Financial results for the half year ended 31 December 2018

Investor and analyst briefing Q&A transcript

19 February 2019

Introduction

ANDREW MACKENZIE: Hello everybody. I am in London with Daniel Malchuk, who's president of Minerals Americas, and Peter is in Melbourne with Arnoud Balhuizen, our Chief Commercial Officer

Thank you all for taking the time to call in. Before I begin, I do want to reflect on the tragic incident at Vale's Brumadinho iron ore operation in Brazil last month. The collapse of the dam is a tragedy, and we offer our heartfelt sympathy to all those affected. At BHP, we are very much committed to learn from this, as we should as an industry, and redouble our efforts to make sure that events like this simply cannot happen. We will be meeting with a number of global bodies this month to expedite this response and this work, but at BHP we welcome and would welcome a common international and independent body to oversee the integrity of the construction and operation of all dams, and we certainly endorse the call for increased transparency in tailings dam disclosure. We will work with the industry in the coming weeks and months to make sure the disclosure is consistently applied, and we will inform better tailings dam stewardship and risk assessment.

We have just announced our interim results. A brief summary: it has been a strong half for our shareholders. We returned record amounts of cash. We generated underlying EBITDA of $10.5 billion, which is margin of 52%. After disciplined investment, this was converted into a free cash flow of $3.6 billion. That, of course, excludes the proceeds from the recently completed sale of our onshore US assets of $10.8 billion. We further reduced net debt, and we returned over $13 billion to shareholders. That included a special dividend of $5.2 billion paid last month, in January. On top of this, our Board today declared an interim dividend of 55¢ per share. That is a pay-out ratio of 75% for the half, and that dividend will be paid next month, in March.

While we did experience some unplanned outages in the first six months, I am confident that our asset-by-asset plans will improve safety, unit cost and production in the second half, and that is why at current spot prices we expect a full-year free cash flow of more than $9 billion, and a return on capital of 20%.

We have, over some time now, been shaping our portfolio around the highest quality of assets, in stable, low-risk jurisdictions. These are assets that can supply premium commodities, with attractive fundamentals. Of course, we also hold a range of exciting development options and exploration licenses in the world's premier basins for our commodities, and they include the potential to increase our exposure to copper, to oil, and to potash. Our portfolio is unique in the sector, and does confer a degree of advantage on us. However, that competitive advantage has to go beyond the quality of our world-class assets and the attractiveness of our commodities. It is through our culture and capability, how we work, and how everyone at BHP works, that will truly set us apart.

That is why late last year we established a transformation office, reporting to me, that should, will and is setting up the next wave of value creation. This is the programme we will use to leverage a number of the things we have under way right now. Obviously we continue to enhance our basic methods of continuous improvement and they are well proven, where we are pushing different ways of working, standardising our work at the frontline, more automation, and we have very strong centres of excellence that now contribute considerably in areas of maintenance, project execution and geoscience.

To conclude, our focus is simple, our focus is resolute: to maximise cash flow, maintain capital discipline and increase value in returns. Our track record shows us that this is the right formula for our shareholders. Since 2016 we have strengthened our balance sheet through a $16 billion reduction in net debt. We have reinvested $20 billion in high-returning projects, and we have returned more than $25 billion to shareholders. However, there is still much more we believe we can, and we will do. With a constructive outlook for all our commodities, a culture of continuous improvement as I described, a strong balance sheet protected by our capital allocation framework, and our rich suite of development options, we are set up for a great future.

With that, I welcome your questions for myself and the team.

Questions and answers

PAUL YOUNG: Hi Andrew. My first question is on the metcoal division. Just looking at your production performance over the last three years, we are looking at flat December half production for three years now. That is despite a really strong push on productivity over that period. I know Caval Ridge is coming online or has come online. What is your medium-term target for that business now in volumes?

Also, a second question on metcoal. Can you explain that strip ratio increase in the half?

Moving onto Olympic Dam, another of the big levers you can pull is that grade increase in the southern mining area. The other lever you can pull, Andrew, is on the cost front. Your absolute costs are running at $1 billion a year. In my view they are still running too high. Are you taking a hard look at the absolute costs Olympic Dam? Thanks.

ANDREW MACKENZIE: Let me start with Olympic Dam. Obviously Peter and I will contribute to these questions, because it is quite wide-ranging. We are taking a very hard look on costs at Olympic Dam. Under Laura Tyler's leadership I think there is more to come out in an absolute sense, and she is working on that. She is very much part of the transformation programme that we described. Of course, the most effective way to reduce unit costs at Olympic Dam – because it has a high fixed-cost base that we have to erode – is just to produce more. That is obviously behind our agenda for growth, which you are well aware of from the brownfield expansion, and possibly later on the construction of a couple of shafts in the southern mine area to close to double, in aggregate, what we are currently producing from Olympic Dam. This is a slow and steady progress, there is no doubt, and it will be greatly assisted if we have more stable operations, then we can avoid some of the problems we had with the asset plan in the half. I can report that after the recent shutdown, we came back very strongly with a record-breaking performance in the smelter, but obviously that was interrupted by the outage. We are now back at these levels within the smelter, which we hoped we would achieve through the shutdown. In addition to that, we have definitely turned the corner in the construction of new stocks within the southern mine area. That is a very important part of feeding higher grade into the Olympic Dam system and therefore lifting production over time. Of course, we are also learning while that is going on about where would be the best place to put the shafts in the longer term, and how to develop it.

We made the decision to construct a third decline, because we were unsure about some of the development options that we had there, about constructing a fairly significant conveying system back to the existing Clark shaft, or alternatively going to the Whenan shaft, which could be reconditioned. We have since learned that reconditioning the Whenan shaft is tough, and therefore we have taken that off the plate, and we have also decided to continue to use the decline, and therefore to truck more from the southern mine area to the surface that way. That, in the medium-term, will probably reduce some of the capital costs, but it will increase the operating costs. You have to look at things in totality.

The second question, going backwards, was I think on stripping. We have substantially increased stripping, and that has proved to be a little bit more expensive, as you will see from the results there. Particularly in the pre-strip, so that we can actually get a lot more coal available to be mined, and that over time should add incrementally to the production of metcoal from the total system. I do not quite have the medium-term guidance at my fingertips, so Peter maybe can answer that question. Paul, I think we are going to hold roughly 48 million tonnes per annum, and of course we have a medium-term cost target that we are some way from in our guidance, for this year of $57 per tonne.

Peter, you might want to add anything to my answers, and we will maybe come back to metcoal performance.

PETER BEAVEN: Paul, underlying that $57 per tonne in the medium-term is obviously more productivity and less cost, but also more tonnes. We have probably got six or so of our share out of Blackwater, out of Broadmeadow and out of Goonyella. That is off the back of more stripping and higher utilisation of gear. We are not at the bottleneck, which is the wash plants at the moment, so obviously as we get there that is where the bottleneck should be. That is really what should underpin the next three years.

ANDREW MACKENZIE: You are right, though: metcoal is an exciting business and has the benefit in many ways of having a much more diversified customer base than we have in iron ore.

SYLVAIN BRUNET: Good morning, gentlemen. My first question for you is on petroleum, on both capex and cost, given the industry has reported some pressure. I was just wondering if you are experiencing some of those. What are the main items behind that and the drivers? Of course you need the cost level and the fuel decline.

My second question is on Jansen, just to get an update on whether you have had had new contacts with customers and what the timeline we should have in mind for any decision there is. Is it further down the line?

My last question, in this environment we find investors tend to be a lot more focused on ESG criteria, compared to previous years. Does that change anything in the way you would like the portfolio to be positioned going forward, in particular with the exposure to coal? Thank you.

ANDREW MACKENZIE: Let me deal with them pretty much in the order you have asked them, and again I will probably turn over to Peter and possibly Danny if you feel you would like to add something to my answer to Jansen, because Jansen reports to Danny.

Petroleum is relatively simple. We are not seeing huge cost pressures in petroleum. Clearly we are facing the problems of decline, but we have actually declined less than we expected, so it is a tremendous performance in the half by our team. If I would look across all our businesses, and it is all relative, I would say that deep-water petroleum is the area where we are experiencing the least cost pressure compared to the rest of our businesses, but even there apart from very localised areas we are not too concerned right now about cost pressures directly. There are some issues about availability of labour that is affecting aspects of our reliability, and that does translate through to cost. However, petroleum and deep-water petroleum would probably be the area where we are least concerned.

Maybe I will start with the ESG, because it is not a bad way to think about some aspects of Jansen, which I will come to. Of course, we see more focus on ESG, and there is no question that the incident in Brazil that I referred to in my opening remarks, is increasing that. I believe we as a company have front-run this. We have been exceptional in our commitment to transparency, both as it relates to tax and the way in which we report on a wide range of sustainability issues, and we have led the industry through the introduction of a water report. I am totally committed to being highly transparent about tailings dams in the future. You have seen in our results a fairly detailed breakdown of our tailings dam portfolio. We expect more to follow, and we certainly expect it to feed through much more broadly within our sustainability report and our ESG briefings in the coming year.

Now onto Jansen. You asked whether it in any way affects the portfolio. We wrote about our portfolio and the portfolio effects of things like climate change a few years back. We updated that post-Paris, and I think we have been fairly clear that we think the core portfolio, provided it measures on high-quality products – so high-quality iron ore, high-quality coking coal, high-quality copper concentrate – that is playing into a number of ESG issues which are product-specific. Obviously there are some other things about our relationship with communities, and so on, going forward. You mentioned it with respect to coke. Obviously the message for metcoal is quite different than it is for energy coal. We are comfortable with our position in energy coal at the moment, but this is not something that we will seek to grow going forward, and we will continue to examine whether or not this is something to be competitive to remain in the portfolio. However, for now we keep it. Metcoal, as I answered to Paul, is a very attractive commodity. We happen to have an opportunity to do well, out of just the kind of metcoal that will improve the environmental performance of blast furnaces. As I said, it is quite useful in that it has a more diversified customer base, only 30% of it goes to China.

Coming to potash, clearly one of the reasons we like this option is it is potentially a hundred-year business which could in time come to rival what we have today in iron ore – it may take 100 years for that, but decades anyway – and what we have today in our other four pillars. It also actually, as well as offering diversification away from fossil fuels, offers diversification again away from overdependence on China. We still have work to do there. The shafts are constructed, but we are now going through the permanent lining, which will allow us then to decide whether or not we construct a mine at the bottom, or we hold off a bit. This is a long-term commitment we are seeking to make, so we have to time our entry into the market appropriately.

While we wait, we continue with our reduction in risk. Part of that is having the shafts built and lined, but part of that is understanding more and more about the market. You have seen more recently that we have signed long-term memoranda of understanding with potentially major customers, which is another method of risk reduction. There are a number of other angles we are looking at. We continue to look at whether we might actually bring in a partner, which we can therefore obviously share the risk with somebody else, rather than the BHP shareholder, and possibly bring in other expertise that would allow for further reduction.

We reviewed that with you at the capital allocation workshop at the end of last year. It fits firmly in the box of relatively low risk now, but arguably also low-return, and we have to keep working on that because ultimately it has to pass all the capital allocation tests. We have no fixed timeline, if you are asking for that. We are having more and more strategic discussions within the context of the capital allocation framework and our portfolio strategy, at our Board meetings. It is an ongoing discussion as we monitor the market, and we look towards risk reduction. If there is any change, of course in time we will let you know.

With that, maybe first of all anything Peter that you want to add generically to the three questions, and then maybe Danny if there anything you want to say about Jansen?

PETER BEAVEN: I just want to remind everybody, on the energy coal we have less than 3% of our capital employed in the two thermal core assets. That is just a reminder.

ANDREW MACKENZIE: Anything from you, Danny?

DANNY MALCHUK: No, I think everything has been said.

LYNDON FAGAN: Andrew, just revisiting iron ore capacity. Obviously, the price has skyrocketed after the tragic accident. I see you have reiterated the June 19 run rate of 290mt. Can we just look at what the bottlenecks are in the system at the moment, in the Pilbara? How quickly can these be released? Is there any potential to accelerate volumes? Will you revisit the iron ore strategy as a result of what is happening? That is the first one.

The next one is on tailings dams. I really appreciate the new disclosure. Can you talk a bit about the upstream dams, and are there any legacy assets in Brazil? How should we think about potential decommissioning and rehab costs, and any other changes related to the outlook there? Thanks.

ANDREW MACKENZIE: Thanks, Lyndon. It is mainly no's, in answer to your questions. The reality is that we have been concentrating for some time, as you know, on maximising the capacity of our existing investment, and we continue to do that and really have no plans we would change as a consequence of what is happening and the current high price, because we have not been holding investments back or holding capacity back. We continue to try and push harder. Of course, we do only have permission to do 290mt from the Western Australian government, but if we were capable of consistently doing more of course we could ask for that.

We do work on the bottlenecks, and through strong performance on rail and within our mines and the ramp up of Jimblebar and now the ramping up of South Flank it has meant that bottlenecks sit very much at the port and with the car dumpers. That is something where we work hard on the asset integrity, to maintain the reliability, and look at modest investments as to how we might make that bottleneck more stable in time, which could give us small increments. Beyond that, the reality is as we look forward on the price, we assume over time that some of the current issues in Brazil will be worked through, and in some form that iron ore will come back to market. There may be a year or two of volatility while that is worked through, and when we look at those long-term prices and we look at that within the context of our capital allocation framework, we do not see the case for any major new investment in iron ore, just simply keeping the capacity we have got through everything I talked about in terms of transformation and an ever increasing focus on asset integrity.

On the tailings dams, there were quite a few questions in there. We could probably take up more of the call than I think we should, but just to refresh you on the numbers: we have 115 tailings dams, the majority of which are inactive. We have 20 active dams, of which 13 are upstream and they are almost exclusively in Australia. However, I would want to make the point that these dams are very different from the upstream dams in Brazil. They are on flat plains rather than valleys, in regions of relatively low rainfall, and they have certainly been subjected to extreme care and attention, particularly post the incidents at Mount Polley and obviously more profoundly for us at Samarco. As I said in my broader remarks, we put in place a very rigorous process post-Samarco to really refresh our understanding of all our dams. We found no serious deficiencies using what was then and is now the gold standard, the Canadian Dams Association. We had nearly 400 actions to further improve things, they are over 93% done, and those that are not done are things that were scheduled for later and are more administrative in nature. We have done drills where we have people still in harm's way, and we are moving people out of harm's way. They have all passed the test of getting people out well within the time that would be required in the event of the most extreme form of break. We have improved monitoring and put a lot of new systems in place that were being put in place using lasers and so on, and early warning systems. We have alarm systems.

We have been taking it very seriously, particularly post-Samarco, and will continue to do so. The tailings dam work reports directly into me. I am taking a lot of personal concern in this area. I think there is more we can and should do there, we need to upgrade the science, and we need to open ourselves to even more transparency in the way I described in answering Sylvain.

In terms of legacy in Brazil, we do still have the Germano dam, which is the dam that is sat behind the Fundão Dam in Samarco that we are in the process of decommissioning and regrading and making it safe. Some of the announcements more recently, that the upstream method may not be allowed anywhere in Brazil, is something we are well ahead of and we will continue to expedite that work. Certainly, we can provide all the plans to the authorities well within the deadline that has been set, just this week, or was it last week?

JASON FAIRCLOGUGH: Thanks very much. Just, Andrew, to come back to the Jansen question. Maybe you could help us understand a bit more about how you are thinking about the timeline to approval from here. What are the nodes on that decision tree? Ultimately, is this a decision for this version of BHP's executive, or is sanctioning Jansen a decision for the next CEO?

A second question from me would just be on the DLC. There has been a bit of commentary lately that some of the obstacles to potential collapse of that structure are being removed, particularly around tax, and I am just wondering if you have an active watching brief on the DLC? Again, is this a decision for you or the next CEO?

ANDREW MACKENZIE: I am not even going to answer any of the questions about which CEO makes what decision, because there is a lot of speculation in there that I do not want in any way to be part of. We make decisions at the right time. We are not in a hurry to do anything stupid, but we would not delay things for similar reasons. In terms of the nodes of the decision-making, it is pretty simple. It was laid out very clearly by Peter and the team at the capital allocation day, where we talked about how we look at these things, and how we evaluate certain projects. Clearly, there were certain physical issues to do with Jansen that we have to think about in a way. However, we are under no pressure to do something that would actually violate the capital allocation framework one way or another. We have long-term security of tenure. As I described there, we do think this is a very useful option to have in the portfolio. There are many ways we can seek to create value from it, that we have done in the past, and this is a long-term game for us. Our appropriate entry into this market, if we decide to go ahead with Jansen, is something that needs to be chosen to be done at the right time. Like, as I will come to in a moment, the DLC, we keep it under active review as a Board. We still have work to do for the next year or two, to fully complete our work on the shaft, that we have committed to complete. However, beyond that, it is simply about all the work we can do to reduce the risk through better engineering and through better work with our potential customers, and better understanding of the market and what is the most cost-effective way if we chose to do it and enter into it, totally in line with the capital allocation framework. That is, if you like, the key decision node, if you want to call it that.

Looking at the DLC, we keep it under review. Yes, we have seen the settlement of the ATO dispute, which removes one cost that would occur on unification, but there are other hurdles that still have to be debated. First, we still enjoy, as a result of the dual listing structure, some tax benefits particularly in relation to our energy-coal business in New South Wales, which we would lose if we were to unify in favour of the ltd. They still measure in the several hundred millions, but it will obviously get used over time. The plc shares have strong South African ownership. If we unify in favour of the ltd, they would face a fairly significant capital-gains tax, which would certainly affect the attitude, if you like, of any shareholder vote, which we have to be mindful of. You are well aware in this market of the issues of indexation and what the loss of indexation might mean. We have to be very sensitive to that from to a wide range of shareholders, and we are.

Finally, there is a lot of speculation as to exactly where the unified share would trade, based on a wide range of things which are more assertion-based than real. We have to continue to get our arms around that as well, because that will obviously affect the experience of shareholders both on the ltd side and on the plc side, if we elect for unification. So one barrier has been removed. There is definitely a timing element around the remaining tax benefits that we enjoy. That means we should be patient as we go forward, and we keep it under review.

PARTICIPANT: Thank you, Andrew. I just have a super-quick follow-up on potash, if I might. Maybe it is for Peter, but could you just remind us what the current carrying value is of Jansen?

ANDREW MACKENZIE: Yes, Peter can handle that.

PETER BEAVEN: It is in the ROCE chart. We have about $4.5 billion sitting on the books at the moment. I am sorry; it is $3.7billion.

PARTICIPANT: $3.7 billion, okay. Thank you very much.

MENNO SANDERSE, MORGAN STANLEY: Good morning. I have two brief questions. You talked a bit about the operations centre and the new technology centre, and the word 'technology' has come back a couple of times in the statement as well. Historically, I have always understood BHP to be a fast adopter rather than a first mover. Has your approach changed a little bit to that? Could you give us a little bit of a sense of the scale of the opportunities that the Company is looking at?

Secondly, on Olympic Dam, I appreciate all the comments you have made and what you said about the record processing volumes in the smelter, but you have been encountering quite a lot of unexpected outages, which you pointed out. What have you changed in the management of the aboveground facilities in the last six months to deal with this?

ANDREW MACKENZIE: Yes, you are right: we are definitely shifting our approach to technology. We do believe that with the current wave of technology change you can somewhat exaggerate things like – what do you call it? – the internet of things, which is the availability of much more effective sensors and systems, or AI. There are a number of opportunities to lift the performance of basic industries, and we want to be at the leading edge of what is possible in mining. There is a fairly detailed slide as backup in the pack, which should now be available online. But it breaks things out in terms of mine planning; mining, which of course is autonomous; processing, which is improved throughput and advanced process control; transport, which is about how we schedule trains and boats and have less unplanned events; to a number of issues we can do in marketing. I have the slide in front of me now, but there are a lot of things in there that you can go through. If you have questions arising from that, we have even more backup behind that if you want to talk to the people in Investor Relations.

On Olympic Dam, what have we changed? More recently, we have changed the leadership there. As well as that, particularly on the surface stuff you are right: one of the challenges we have in Olympic Dam is the fact that if we were to build the system today we would probably avoid what I call the factory in the desert or the factory in the outback. It is very capital-hungry and it has more than its fair share of asset-integrity issues. We are trying to get through them. The asset-plant failure was unfortunate, but it may have dated back even to WMC days or, if we were being a little bit more accountable, we might say we missed it when we did not do a proper inspection back in 2016 and it was waiting to happen.

We do need to put in a lot more in terms of – some of it is technology – better reads of how the equipment is performing so we get more early warning and we can intervene in a way that prevents major outages. We are already planning another shutdown for 2021, which is going to try to take us to the next level, but there is no doubt that for stable operation to be de-bottlenecked under the brownfield expansion is absolutely critical. We are front-running that, but it is hard work. Ever since we gave up the open pit, which was exactly the right decision, we are now having to get an underground mine – it is already the biggest underground mine in Australia – to perform with the reliability and precision that we shoot for in some of the other things I have been talking about an open-pit operation. We are using our best people to do that, because it is a fabulous ore body in a very stable and favourable jurisdiction, which is South Australia.

MENNO SANDERSE: Thank you. I have a quick follow-up in terms of technology. I was talking in terms of the scope of the efficiencies. Is it still billions that you can see? I appreciate you have to put capex in to get to it, but how big is this opportunity?

ANDREW MACKENZIE: Yes, but I would not want to see it in isolation, Menno. Our transformation programme, as I have roughly described, starts with something we call world-class functions, which is about benchmarking all our functions against what we think is best-in-class all around the world, sub-function by sub-function, and simplifying a lot of our internal processes by taking work away and reducing costs as a consequence of that and also reducing cycle times, increasing our speed to market in a number of areas. It includes something we call our new operating system, which is about our culture and how we organise our work. It is about teaching people at the frontline how to look almost move by move at how they can actually do their jobs more effectively. Within all of that, it is about in-sourcing more of our contractor workforce so they can be trained up, more constant and therefore more stable. It is about some of the technology things I have said to you, which includes some of the automation that I have spoken about. There is also a whole bigger push on the culture and capability of our workforce through trailing.

When you put all that together, we have not released firm numbers yet but the benefits in value terms are valued in many billions. There is some investment, but less than you might think because a lot of it is cultural. Of course, that investment is equally applied through our capital-allocation framework. But when we talk about the way we grow this Company going forward, most of our conversations tend to be on the traditional things we have spoken about. We have already talked about expanding Olympic Dam, potash and so forth. But the substantial ability for us to grow free cash flow, all other things being equal, which I think is equivalent in scale to the growth we can do through more traditional investment, is in this transformation bucket. We believe that, having created this highly simplified portfolio and a much more connected workforce with a real can-do attitude, we have primed the pump to get a lot of benefit from it. In no way are we going to be fast followers; we want to be leaders in this area – and I think we are.

MYLES ALLSOP, UBS: I have three questions. First of all, looking back over the last six months and arguably over the last couple of years, you have had more than your fair share of operational issues, whether it is fires, derailments or plant leaks and so on. Why do you think that is? Is it just because you have been unlucky? Why should we assume you are not going to have issues going forward?

Secondly, in terms of cash flow, your guidance points to free cash flow doubling in the second half. When we look at your capital-allocation framework, net debt is at the low end. Capex guidance is obviously very clear. Should we assume that the vast majority of cash flow now will get returned to shareholders or are M&A opportunities picking up?

Thirdly, on franking credits, with the elections in May and a Labour government likely to come into power, what are the proposed changes to franking credits and how will they impact BHP?

ANDREW MACKENZIE: Peter can answer questions two and three; I will handle question one in a moment. I will just briefly talk about franking credits, and then Peter can go into some detail. We have just done a $5.2 billion dividend fully franked. We also then did a major buy-back fully franked. We have been working pretty hard to monetise our franking credits. Right now, there are no forecasts, for example, but we do not have plans for doing anything special, but that can change. Peter can say a bit more about that.

About the operating issues, I think you are a little unfair to say we have had more than our fair share. I think we are very transparent about these things. We tend to put everything out there and we try to hit targets for very high levels of stability. If you looked at most of our competitor – I could go through a long litany of things that have happened – it is par for the course in this industry. You talk about trains. Three or four years ago we had four derailments a year. We have had one derailment, and it was a completely different one. It was nothing to do with a maintenance issue. It was to do with the fact there have been inefficient processes applied and followed that left the train on a slope without proper braking facilities in place. I accept that this level of incident is unacceptable.

The main push, I would say, for our transformation agenda is to eliminate these incidents through a much higher level of stability. It is as much down to culture as it is to investment in asset integrity, and we are attacking it from all angles. The fact we can maintain guidance shows that in terms of our unit costs and our production we have to build in some contingency for some of these things. Of course, some of them are uncontrollable, although we need to get better at this when it is things like weather events. Our commitment is to do better in this area. Underlying this, when you look at what we have achieved, we are getting better. We delivered $12 billion of productivity until about two years ago, in the preceding 3-4 years. We have given none of that back. We have just not been able to maintain that trajectory and that momentum. What we are doing in transformation is to regain that momentum. An important part of that is by making our operations stable and eliminating events like that through judicious investment in asset integrity and then a wide range of things which are transformation agendas is designed to do, which of course includes things like what we do in maintenance and things like culture.

Peter, you might want to add to that. If not, let us just talk about net debt, cash returns and anything you want to add on franking credits, special dividends and so on. I should say on the dividends that we have also just done a 75% payout on this one as well.

PETER BEAVEN: Myles, very quickly, free cash flow will be what it is at the end of the six months. The capital-allocation framework will take care of how we allocate that. As you said, maintenance capex is spoken for. I do not think we have anything new to say on that at this moment in time, happily. Net debt is just under the bottom of our target range. As we said before, do not expect us to slide through that. It is a good range. We do want to be at the bottom; we have said that for a little while: that is fine. It is good news.

Therefore, there is only one other home for that cash, and that is a very happy home. M&A is of course something we keep an eye on, but it is not something we have to do. It is tough to make value there. We did take a position in SolGold, but we will wait and see how that and those types of things play out. It is always something we pay attention to. That is straightforward, I think. I have not said anything I have not said before.

On franking credits, another way to look at it is that in the last six months we have put $4.5 billion of franking credits back through to shareholders, which is good, but we still have a lot of franking credits. We do not think about the dividends we pay in terms of that franking credit other than in how it plays out in terms of the buyback versus additional cash dividend. In the event that we have additional cash, we have decided that buybacks are a good idea. Of course, it is a decision between plc and ltd. In the event that franking credit plays out, it generally looks like 10-15% premium on ltd over plc. So that is how it plays out. There is nothing new there. I hope that answers your question, Myles.

MYLES ALLSOP: Thank you.

HAYDEN BAIRSTOW, MACQUARIE GROUP: Hi, guys. I just have a couple of quick questions. On costs, the currencies are going your way. Given that volumes in bulks particularly are supposed to be higher in the second half in the guidance ranges, was there an opportunity to cut the cost guidance a little bit, given where the currencies are? Are you actually seeing some industry pressures that lead you not to do that at this stage?

Quickly on Scarborough, was there any hold-up on making that decision, given that Woodside are pretty keen to push ahead with it?

ANDREW MACKENZIE: Why do you not handle the cost question, Peter? You can say something on Scarborough and, if you want, I can add to it.

PETER BEAVEN: Sure, yes. On the cost guidance, we have held our guidance. I think we are going to have to have a better second half. We expected a better second half, and we are going to have to deliver that and a little bit, but I think we have the plans in hand. Obviously, to the extent the FX continues to help, it is good news, but I do not think there is any need to change our guidance at this moment in time.

On Scarborough, like all of our investments, we want to make sure we push through the capital-allocation framework. It needs to make sense, and there is an economic side of that. It also needs to be ready from the project perspective, because we all know very well that we need to be well considered and well prepared before we launch into these very large projects. That is really where we are on Scarborough. It is a very interesting option for us, and obviously we are in robust conversations with Woodside on what this thing looks like and our views on it.

ANDREW MACKENZIE: And I can assure you that the ghost of our capital-allocation framework is at the negotiating table.

KAAN PEKER, CLSA: I just have one quick one; a couple of mine have already been taken. Circling back on Olympic Dam, you mentioned that the Whenan shaft-refurbishment project has been shelved. From our last site visit, it did look like you needed that refurbishment to get to that 13 million tonnes and push the bottleneck to the smelter. The question is, does there need to be a replacement for that capacity? Secondly, what exactly did change?

ANDREW MACKENZIE: We can do it with the new decline, which we decided to build almost as a sort of contingency. We could always have used both if we thought that was going to work, and that was something we constructed within budget and schedule and it is now fully operational. All that changed was that the cost of refurbishment became unattractive in terms of our capital-productivity tests. Therefore, we will live with using the decline for BFX. Obviously, at some point we need to build some shafts in the Southern Mine Area, and we will learn more about that through the development we are doing at the moment in terms of what will be the best location.

But clearly, as I am sure you are aware, that comes after BFX, which will take the higher-grade ore from the Southern Mine Area and a little bit volume to increment the current production a bit through a little bit of de-bottlenecking the smelter and the refinery, but with the Olympic Dam Expansion Project we need a lot more processing capacity, and we hope to provide the bulk of that through heap leach, obviously, but feed it with a new dedicated set of shafts in the Southern Mine Area.

KAAN PEKER: As a follow-up, in terms of capex that may have been saved from this refurbishment that has been shelved, is there a number that we should look at into FY19 and FY20?

ANDREW MACKENZIE: No. We have to value things in the round. We are obviously not changing our guidance for 2019 and 2020. That will live within 8 billion for the total Company.

JAMES REDFERN, BANK OF AMERICA MERRILL LYNCH: Hi, Andrew. Good morning. You mentioned that thermal coal is 3% of capital employed for BHP. I am just wondering about this. Do you view thermal coal assets in Australia and Colombia as core to BHP? More generally, is the portfolio-simplification process finished or is it an ongoing project? I have one more question after that, please.

ANDREW MACKENZIE: Sorry, did you want to say something else?

JAMES REDFERN: I guess the question is, is thermal coal core to BHP given that it is only 3% of capital employed?

ANDREW MACKENZIE: It is a reasonably high-returning business, as you will see from some of the plots on the slides. For now, we are happy to have it within the portfolio, but we keep our portfolio under review all the time. Clearly, we look at smaller businesses and smaller assets that maybe fit less well than some of the big guns like met coal, Western Australian iron ore and Escondida. But I have nothing more to say at this stage. We continue to run these businesses well. We like them. Even though we might not like energy coal as much as we like met coal, in this instance we have two assets that sit at the bottom of the cost curve so we are not embarrassed to continue holding them for now.

JAMES REDFERN: Thank you. My second question relates to non-major JVs and how you are thinking about your stake in Antamina post-Samarco. It is a great asset, but again it is quite small in the context of BHP. I am just wondering whether you have changed your involvement in JVs. Does it fit? Can you please remind me who manages Antamina?

ANDREW MACKENZIE: Danny looks after all our non-operated joint ventures, so I am going to ask him to say something about this, but we like Antamina. We have no real concerns about that asset. We certainly want to do more with it and work with our partners to expand it if we can, but, Danny, maybe you could add a bit more about it?

DANIEL MALCHUK: Antamina is unquestionably one of the best copper resources in the world. We are very happy to have Antamina in our portfolio. It gives us fantastic returns for the capital invested, and we have really good plans to continue to get more value out of that asset. I would also remind you that, following the Samarco tragedy, we enhanced the visibility of all our non-operated joint ventures. We have a team dedicated to this, and there have been very good outcomes out of that both at Antamina and Cerrejón.

ANDREW MACKENZIE: Thank you, Danny.

JAMES REDFERN: Can I just confirm who manages the asset, please?

ANDREW MACKENZIE: There is a non-operated joint venture group, which reports to Danny. It is run by Bryan Quinn. Some of you may have met him in the past. He was previously head of our technology group and before that he ran the manganese business that has now gone to South32. He has a team of people based in Santiago. They do not only look after Samarco; they look after Antamina, Cerrejón, our interests in Resolution and one or two other smaller joint ventures that we are trying to get out of around the world.

We are much more active in how we handle these things. We have always been pretty engaged in Antamina. Our proximity relative to our other partners has always helped us, being in the same time zone and having predominantly Spanish-speaking staff. We are now applying that same love to Cerrejón and it is having a good effect. Clearly, we need that resource more than ever, as a result of what has happened in Brazil. But, for example, they are overseeing some of the work I told you about earlier in terms of decommissioning the Germano dam at Samarco. We contribute lots of wisdom to the pace and development of Resolution – and, of course, Danny reports to me.

JAMES REDFERN: Thank you, Andrew; thank you, Danny.

CRAIG CAMPBELL, NORTHCAPE CAPITAL: Hi, gentlemen. Just with regard to the balance sheet, again, in terms of the net debt range, we are seeing a number of other mining companies driving to net cash. When I look around the world – everyone can see it – the potential for 'black swan' events probably bigger than ever. If you were to drive to net cash and a really good opportunity came up for M&A, it would mean you would raise less equity if you needed the equity. Is this something you guys would consider, please?

ANDREW MACKENZIE: Peter can handle the details there, but I think he sort of answered the question earlier on. We do not really want to go much below our $10-15 billion range. At this point in the cycle and particularly given some of the benefits we are getting in the pricing on the bulks, we think it is appropriate to stay at the bottom of the range. But at that level of the range, we would feel, if the cycle were to turn, that we do have the capacity to do the sorts of things you are suggesting without the need to go to net cash. I do not know whether you want to add to that, Peter.

CRAIG CAMPBELL: Yes, the point is that a black swan is something you do not see coming.

ANDREW MACKENZIE: We do factor that in into some of our plans, but Peter can say more.

PETER BEAVEN: Craig, how we think about this range at the bottom end is we stress-test it. What we try to do is be defensive. To your point about the black swan, we have to buffer the organisation. We think about a price subject that essentially looks like an extended multi-year period of prices which are probably more or less around, let us say, January 2016 or something like that, minus a bit, and we just hold that. In addition to that, the way we model this is that we are offensive at the same time, because hopefully some folks will come under pressure and some good assets will be coughed up, so we put those both into the model and then we see whether if, in fact, we can hold an A/A- in the rating through that period. Again, this goes back to your buffer question.

If we can put all those things back together again, then it works. That is where we are. I absolutely agree with you on the basic premise. Can we be defensive and offensive in the event we get into a difficult period? I think we think the answer is yes.

ANDREW MACKENZIE: We have time for one more question.

JAMES GURRY, DEUTSCHE BANK: Thank you for taking my question. Reading through the prepared remarks there gives a good sense that you are not only reflecting on the last six months but also on the last few years, but I was just wondering about the future. It does not look like you want to approve Jansen any time soon. Can you just touch on the Ruby oil and gas project? I think that is up for consideration.

Secondly, on net debt, can you just confirm that you would have been at the top end of the guidance range if we adjust for the special dividend that was paid out in January? If there –

ANDREW MACKENZIE: James, you will need to repeat your question and speak a lot louder. We have everything on maximum volume here and we can barely hear you.

JAMES GURRY: Okay, well I hope you got that first question. The second question is on net debt. You would be at the top end of the range if we adjust for the special dividend. Are there any non-operational cash flows we should be aware of, given that you have guided at spot prices this year to $5 billion in the second half? On iron ore, can you confirm whether you are operating at 100% or not, and if you will hit the upper or lower end of the guidance? I got the sense that it was a tough ask to meet the guidance after what happened with the derailment.

ANDREW MACKENZIE: Peter will answer the question on net debt. I will come back to your question on Ruby. On iron ore, we always push to maximise our volumes through existing capacity and that has not changed. I am not sure if that completely answers your question, but we do not have lots of production up our sleeve, if that is what you mean. We are certainly able to recover from the derailment. It was only out for a week and we have some spare capacity on the rail to do that. The more critical issue is the bottleneck at the port and the performance of the car dumpers. Sorry; you really have to shout, James. We can barely hear you. What were you trying to sense there?

JAMES GURRY: Can you just give us a sense of whether you are at the bottom or top end of that iron ore guidance range?

ANDREW MACKENZIE: We have said that we still expect to meet guidance and we have several months of production ahead of us. I am sure we will update you as we go through the various operations reports.

PETER BEAVEN: On the net debt question, James, let us say it is $9.9 billion. We have a couple of things moving on shale since 31 December to where we are right now. We had $5.2 billion go out at the end of January for the special dividend and we still have $3.4 billion to come in on the deferred consideration. If you tie all that up, we are at less than $12 billion and of course are making reasonably strong cash flows every month at the moment, so we comfortable about where we will land.

ANDREW MACKENZIE: On Ruby, maybe not everybody is aware but, because one of the partners has opted not to participate in this commercial discovery interest in Tobago, it means is now 68%. I am not sure if we have communicated capital, but it will be certainly be above $250 million, which is into board territory. We are looking at something in the 300s right now and we expect to make an investment decision this year. It will produce roughly 16,000 barrels of oil a day and about 80 million cubic feet of associated gas. There is a detailed slide, which I am looking at now and partly reading from, as well as some of my notes, in the appendix of slides that we put on our website this morning, or this afternoon in Australia.

JAMES GURRY: Is that a decision for this financial year?

PETER BEAVEN: Capex is $330 million.

ANDREW MACKENZIE: Okay, it is $330 million.

PETER BEAVEN: Yes, it is, James.

ANDREW MACKENZIE: I think that is it, so thank you for your interest. Danny and I may see some of you in London later today and, tomorrow or maybe later this week, Peter and Arnoud will see those of you who rang in from Australia. I am looking forward to it. Thank you very much.