

**Financial results  
for the half year  
ended  
31 December  
2019  
Investor and  
analyst briefing  
speech**

**18 February 2020**

**Slide 1: Title page: Mike Henry**

Thank you for joining me and Peter today as we deliver BHP's December 2019 half year results.

It's an incredible privilege to be here as CEO today, and of course I am pleased to be able to present a strong set of results, grounded in solid operational performance.

Recognising this as my first time with you in my new capacity, I will also take the opportunity to provide some comments on how I see the world, the company and the future.

**Slide 2: Disclaimer**

Before I go further though, please note the disclaimer and its importance.

**Slide 3: Title slide: Mike Henry**

I want to start with the people of BHP.

Following the announcement of my appointment as CEO in November last year, I spent five weeks on the road visiting all of our businesses, most of our major offices and many of our operations.

I met many thousands of employees and BHP contractors around the world.

These engagements reinforced for me that we have some incredibly talented people who are eager to perform.

I kind of knew that of course, but it was good to have that brought home to me through this tour and just as I landed in the role.

We have an incredible portfolio of assets, but we unlock their potential through our people.

I was struck by what they told me. The three things I heard most consistently from all corners of BHP that they are passionate about were:

- Our new purpose;
- Our focus on improvement;
- And our commitment to social value.

They also provided me with plenty of feedback on what we can do to build on our momentum and take what is good performance and make it exceptional.

Finally, they accepted the challenge to personally step up, push the limits of what's possible and make the fast decisions that will allow us to improve at pace and unlock more of what's possible in BHP.

They know that through doing that we can achieve exceptional financial and operational performance, and grow value for both shareholders and society.

**Slide 4: Exceptional performance in a dynamic world**

I intend for BHP to be unquestionably the industry's best operator – safer, lower cost, more reliable and more productive. This will drive value and returns.

We will be more open to new ideas, more connected to those around us and more commercial in thought and action.

Today, we already have a positively differentiated strategy in terms of where to play – with fewer commodities, and great assets in stable jurisdictions. And also how to play – with our operating model, our approach to technical excellence and our focus on social value that will support long-term outperformance.

But, our operating environment and our competition are dynamic. We cannot stand still.

With our strong portfolio and performance momentum, we are set up much better than most.

However, to unlock more of our potential, to further address the challenges coming at us, and to capitalise on the opportunities that the environment will reveal over time, there are some things we must strengthen.

We must be lean and high performing in all parts of BHP. In the face of market uncertainty and slowing rates of growth in commodity demand, a greater proportion of value growth will come from an unrelenting focus on being great at what we do.

We must become even safer, with a focus on eliminating fatalities and high potential injuries.

And, we must create more options in future-facing commodities to help us continue to grow value. These options will come from both within our existing footprint, as well as through securing more resources through exploration and early stage entry.

Through being safe, lean, high performing and future fit, we will reliably grow value and returns for decades to come.

We've made huge inroads in strengthening our foundations over recent years.

Of course, achievement of these goals will require the effort of people across all parts and all levels of BHP.

And we'll focus on five specific levers to unlock our performance potential.

- First, culture. We will build upon our distinctive, inclusive culture with strengthened self-accountability, performance edge, hunger to learn and improve, and a greater commercial mind-set.
- Second, capability. We will invest in people and the capability required to support consistently high performance and to unlock options. This includes achieving a gender balanced workforce.
- Third, we will instil an asset-centric focus throughout BHP. Everyone across the company will understand and fulfil their role in making our assets safer, lower cost and more reliable.
- Fourth, technology. We will restructure, reorient and build capability to apply technology at scale, quickly, at lower cost and for value.
- And finally, capital allocation. I am totally committed to continuing the discipline that we've created through our Capital Allocation Framework. It is driving better decision-making and is making us more productive through the way in which it stimulates focus and competition.

What does all this look like in action? Let me touch on just a few examples to help bring them to life.

- In technology, in addition to aligning our structure to our assets and streamlining our processes, we will greater leverage external providers of infrastructure, systems and services. We will sharpen our portfolio of projects and shift our weighting towards opportunities that generate higher returns, earlier.

- We've spoken previously about our multi-year effort to make our functions more efficient and more effective. We are accelerating delivery of this, bringing forward some efforts that were otherwise to be delivered two years later.
- This, and our changes in technology, are expected to reduce overheads by well over half a billion dollars by 2021, relative to last financial year. As importantly, it will better enable and free up those working on the front-line of the business.
- We are also supporting front-line leadership through further streamlining administrative processes – enabling them to spend more high-quality time in field – and reducing average spans of control – particularly for our supervisors.
- On the capability front, we will have a workforce that is committed to BHP and who we can invest in. We are moving from 30 to 40 per cent of our people being permanent BHP employees, to double that.
- I will also create a senior role on my team that will be accountable for leading excellence in our technical disciplines, and who will help stimulate performance across the company.

These are just a few of the changes we are rapidly making in our effort to create a safe, lean, high performing and future-facing business.

With that, let me outline our half year results.

### **Slide 5: H1 FY20 financial highlights**

Over the past six months, we delivered a strong set of financial results.

Underlying EBITDA was up 15 per cent, to US\$12 billion; our margins expanded, to 56 per cent; and return on capital employed increased, to 19 per cent.

Continued solid operating cash flow, combined with disciplined investment in our high quality projects, generated free cash flow of US\$3.7 billion.

With our balance sheet strong, the Board today announced an interim dividend of 65 US cents per share – our second highest ever.

### **Slide 6: H1 FY20 operational highlights**

Operationally, our performance was solid.

We maintained production and reduced unit costs, despite field decline, grade decline and significant planned maintenance in the half.

We progressed our major projects over the period, and expect two of these – the Spence Growth Option and Atlantis Phase 3 – to deliver first production within the next 12 months.

The most important part of our work, however, is keeping our people safe. It is, without question, our highest priority. Our safety record reflects the quality of leadership, the culture of the organisation and how disciplined we are when it comes to planning and performance.

Over the period, we reduced our Total Recordable Injury Frequency by 2 per cent. However, the rate of high potential injuries rose by 5 per cent due to an uptick in our Minerals Americas business.

The reality is that we are not yet consistently where we need to be.

At Samarco, resettlement remains a priority of the Renova Foundation, and it's progressing well. And across all our operations, we continue to invest in the integrity of our dams.

We are also taking action on climate change. A couple of highlights are that we are on track to meet our 2022 target for greenhouse gas emissions and we have signed contracts to move towards 100 per cent renewable power at Escondida and Spence.

With that, I'll now hand over to Peter to take you through our results in detail.

**Slide 7: Title slide: Peter Beaven**

Thanks, Mike.

**Slide 8: Financial performance**

This was a strong first half result, with solid operating performance and lower unit costs.

Underlying EBITDA increased by 15 per cent, to just over US\$12 billion – at a margin of 56 per cent, one of our highest in recent times.

With a lower effective tax rate of 33 per cent, Underlying attributable profit was US\$5.2 billion, up 29 per cent.

On a total operations basis, our Underlying earnings per share increased by 46 per cent.

Exceptional items primarily relate to the cancellation of power contracts at Escondida and Spence with the shift towards 100 per cent renewable energy. Not only is this the right thing to do, it's highly value accretive for our shareholders as the new Power Purchase Agreements are lower cost.

**Slide 9: Group EBITDA waterfall**

The EBITDA waterfall shows the benefit of higher prices – driven by iron ore.

In addition, with IFRS 16, operating leases are now charged to the income statement as depreciation and finance costs, positively impacting EBITDA.

Our strong and stable operating performance delivered a substantial increase in copper production, despite grade decline, and growth in iron ore. However, this was offset by expected Petroleum field decline and substantial planned maintenance.

We also had a solid cost performance across the business, with lower unit costs at Western Australia Iron Ore, Petroleum and Escondida.

**Slide 10: Segment performance**

Western Australia Iron Ore generated EBITDA of US\$7 billion, with a margin of 69 per cent. While the increase in average realised prices contributed significantly to the result, our team's drive to unlock volumes – despite the major maintenance campaign – and further reduce costs fully captured the benefit of these higher prices. Over the half, we lowered our C1 unit costs to just US\$12.75 – an outstanding result.

In Copper, EBITDA increased by 22 per cent, to US\$2.4 billion. This was largely driven by a 7 per cent increase in production. Record throughput at Escondida from improvements in maintenance and operational performance more than offset the impact of grade decline and social unrest in Chile. Unit costs were better than full year guidance, driven by good cost control and higher by-product credits.

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Our Met Coal business contributed EBITDA of around US\$1 billion, at a margin of 37 per cent. A strong underlying performance was more than offset by a 22 per cent reduction in price and the impact of major planned wash-plant maintenance. A stronger second half performance is expected, with lower strip ratios, optimised maintenance strategies and continued efficiency improvements. Production and cost guidance remains unchanged.

And finally, our Petroleum business achieved an EBITDA of US\$1.6 billion, at a margin of 65 per cent. While down on the previous period, this was driven by lower realised prices and natural field decline of around 5 per cent. Despite lower volumes, we reduced unit costs by 14 per cent to US\$9.56 per barrel, with lower overall maintenance activity over the period.

### Slide 11: Cash generation

Excluding 2016, when we saw a dramatic fall in commodity prices, we have generated net operating cash flow of at least US\$15 billion every year over the last decade.

Solid operating performance and higher prices meant we continued this strong operating cash delivery, with US\$7.4 billion this half... despite significant adverse working capital movements of US\$600 million.

These included:

- A US\$400 million inventory build for two reasons: to help underpin better operational stability, and due to planned maintenance during the half;
- Price related impacts on accounts receivables and royalties;
- And payment of the Western Australia Iron Ore royalty settlement, agreed in June last year.
- These were partly offset by the raising of the provision related to cancellation of the Chilean power contracts.

In the next period, we would expect to draw down a portion of the inventory build, and no repeat of the royalty settlement.

So with a stable, low cost operating base, and capex in line with guidance, we are in a good position to continue to generate strong cash flows going forward.

### Slide 12: Capital allocation

As you know, our Capital Allocation Framework informs every financial decision we make. It transparently directs cash to its value-maximising use. And this slide shows how we've done that.

### Slide 13: Maximise value and returns

The US\$3.8 billion investment in maintenance, growth projects and exploration was in line with our plans. Capex guidance remains unchanged at below US\$8 billion for the full year.

Our balance sheet is strong, with net debt at US\$12.8 billion – at the bottom end of our target range. Compared to net debt of US\$9.2 billion at the end of June 2019, the inclusion of derivatives and the application of IFRS 16 has increased net debt by US\$2.3 billion.

New leases in the second half, largely related to the desal plant at Spence, are expected to increase net debt by a further US\$1.1 billion.

As we look forward, while the underlying fundamentals of our commodities remain sound, the coronavirus outbreak, debate on the Chilean constitution, trade policy and geopolitics remain key uncertainties.

We always consider downside risks in all our cash allocation decisions, and retain our preference for net debt to be at the bottom of our US\$12 to US\$17 billion target range.

Off the back of our strong results, today we announced an interim dividend of 65 US cents per share, or US\$3.3 billion – our second highest ever. This equates to a payout ratio of 63 per cent, 13 per cent over the minimum under our payout ratio policy.

Including the dividend announced today, over the past four years, we have returned around US\$33 billion to shareholders, around a quarter of our current market capitalisation. And this excludes the demerger of South32!

#### **Slide 14: Return on Capital Employed**

Over the half, our return on capital employed increased to 19 per cent – a healthy number that includes over US\$8 billion in assets under construction, and a further US\$2 billion due to the capitalisation of leases.

While prices have clearly helped, the increase is also driven by our ongoing operational improvements and disciplined capital allocation. At constant 2017 prices, we have lifted our return on capital by 70 per cent since 2016.

Western Australia Iron Ore again led the way, with an outstanding return on capital of 49 per cent.

Escondida improved its return, to 15 per cent, while the existing Pampa Norte operations – excluding SGO – delivered 12 per cent.

Despite lower prices, our Petroleum business continues to provide high returns to shareholders – just below 20 per cent, excluding projects in execution.

Even with lower prices, Queensland Coal returns were 13 per cent.

In summary, these results continue the strong performance we have achieved over the past few years.

Our focus on operational and financial performance across the organisation has set us up to deliver a strong second half and achieve our 2020 financial year guidance.

While we remain confident in the positive underlying fundamentals of our commodities, there are a number of near-term uncertainties – including, obviously, the coronavirus, which we're monitoring closely.

As always, our first priority is our people in locations that could be impacted. While it's early days, it's clear there will be demand loss in oil and demand deferral in steel and copper. Somewhat offsetting this, are current supply disruptions in iron ore, met coal and oil.

Overall, the impact is likely to be dependent on:

- The pace of recovery in end-use activities in China;
- And the risk of spread to other countries.

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We are used to dealing with price volatility. With our low-cost assets, diversified portfolio and strong operating performance and balance sheet, we are ready for whatever happens.

Thank you.

### Slide 15: Title slide: Mike Henry

Thank you, Peter.

### Slide 16: We have a strong foundation

As I've mentioned, we have a strong foundation upon which to deliver exceptional operating and financial performance!

Our portfolio is simple and solid. It's comprised of commodities with attractive supply side fundamentals and durable, near-term demand growth.

Our assets are some of the world's best and they're located in favourable jurisdictions.

We have a pipeline of high-return opportunities to grow value – through productivity, and brownfield and greenfield projects.

And we are performing well operationally and financially, with good momentum.

- Our iron ore operations are advantaged in terms of size, quality and proximity to market. Over the past five years, we've halved our unit costs and increased production by 20 per cent. Once South Flank is completed, we can sustain production at a higher grade for many years.
- Our Escondida copper mine in Chile has kept costs and production flat over the past five years, despite 35 per cent grade decline and increased use of desalinated water.
- We remain the largest seaborne supplier of coal for steel-making, with a high-quality product. Over the past five years, despite a 14 per cent increase in strip ratios, we've increased production and reduced unit costs by over 15 per cent.
- And our petroleum business has leading exploration and operational capability, and numerous options that can add valuable growth.

Let me now give you an update on how we'll further lift performance through our culture, capabilities and the use of technology – focusing on our major Assets.

### Slide 17: Asset performance (Western Australia Iron Ore and Queensland Coal)

Our bulks businesses are incredible cash generators for the Group and have further potential to grow value.

At Western Australia Iron Ore, we remain focused on unlocking the full potential of this business through becoming even more reliable, through reducing costs and through optimising our supply chain. Our program to improve port reliability is progressing well. This will provide a stable base for our tightly coupled supply chain, as we further lift rail capacity and mine production. We intend to bring costs down further as we creep towards 290 million tonnes per year.

The South Flank project was designed leanly and moved into execution with a commercial mindset. This is paying off. The project is progressing well, on time and on budget, and when completed in 2021 it will lift the average product grade and the proportion of our production that is high value lump.

At Queensland Coal, we are breaking records in stripping – the bottleneck – amid a period of higher strip ratios. As we move the bottleneck to the wash plants, and the benefits of technology



and the BHP Operating System flow through, we will also reduce costs and unlock volumes should the market require. Our strip ratios will moderate over time, also supporting lower costs.

As good as the underlying assets are, we will only realise their true potential when we have the right people, properly led and enabled, and when we are great at applying technology to make us safer and more productive. The roll out of Operations Services in Australia and autonomous haulage are two examples.

BHP's Operations Services is an innovative model founded on people, connectedness and high performance. It now operates in 13 locations across Australia and has created more than 1,500 permanent jobs in production and maintenance. I expect this to be closer to 3,000 people by the end of the financial year.

Through hiring great people, giving them the right leadership through tighter supervisor spans of control, creating a high performance culture and providing more training, Operations Services is achieving some strong results. This includes reduced outage time in maintenance and up to 30 per cent improvement in productivity.

We see potential to grow this part of our business to improve safety and productivity, and create more permanent jobs and opportunities for our local communities.

Likewise, our implementation of autonomous haulage at Jumblebar produced outstanding results. Incidents with fatal potential are down by more than 80 per cent and haulage costs by 20 per cent. We expect to see similar improvements at Goonyella Riverside, with first trucks arriving later this year. We will continue to assess the value case for deployment of this technology to other sites, through the lens of our Capital Allocation Framework.

### **Slide 18: Asset performance (Escondida, Pampa Norte and Olympic Dam)**

Our copper assets are all improving performance, and collectively have some near-term growth and longer term potential.

Escondida continues to set records in concentrator throughput, supported by improvements in maintenance and operational performance. We expect this strong performance to continue, and to support average production of 1.2 million tonnes per annum in the medium term.

At Spence, our optimisation technology has lifted recoveries by 14 per cent, and we are now replicating this at Cerro Colorado.

When I was at Spence in December, I visited with the growth project and it's also progressing well. Initial copper production is expected in the second half of this calendar year. Together with the current operations, the total annual copper output at Spence will reach 300 thousand tonnes per year over the first four years.

Across both Escondida and Spence, we are not only improving performance and returns, but we're making our assets more sustainable.

Escondida's desalination plant expansion was completed in December, lifting capacity to 3,800 litres per second. As a result, we have ceased drawing water from the local aquifers a full 10 years ahead of schedule. While use of desalinated water is more expensive, we have managed to keep costs at Escondida flat through some great cost management. The desalination plant at Spence is near completion and will allow its expanded operations to use desalinated water as its main source of supply.

We have also signed agreements in the past half to move towards 100 per cent renewable energy sources by the mid-2020s. This will reduce three million tonnes – approximately 60 per

cent – of CO2 emissions per year across our Chilean operations at significantly reduced electricity prices. This is an important example of how we can meet the objective of green, low cost, stable supply of electricity.

At Olympic Dam, our multi-year effort to remediate asset integrity is progressing to plan, and will help us secure more reliable operations. At the same time, we have improved grade. Combined, these will help us to lift returns, and provide the foundation for significant production growth, which we continue to evaluate. Clearly returns at Olympic Dam are not where they need to be. I'm absolutely committed to addressing this.

### **Slide 19: Asset performance (Petroleum and Petroleum exploration)**

In Petroleum, our suite of competitive projects has the potential to substantially increase production over the next decade.

Geraldine and her team spent time with many of you in November to talk about the potential of this part of the portfolio. We have a rich suite of high-return, brownfield and greenfield value creation opportunities.

Atlantis Phase 3 is on track to deliver first oil this year, with Ruby and Mad Dog Phase 2 to follow over the next couple of years. These major projects will add a combined 25 million barrels of oil equivalent in 2023.

Beyond these, several unsanctioned projects will be considered for approval over the next 12 to 18 months. In the Gulf of Mexico, growth opportunities at Shenzi and Wildling Phase 1 could add production from late-2022. And in Australia, the Scarborough LNG development offers material growth, with potential first production from 2024.

Our successful appraisal program at Trion in Mexico has reduced resource uncertainty and the development is advancing towards potential FID within the next two to three years. And following our material gas discovery in Trinidad and Tobago, we are progressing appraisal and development options.

Our successful Petroleum exploration program continues to replenish our portfolio.

### **Slide 20: Investment proposition**

So, to recap.

We have a compelling investment proposition.

We remain focused on maximising cash flow and continuing our track record of disciplined application of our Capital Allocation Framework.

Our foundations are rock solid, and our strong first half performance is indicative of our momentum.

And, we see enormous potential to reliably deliver sector-leading operational performance, financial returns and social value in the years ahead.

### **Slide 21: Exceptional performance in a dynamic world**

Our foundations are strong and performance momentum are with us.

We will deliver a BHP that is safe, lean, high performing and fit for the future.

Thank you.