

Statement on 2019 HPPL Annual Report, Perth

The Hancock Prospecting Group (**HPPL**) has again recorded a strongly improved net profit after tax from operations for the year ended 30 June 2019, an increase of some 90% 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 2019 year amounting to some \$1,140 million.

Profit from Operations – increasing returns available for stakeholders

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

(Amounts in \$million)	%				
	Increase	2019	2018	2017	2016
Revenue	39%	8,402	6,037	4,450	1,725
Profit before tax from operations		3,720	1,974	1,753	634
Income tax expense		(1,103)	(600)	(683)	(191)
Net Profit after tax	90%	2,617	1,374	1,070	443

The above analysis demonstrates the substantial growth in HPPL's business – with revenue growth of 390% and profit growth of 490% over the last three fiscal years - brought about by the focussed dedication of HPPL's Executive Chairman Mrs Gina Rinehart and her team of executives and staff towards project acquisition and development, in particular the Roy Hill project development and the acquisition of Atlas Iron Limited. HPPL continued to seek to add to its project pipeline with further iron ore projects under study and the acquisition of the Riversdale open cut coking coal project in Alberta, Canada.

HPPL's Roy Hill project achieved 55mtpa of production for the year ended June 2019, its full nameplate capacity. Roy Hill's outstanding result was due to significantly lower costs and higher sales volumes coupled with increased iron ore prices, boosting group profitability. HPPL has not yet received any dividends from Roy Hill, with cash flow from the Roy Hill project being utilised to pay down debt, hence reducing costs.

Roy Hill has obtained approvals to expand production to 60mtpa. The WHIMS plant that will deliver incremental production by recovering additional iron ore units from a waste stream, is nearing construction completion and will begin commissioning in early 2020 as planned.

A substantial proportion of Roy Hill's product continues to be shipped to mature markets in Japan, South Korea and Taiwan through long-standing arrangements with HPPL's investment partners in Roy Hill.

The company's joint venture Hope Downs mines continued to operate at capacity producing over 46mtpa for the 2019 financial year. HPPL continues to invest in Hope Downs, with the fourth mine, Baby Hope, achieving first production in October 2018.

The acquisition of Atlas Iron Limited, during the financial year positively impacted results with Atlas contributing \$144 million to HPPL's net profit after tax, in its first year as part of the group.

The average iron ore price achieved across the group increased substantially compared with the previous year due to higher US\$ iron ore prices, lower discounts and was also supported by a lower Australian dollar exchange rate.

Australian Outback Beef Pty Ltd, the 100% owner of S. Kidman & Co Pty Ltd reported a 22% increase in revenue to \$62 million for the 2019 financial year. Notwithstanding the challenging drought conditions underlying net profit before tax was \$7 million, prior to a decrease in the fair value of livestock of \$29 million recorded primarily as a result of a reduction in beef market prices.

Growth and Ongoing Financial Commitments

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

HPPL completed a successful takeover bid of Atlas Iron Limited late in 2018 for a total consideration of \$418 million. Since joining the HPPL group, Atlas has made a strong turnaround, with cash flow from operations increasing to \$150 million in FY2019 from a \$3 million outflow in the previous year. The Atlas business is complementary to HPPL's existing business and will assist in extending the operating life of Roy Hill.

HPPL also acquired 100% of Riversdale Resources Limited, which owns the highly prospective Grassy Mountain metallurgical coking coal deposit in Alberta, Canada for a total investment of \$744 million. Construction at Grassy Mountain is expected to commence in 2020, subject to successful completion of permitting.

HPPL contributed US\$250 million of its previous investment commitment to the UK based Sirius Minerals Plc, to acquire a royalty stream on future polyhalite sales. This mining project which is still to be fully constructed is currently conducting a review of development and funding options.

HPPL is currently undertaking grass roots exploration on prospective copper and gold tenements in Ecuador as well as on the Four Eagles joint venture project in the Victorian goldfields.

HPPL continued to invest in the agricultural sector during the year, with targeted acquisitions pursued to complement HPPL's growing presence in the 2GR waguay 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.

The Roy Hill project has reached its full production capacity and is utilising its cash flow to reduce debt levels. As a result, Roy Hill's net borrowings have reduced by \$1.7 billion from the previous year. In addition, Roy Hill has decided to make additional voluntary prepayments of \$1.5 billion, subsequent to year end to further reduce debt and interest. Roy Hill maintains significant cash balances. The use of this cash is restricted while debt facilities are in place.

The group's overall gearing ratio has fallen from 71% to 55%.

(Amounts in \$million)	2019	2018	2017
Total assets	22,259	19,208	18,640
Borrowings	6,516	6,959	7,733
Other liabilities	3,931	2,480	1,963
Total liabilities	10,447	9,439	9,696
Net Equity	11,812	9,769	8,944
Gearing ratio (Debt : Equity)	55%	71%	86%

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 (**Deed**). This is in addition to other dividends required to be paid on Cumulative Special shares pursuant to HPPL's Constitution. Due to disputes arising under the Deed, the dividends have not yet been able to be paid, and cannot be paid until those disputes are resolved. Various 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 \$1.629 billion in its financial statements for the payment of such dividends under the Deed up to 30 June 2019. This provision has since increased to \$1.853 billion at 30 September 2019 and is predicted to be closer to \$2 billion by the end of this calendar year. The company will continue to provide in its financial statements for those dividends in accordance with the Deed until the various arbitrations are resolved.

In addition to the obligation to provide for these significant dividends under the Hope Downs Deed, HPPL has made dividend payments over and above those that are mandated in its Constitution. In the approximately four year period since June 2015, HPPL has paid discretionary dividends of some \$818 million, of which the trustee and beneficiaries of HMHT have received approximately \$200 million.

The table below demonstrates that for the 2019 financial year HPPL has paid or provided for dividends amounting to \$483 million. After deducting Roy Hill profits, HPPL's payout of dividends was 42% of its profits from sources other than Roy Hill. No dividends have yet flowed back to HPPL from Roy Hill due to the Roy Hill board's decision to focus the company's cash flow towards reducing debt.

(Amounts in \$million)	2019	2018	2017
Dividends paid	16	191	337
Dividends provided, not yet paid	467	338	430
Total dividends provided or paid	483	528	767
Ratio of net profits from operations provided or paid (excluding net profit from Roy Hill project)	42%	70%	110%

Taxes

HPPL paid Australian federal and state taxes during fiscal 2019 of some \$1,140 million, bringing the total taxes paid by HPPL for the last nine fiscal years to over \$6 billion, averaging more than \$670 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	2019	
Commonwealth and State taxes paid	528	648	562	569	637	394	698	860	1,140	<u>6,036</u>

HPPL is amongst the ranks of Australia's largest corporate taxpayers, as reflected in the publications of the Australian Taxation Office.

Mrs Rinehart, as Executive Chairman of the HPPL group, 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.