52,704   | (122,977) | -         |
| Add: Change in fair value of hedging instrument recognised in OCI             | (318,120)                 | 95,436   | (222,684) | -                       | -        | -         | (222,684) |
| Less: Reclassified from reserves to interest expense – recognised through OCI | 229,440                   | (68,832) | 160,608   | 69,458                  | (20,837) | 48,621    | 209,229   |
| At the end of the financial year                                              | 161,917                   | (48,575) | 113,342   | (106,223)               | 31,867   | (74,356)  | 38,986    |

## **14 Financial risk management (continued)**

### **Valuation hierarchy**

The carrying amount of financial assets and liabilities measured at fair value is principally calculated based on inputs other than quoted prices that are observable for these financial assets or liabilities, either directly (i.e. as unquoted prices) or indirectly (i.e. derived from prices). Where no price information is available from a quoted market source, alternative market mechanisms or recent comparable transactions, fair value is estimated based on the Company's views on relevant future prices, net of valuation allowances to accommodate liquidity, modelling and other risks implicit in such estimates.

The inputs used in fair value calculations are determined by the relevant segment or function. The functions support the assets and operate under a defined set of accountabilities authorised by the Executive Leadership Team. Movements in the fair value of financial assets and liabilities may be recognised through the income statement or in other comprehensive income.

For financial assets and liabilities carried at fair value, the Company uses the following to categorise the method used:

| <b>Fair value hierarc</b> | <b>Level 1</b>                                                                                        | <b>Level 2</b>                                                                                                                                                                                                 | <b>Level 3</b>                                                                                                             |
|---------------------------|-------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------|
| Valuation method          | Based on quoted prices (unadjusted) in active markets for identical financial assets and liabilities. | Based on inputs other than quoted prices included within Level 1 that are observable for the financial asset or liability, either directly (i.e. as unquoted prices) or indirectly (i.e. derived from prices). | Based on inputs not observable in the market using appropriate valuation models, including discounted cash flow modelling. |

14 Financial risk management (continued)

**Financial assets and liabilities**

|                                                | IFRS 13<br>Fair value<br>hierarchy<br>Level | IFRS 9/AASB 9<br>Classification <sup>(1)</sup> | 2019<br>US\$'000  | 2018<br>US\$'000  |
|------------------------------------------------|---------------------------------------------|------------------------------------------------|-------------------|-------------------|
| Fair value hierarchy <sup>(2)</sup>            |                                             |                                                |                   |                   |
| Current cross currency and interest rate swaps | 2                                           | Fair value through profit or loss              | 839,786           | 433,539           |
| Other derivative contracts                     | 2                                           | Fair value through profit or loss              | 49,333            | 16                |
| Total other financial assets                   |                                             |                                                | 889,119           | 433,555           |
| Cash and cash equivalents                      |                                             | Amortised cost                                 | 6,240,088         | 10,099,341        |
| Trade and other receivables                    |                                             | Amortised cost                                 | 37,526,117        | 39,516,106        |
| <b>Total financial assets</b>                  |                                             |                                                | <b>44,655,324</b> | <b>50,049,002</b> |
| Non-financial assets                           |                                             |                                                | 685               | 1,125             |
| <b>Total assets</b>                            |                                             |                                                | <b>44,656,009</b> | <b>50,050,127</b> |
|                                                |                                             |                                                |                   |                   |
| Cross currency and interest rate swaps         | 2                                           | Fair value through profit or loss              | 916,229           | 708,406           |
| Other derivative contracts                     | 2                                           | Fair value through profit or loss              | 15,107            | 213               |
| Total other financial liabilities              |                                             |                                                | 931,336           | 708,619           |
| Trade and other payables                       |                                             | Amortised cost                                 | 31,099,128        | 35,134,768        |
| Bank overdrafts                                |                                             | Amortised cost                                 | -                 | 37,844            |
| Notes and debentures <sup>(3)</sup>            |                                             | Amortised cost                                 | 12,192,113        | 13,543,222        |
| <b>Total financial liabilities</b>             |                                             |                                                | <b>44,222,577</b> | <b>49,424,453</b> |
| Non-financial liabilities                      |                                             |                                                | 52,488            | 46,400            |
| <b>Total liabilities</b>                       |                                             |                                                | <b>44,275,065</b> | <b>49,470,853</b> |

(1) For classifications under IAS 39/AASB 39 refer to Note 1 'Accounting policies'.

(2) All of the Company's financial assets and financial liabilities recognised at fair value were valued using market observable inputs categorised as Level 2.

(3) All interest bearing liabilities are listed bonds and unsecured.

For financial instruments that are carried at fair value on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. There were no transfers between categories during the period.

For financial instruments not valued at fair value on a recurring basis, the Company uses a method that can be categorised as Level 2.



#### **14 Financial risk management (continued)**

##### **Offsetting financial assets and liabilities**

The Company enters into money market deposits and derivative transactions under International Swaps and Derivatives Association Master Netting Agreements that do not meet the criteria for offsetting, but allow for the related amounts to be set-off in certain circumstances. The amounts set out as cross currency and interest rate swaps in the table above represent the derivative financial assets and liabilities of the Company that may be subject to the above arrangements and are presented on a gross basis.

##### **Recognition and measurement**

Financial assets and liabilities are offset and the net amount reported in the balance sheet where the Company currently has a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

#### **15 Cash and cash equivalents**

For the purpose of the cash flow statement, cash equivalents include highly liquid investments that are readily convertible to cash and with a maturity of less than 180 days, and net of bank overdrafts.

Cash and cash equivalents include balances denominated in the following currencies:

|                                 | <b>2019</b><br><b>US\$'000</b> | <b>2018</b><br><b>US\$'000</b> |
|---------------------------------|--------------------------------|--------------------------------|
| USD                             | <b>3,228,800</b>               | 10,094,824                     |
| EUR                             | <b>1,578</b>                   | 724                            |
| GBP                             | <b>2,135</b>                   | 775                            |
| AUD                             | <b>3,006,814</b>               | 2,266                          |
| CAD                             | <b>761</b>                     | 752                            |
| Total cash and cash equivalents | <b>6,240,088</b>               | 10,099,341                     |

#### **16 Related party transactions**

##### **Ultimate parent entity**

The ultimate parent entity of the Company is BHP Group Limited which at 30 June 2019 owns 100% (2018: 100%) of the issued ordinary shares of the Company.

##### **Subsidiaries**

The Company holds no interests in subsidiaries as at 30 June 2019 (2018: nil).

##### **Transactions with related parties**

|                                      | <b>2019</b><br><b>US\$'000</b> | <b>2018</b><br><b>US\$'000</b> |
|--------------------------------------|--------------------------------|--------------------------------|
| Transactions with related parties    |                                |                                |
| Guarantee fees income <sup>(a)</sup> | <b>7,866</b>                   | 8,869                          |

(a) Guarantee fees income is in respect of bank guarantees provided to related parties.



## 16 Related party transactions (continued)

Outstanding balances arising from sales/purchases of goods and services and interest received/paid on loans and borrowings with related parties.

|                                                                             | 2019<br>US\$'000 | 2018<br>US\$'000 |
|-----------------------------------------------------------------------------|------------------|------------------|
| <b>Outstanding balances with related parties</b>                            |                  |                  |
| Accrued interest receivable from related parties <sup>(a)</sup>             | 77,539           | 65,496           |
| Accrued interest payable to related parties                                 | (107,236)        | (116,347)        |
| Income tax receivable/(payable) by ultimate parent on behalf of the Company | 242,024          | 129,324          |
| Withholding tax receivable                                                  | 2,003            | 534              |
| Derivative contracts – related party <sup>(b)</sup>                         | (42,217)         | (275,064)        |

(a) Accrued interest is in respect of related party loans for which interest payable has not been capitalised to the carrying amount of the loan.

(b) Derivative contracts are cross currency swaps and forward exchange contracts taken with related parties to hedge foreign exchange and interest rate risk exposures on related party funding structures and to fund AUD operating costs.

### Loans to/(from) related parties

|                                           | 2019<br>US\$'000 | 2018<br>US\$'000 |
|-------------------------------------------|------------------|------------------|
| <b>Loans to related parties</b>           |                  |                  |
| Beginning of the year                     | 39,320,752       | 42,384,375       |
| Impact of adopting IFRS 9/AASB 9          | (23,288)         | -                |
| Beginning of the year                     | 39,297,464       | 42,384,375       |
| Loans advanced                            | 4,731,983        | 1,876,387        |
| Loans repayment received                  | (7,707,651)      | (5,714,216)      |
| Interest charged                          | (222,816)        | (88,873)         |
| Interest received                         | 1,103,907        | 863,079          |
| Expected credit losses recovered          | 1,664            | -                |
| End of year                               | 37,204,551       | 39,320,752       |
| <b>Loans from ultimate parent</b>         |                  |                  |
| Beginning of the year                     | (13,450,920)     | (11,506,858)     |
| Loan repayments made                      | 12,951,503       | -                |
| Loans received                            | -                | (1,795,608)      |
| Interest charged                          | (124,085)        | (149,126)        |
| Interest received                         | 2,116            | -                |
| Foreign exchange revaluation              | 825              | 672              |
| End of year                               | (620,561)        | (13,450,920)     |
| <b>Loans from related parties</b>         |                  |                  |
| Beginning of the year                     | (21,351,029)     | (22,836,173)     |
| Loan repayments made                      | 5,370,650        | 4,098,856        |
| Loans received                            | (13,642,347)     | (2,217,479)      |
| Interest charged                          | (775,775)        | (618,079)        |
| Interest received                         | 219,201          | 221,030          |
| Foreign exchange revaluation              | 670              | 816              |
| End of year                               | (30,178,630)     | (21,351,029)     |
| <b>Total net loans to related parties</b> | 6,405,360        | 4,518,803        |

**16 Related party transactions (continued)**

|                                                                          | <b>2019</b>         | <b>2018</b>     |
|--------------------------------------------------------------------------|---------------------|-----------------|
|                                                                          | <b>US\$'000</b>     | <b>US\$'000</b> |
| <b>Reconciliation of loans to/(from) related parties:</b>                |                     |                 |
| Current receivables from related parties - interest bearing (Note 7)     | <b>15,946,085</b>   | 14,110,808      |
| Non-current receivables from related parties - interest bearing (Note 7) | <b>21,258,466</b>   | 25,209,944      |
| <b>Total loans to related parties</b>                                    | <b>37,204,551</b>   | 39,320,752      |
| <br>Loans from ultimate parent entity (Note 9)                           | <b>(620,561)</b>    | (13,450,920)    |
| <b>Total loans from ultimate parent entity</b>                           | <b>(620,561)</b>    | (13,450,920)    |
| <br>Current loans from other related parties (Note 9)                    | <b>(20,938,781)</b> | (12,111,180)    |
| Non-current loans from other related parties (Note 9)                    | <b>(9,239,849)</b>  | (9,239,849)     |
| <b>Total loans to related parties</b>                                    | <b>(30,178,630)</b> | (21,351,029)    |
| <b>Total net loans to related parties</b>                                | <b>6,405,360</b>    | 4,518,803       |

**Terms and conditions**

Interest received/paid on loans and borrowings are made in arm's length transactions at normal market prices and on normal commercial terms.

Outstanding balances at year end are unsecured and settlement occurs in cash.

**Transactions with key management personnel**

The directors are personnel of the BHP Group who are not remunerated by the BHP Group for their services as directors.

**17 Segment reporting**

The Company operates in a single segment, being financial services in Australia. The segment information considered by the chief operating decision maker (CODM) is consistent with the Company's profit or loss as recorded in the Company's income statement. The Company's finance income is principally derived from the provision of finance to related corporations.

**18 Subsequent events**

No matter or circumstance has arisen since the end of the financial year that has significantly affected or may affect the operations, the results of operations or the state of affairs of the Company.

**19 Auditor's remuneration**

Fees for services rendered by the company's auditor, KPMG, in relation to the statutory audit are borne by a related entity.

**20 Commitments**

There were no commitments at 30 June 2019 (2018: US\$nil).

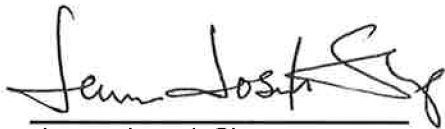
**BHP Billiton Finance Limited  
Directors' Declaration  
For the year ended 30 June 2019**

1 In the opinion of the directors of BHP Billiton Finance Limited ("the Company"):

- (a) the financial statements and notes that are contained on pages 7 to 34 are in accordance with the Australian Corporations Act 2001, including:
  - (i) giving a true and fair view of the Company's financial position as at 30 June 2019 and of its performance for the financial year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2 The directors draw attention to Note 1 to the financial statements, which include a statement of compliance with Australian Accounting Standards.

Signed in accordance with a resolution of the directors:



James Joseph Sharp  
Director

Dated at Melbourne this 23<sup>rd</sup> day of October 2019



## Independent Auditor's Report

To the shareholder of BHP Billiton Finance Limited

### Opinion

We have audited the **Financial Report** of BHP Billiton Finance Limited (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the **Company's** financial position as at 30 June 2019 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The Financial Report comprises:

- *Balance sheet* as at 30 June 2019
- *Income statement, Statement of other comprehensive income, Statement of changes in equity, and Statement of cash flows* for the year then ended
- Notes including a summary of significant accounting policies
- *Directors' Declaration*.

### Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Company in accordance with the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.



## Key Audit Matters

The **Key Audit Matters** we identified are:

- *Accounting for derivative financial assets and liabilities*
- *Presentation of interest bearing liabilities*

**Key Audit Matters** are those matters that, in our professional judgement, were of most significance in our audit of the Financial Report of the current period.

These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

**Accounting for derivative financial assets (Current: \$63,846 thousand, Non-current: \$825,273 thousand) and liabilities (Current: \$78,153 thousand, Non-current: \$853,183 thousand)**

Refer to Notes 7, 10 and 14 to the Financial Report

| The key audit matter                                                                                                                                                                                                                                                                | How the matter was addressed in our audit                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>Accounting for derivative financial assets and liabilities is a key audit matter due to the application of valuation techniques which involve the use of valuation assumptions and inputs.</p> <p>As such, senior audit team effort and specialist involvement was required.</p> | <p>Our procedures included:</p> <ul style="list-style-type: none"> <li>• Understanding management's processes and testing key controls for accounting for derivative contracts;</li> <li>• Selecting a sample of derivatives and hedge relationships for testing using risk-based selection techniques: <ul style="list-style-type: none"> <li>- Agreeing the inputs of each sample to confirmations we obtained from counterparties;</li> <li>- Involving our specialists to independently estimate the fair value of each sample as at 30 June 2019 using recognised market valuation methodologies and inputs and comparing them to the Company's valuations;</li> </ul> </li> <li>• Assessing the disclosures in the Financial Report against the requirements of the accounting standards.</li> </ul> |



**Presentation of interest bearing liabilities (Current: \$22,561,116 thousand, Non-current: \$20,430,188 thousand)**

Refer to Notes 9 and 14 to the Financial Report

| The key audit matter                                                                                                                                                                                                                                                                                                                                                                   | How the matter was addressed in our audit                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>The Company has issued a range of bonds with various notional amounts and maturities. The proceeds from these bonds are lent to related parties to finance operations.</p> <p>The presentation of interest bearing liabilities is a key audit matter due to the size of the balance (being 97% of the Company's total liabilities) and is a focus area for senior team members.</p> | <p>Our procedures included:</p> <ul style="list-style-type: none"> <li>• Understanding the Company's processes over the presentation of interest bearing liabilities;</li> <li>• For a risk-based sample of bonds, assessing the maturity dates with reference to the twelve months post balance date to check the classification between current and non-current liabilities in the Financial Report. Maturity dates were checked to records maintained by Bloomberg;</li> <li>• Assessing the disclosures in the Financial Report against the requirements of the accounting standards.</li> </ul> |

**Other Information**

Other Information is financial and non-financial information in BHP Billiton Finance Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

**Responsibilities of the Directors for the Financial Report**

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.



## Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: [http://www.auasb.gov.au/auditors\\_responsibilities/ar2.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar2.pdf). This description forms part of our Auditor's Report.

KPMG

KPMG

Maritza Arandeda

*Partner*

Melbourne

23 October 2019