

Statement on 2018 HPPL Annual Report, Perth

The Hancock Prospecting Group (HPPL) has again recorded a strong and improved net profit after tax from operations for the year ended 30 June 2018, an increase of some 28% over the previous year.

HPPL's contribution to the Australian fiscal component of the economy has also increased significantly during the year, with total taxes paid in the 2018 year amounting to some \$860 million.

Profit from Operations – Increasing Returns for Stakeholders

The analysis below provides a comparison of HPPL's consolidated underlying profit from operations with the previous years.

(Amounts in \$million)	%	2018	2017	2016
	Increase			
Revenue	36%	6,037	4,450	1,725
Profit before tax from operations		1,974	1,753	634
Income tax (expense)/benefit from operations		(600)	(683)	(191)
Net Profit after tax	28%	1,374	1,070	443

HPPL's Roy Hill project achieved its 55mtpa nameplate capacity in September 2017 and has been a strong contributor to the year's results, driving increased revenue and profitability for the group. HPPL has not yet received any dividends from Roy Hill, with cash flow from the Roy Hill project being utilised to pay down debt.

The company's three Hope Downs mines continued to operate at or above 45mtpa nameplate capacity for the 2018 financial year, with shipments slightly higher by 3%. HPPL continues to invest in its Hope Downs mine, with the fourth mine, Baby Hope, achieving first production in October 2018.

The average iron ore price achieved over the year was virtually the same as the previous year. The discounts on the price of lower grade ores increased substantially during the year. The impact on ore produced by Roy Hill, which is priced on the higher grade 62% index was much more limited, with Roy Hill ore continuing to achieve more than 90% of the 62% Platts Index on average over the year. A substantial proportion of Roy Hill's product is shipped

to mature markets in Japan, South Korea and Taiwan through long-standing arrangements with HPPL's investment partners in Roy Hill.

Australian Outback Beef Pty Ltd, the 100% owner of S. Kidman & Co Pty Ltd reported a significant increase in revenue to \$51.1 million for the 2018 financial year. Underlying net profit before tax also showed a significant improvement to \$10.1 million, prior to a decrease in the fair value of livestock of \$39.8 million recorded as a result of a reduction in beef market prices.

Growth and Ongoing Financial Commitments

HPPL is undertaking ongoing exploration and evaluation expenditure on wholly-owned iron ore projects and continuing exploration and evaluation expenditure on future Hope Downs mines with its joint venture partner Rio Tinto.

Towards the end of the year HPPL acquired a significant equity stake in junior iron ore miner Atlas Iron Limited (**Atlas**). HPPL launched a successful takeover bid in June 2018 and held over 93% of Atlas shares when the bid closed in October 2018. HPPL is now in the process of integrating Atlas into its business. The Atlas business will be complementary to HPPL's Roy Hill project and is expected to assist in substantially extending the operating life of Roy Hill. The cost of acquiring Atlas shares once the compulsory acquisition process is completed is expected to be \$418M.

Subsequent to year end HPPL contributed the first US\$250 million tranche of its investment in the UK based Sirius Minerals PLC, to acquire a royalty stream on future polyhalite sales. This mining project is currently under construction in Yorkshire.

HPPL also acquired a 19.99% stake in Riversdale Resources Limited, which owns the highly prospective Grassy Mountain metallurgical coking coal deposit in Alberta, Canada. Construction at Grassy Mountain is expected to commence in 2020, subject to successful completion of permitting.

HPPL continues to review other potential diversifying investments in the resources sector, and is currently undertaking grass roots exploration on very prospective copper and gold tenements in Ecuador.

HPPL continued to invest in the agricultural sector during the year, with targeted acquisitions pursued to complement HPPL's growing presence, particularly in the wagyu area of the business.

Balance Sheet – A Strong and Healthy Balance Sheet

HPPL's balance sheet continues to strengthen with a substantial proportion of profits being re-invested in the business for the medium and long term benefit of shareholders.

Lenders' completion for Roy Hill was achieved in 2018, and the project is now utilising the majority of its cash flow to reduce debt levels. As a result, HPPL's Roy Hill's project debt has reduced by nearly \$800 million from the previous year, and the group's overall gearing ratio has reduced from 86% to 71%. Roy Hill maintains significant cash balances. The use of this cash is restricted while debt facilities are in place.

While debt is being reduced, HPPL's strong liquidity position enables continuous review of value accretive acquisitions in the mining and agriculture sectors.

(Amounts in \$million)	2018	2017	2016
Total assets	19,208	18,640	17,275
Borrowings	6,959	7,733	7,566
Other liabilities	2,480	1,963	1,326
Total liabilities	9,439	9,696	8,892
Net Equity	9,769	8,944	8,383
Gearing ratio (Debt : Equity)	71%	86%	90%

Under its dedicated leadership, HPPL is one of the most successful private companies in Australia's history, and the most successful private mining and agriculture company in Australia's history.

Returns to Shareholders - Dividends

HPPL has achieved a reduction in debt levels and pursued ongoing strategic investment opportunities while at the same time maintaining a significant level of dividend allocation to its shareholders.

As previously noted, HPPL entered into a binding deed with all of its beneficial owners, including the beneficiaries and current trustee of The Hope Margaret Hancock Trust (**HMHT**), in 2006 for the payment of dividends from cash flow generated by HPPL's Hope Downs project. This is in addition to other dividends required to be paid as cumulative special dividends pursuant to HPPL's Constitution. Due to two of the beneficiaries breaching the deed and launching legal proceedings, the dividends have not yet been able to be paid, and cannot be paid until those claims are resolved. Arbitration proceedings have been commenced as mandated by the deed in order to determine the issue.

As a result, HPPL has provided an amount of \$1.164 billion in its financial statements for the payment of such dividends under the Hope Downs Deed up to 30 June 2018. This provision has since increased to \$1.246 billion at 30 September 2018. The company will continue to provide in its financial statements for those dividends in accordance with the deed.

In addition to the obligation to provide for these significant dividends under the Hope Downs Deed, HPPL has sought to make dividend payments over and above those that are mandated in its Constitution. In the approximately three year period since June 2015, HPPL has paid discretionary dividends of some \$818 million, of which the trustee and beneficiaries of HMHT have received some \$192 million.

The table below demonstrates that for the 2018 financial year HPPL has paid or provided for dividends amounting to 38% of its net profit after tax. After deducting Roy Hill profits, HPPL's payout of dividends was 70% of its profits from sources other than Roy Hill. No dividends have yet flowed back to HPPL from Roy Hill due to debt facility financial covenants.

(Amounts in \$million)	2018	2017	2016
Dividends paid	191	337	185
Dividends provided, not yet paid	338	430	140
Total dividends provided or paid	<u>528</u>	<u>767</u>	<u>325</u>
Ratio of profits from operations provided or paid	38%	72%	73%
Ratio excluding net profit from Roy Hill project	70%	110%	68%

Taxes

HPPL paid Australian federal and state taxes during fiscal 2018 of some \$860 million, bringing the total taxes paid by HPPL for the last eight fiscal years to nearly \$5 billion, averaging more than \$610 million per year, as set out in the table below.

(Amounts in \$ million)	Years ended 30 June:								Total
	2011	2012	2013	2014	2015	2016	2017	2018	
Commonwealth and state taxes paid	528	648	562	569	637	394	698	860	<u>4,896</u>

Mrs Gina Rinehart, personally and through the HPPL private group, pays more tax than any other Australian. Her private company HPPL is amongst the ranks of Australia's largest corporate taxpayers, as reflected in the publications of the Australian Taxation Office.

Mrs Rinehart continues to primarily direct investment into Australia and pays substantial taxation in Australia, while providing employment and opportunities for many thousands of Australians, directly and indirectly.