BHP

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Paul Young, Goldman Sachs

Okay. Good afternoon, everyone, in Australia and Asia and welcome to the BHP investor conference call. Hope everyone and their families are safe and well. For those who don't know me, my name is Paul Young. cover the Australian metals and mining sector for Goldman Sachs in Sydney. I'd like to introduce and welcome BHP CFO Peter Beaven, who is providing an update on the company today. Thank you, Peter, for making time to join us today, considering the current challenges of looking after your workforce and other key stakeholders. Also, Tristan Lovegrove and Tara Dines from BHP's Investor Relations team. Thank you, Tristan and Tara for arranging today's call with Peter.

Before we commence, I'll cover some compulsory GS compliance requirements. Firstly, this conversation is not intended for the media and is off the record. This webcast is not for the purpose of sharing or receiving non-public or otherwise confidential information. Attendees are public-side market participants who may not receive and should not request non-public or otherwise confidential information about issuers or securities or about the markets for securities. The agenda for today's call is for Peter to provide some opening remarks on BHP's recent performance, the economy and commodies, before opening to Q&A. This session will be 45 minutes in duration. With that, Peter, over to you, please.

Peter Beaven, BHP CFO

Thanks, Paul. These are extraordinary times we're in. Obviously our industry has seen some challenging times before, but we've never quite seen something like this – like we've seen in the last few months. Like everyone, we're extremely conscious of the devastating effect the pandemic is having. But in the face of this, our people have worked together and they're working in a safe way, which is really the most important thing that we always think about in BHP. And the business is performing strongly. I think that BHP is even more important during times like this. The mining industry is one of the handful still operating, and therefore in a unique position to be able to continue to support livelihoods, communities, governments and economic activity.

At our interim results in February, we took you through a number of things that we'll focus on to unlock even more of our potential, and to further address the challenges and capitalise the opportunities that lie ahead. These were, just to recap, to be even leaner and high performing across the lower cost, more reliable and more productive sort of areas. And to be safer, of course. And to create more options in future-facing commodities. And to achieve this, we highlighted five specific levers. Obviously, the most important, culture and capability – it's all about people. And then an asset-centric focus – make sure that we really lead at all times with what the asset, the asset, the asset needs. Applying better technology is the fourth. And then capital allocation, as always. You've heard me say many, many, many hours of conversations on capital allocation. So our focus on these five remains absolutely unchanged by COVID.

Operationally and financially, we are performing well. We carried the momentum established over the last 12 to 18 months into the new year, and delivered strong underlying performance in the March quarter, which you saw in the ops report we published the other day. The nine-month period, we've achieved record production in Western Australian iron ore, record production at Caval, record concentrator throughput at Escondida, and record material stacked at Spence. And we did this despite the challenges of very heavy weather in Australia. We didn't get the direct hit that Rio got hit in – with Damien, but it certainly had a big impact on our business, and in Queensland in particular – no particular cyclone, but just a huge amount of rain. Unrest in Chile – obviously that continues to be an interesting place – and, of course, the impacts of COVID-19 in the last few months.

It's been a multi-year effort to make our functions more efficient, and that's also progressed. As Mike highlighted at our interim results, we've accelerated delivery of the program called World Class Functions, and when combined with the changes underway in technology, we expect to further reduce overheads by well over half a billion dollars by 2021 relative to last financial year.

So we're running well. But markets, on the other hand, remain very uncertain and under pressure to varying degrees. We do continue to sell all our product, and payment performances remain very strong. Again, we've benefited from our diversified portfolio, high quality products and strong relationships with our customers.

So, where to from here? Well, there's been clearly a large amount of stimulus committed, and this will go some way, at this point, early stage, to cushioning the damage to economies and commodity demand and it will help support a faster recovery. We're also beginning to see the relaxation of some of the COVID restrictions. However, other than in China, where a V-shaped recovery appears to be underway, we do think that the recovery elsewhere will be more protracted. Re-establishing the billion plus livelihoods that have been disrupted will take time and consumption will, no question, be constrained. So this makes a V-shpaed recovery increasingly unlikely, again, other than in China. By the end of 2021, our base case has the global economy around 4 per cent smaller than it would otherwise have been.

In terms of commodities, we think that if China avoids a second wave, Chinese pig iron production has the potential to grow slightly this year, so grow slightly this year. However, in the rest of the world, it's likely to experience a double digit decline. Copper demand is also expected to fall, but is likely to be more resilient than steel. The impact of COVID-19 on the supply side should also provide a degree of price support. Demand for oil products is expected to recover in line with easing of mobility restrictions, but the level of demand is absolutely unlikely to fully recover before the end of 2021.

It's too early to say anything definitive about the longer-term impacts of COVID-19. The underlying demand drivers – population growth, urbanisation, industrialisation, increased standards of living – those remain the same. The world will continue to need our commodities.

Despite the near-term uncertainty, our portfolio, balance sheet, and operations enable us to weather times like these. In fact, one of our real strengths is our ability to invest through the cycle and create long-term value.

But as you'd expect, we're also reviewing our capital and exploration expenditure for the coming year. In the current environment, of course, we are looking at where it makes sense to defer projects for value, and there are also direct impacts from COVID-19 due to the need to ensure a safe working environment. And petroleum, obviously, a good example of where we see we can preserve value by deferring. So we've already announced that we're deferring making a final investment decision on Scarborough until the middle of next year, and we also have flexibility to reduce exploration spend next year by around US$200 million. That's about a third of what we spent over the recent years. Some projects have shorter life cycles, so it makes sense to preserve value by shifting production to a window where we anticipate stronger prices.

What we've said is that group capex for FY21 will be lower than previous guidance of around US$8 billion, but I'd also like to point out that our FY21 capex guidance will reflect some capex that will have been pushed from FY20 into FY21. Okay. So that's primarily the COVID-19 impact on spend, for example, associated with SGO. We're currently working through this and we will provide updated guidance at our full year results in August.

So, to sum up, the past four months have been quite extraordinary but our strengths have shown through and we continue to perform well. We have a simple, diversified portfolio of large, high quality assets. The balance sheet is rock solid. Our capital allocation framework is specifically designed to balance returns to shareholders and continue investments at all points in the cycle. And we're in an industry which continues to operate. And with our strong financial position, low-cost operations, we can continue to generate solid cash flow and returns to shareholders through this period.

Thanks, Paul. Happy to take any questions.

Questions and answers

PAUL YOUNG
Thanks Peter, great overview. We'll open for Q&A now.

Peter, the first question which we have is around balance sheet and downside planning. You have one of the strongest balance sheets of the majors, but as CFO, how are you preparing BHP for a potential L-shape or protracted commodity demand recovery, and what scenarios are you stress testing?

PETER BEAVEN

So it's been interesting, Paul, that, you know, 2015/16 we went through this downturn and we learned a tonne of lessons out of that. I had to learn them as I came into that role. And so what we've done is actually just – we had applied them, and that's why we came into this period with this very strong balance sheet, and we just continued to apply them. It's been a very busy period, but it's been – at least from a balance sheet perspective, it hasn't been hugely stressful because we haven't had to try and make this thing up as we go along in terms of what constitutes a strong balance sheet and the frameworks and all the rest of it.

So, just to reiterate what I guess I've been saying for some years now, we do stress test our balance sheet for whatever see in front of us and we take off a lot in terms of whatever spot prices. So, we need to have a strong balance sheet and we need to prepare for that in using a price deck which is quite a lot lower than what we see today across the board. And then we hold it down for two to three years in our model, obviously. And then we actually model going on the offence at the same time by putting in a notional acquisition, just to see how that would work at the beginning of that stress period. And then we run it out, and we see and we make sure obviously that whatever that starting point is sufficiently low to give us a strong balance sheet through the end of that period.

What we've also done through COVID is we've overlaid through that – that's what we've been doing for the last few years – .we've also overlaid a series of notional shutdowns of all of our assets for up to three months and then a slow ramp back up of those. As I say, individual assets or all of the assets. And again, we just see how the balance sheet would perform. And we lay those things alongside each other, so low price and shut in operations. And I think we're pretty confident that our balance sheet would remain strong, as in – easy definition, at least have an A in front of it in terms of a rating outcome – through this period.

So I think we're in good shape. But Paul, the fundamental of this will continue to be to have a good starting point on your balance sheet, but continue to have really a good portfolio and have very low cost assets. So we've still got a lot of work to do, whatever's coming. This is going to be a difficult period from a price perspective for an extended period of time. So we've got more work to do on further lowering our opex, as I mentioned just a moment ago, thinking carefully what our capex spend is likely to be, and obviously we've got it all back together again and I think we'll continue to be in decent shape, certainly from a balance sheet perspective.

PAUL YOUNG

Okay. Thanks Peter. Very consistent approach and view as we saw from the capital allocation briefing a few years ago. Peter, we might move to a question on the COVID-19 impact and response, and it's regarding some future potential impacts. Which of your assets have the biggest risk to achieving production guidance or maintaining current production levels going forward – whether it be due to labour, equipment, spare parts, getting maintenance crews around, logistical challenges – and what are you doing to mitigate these risks? One example could be getting maintenance crews into Escondida. And also just from a demand side, we did see a lower demand period – how could that impact your production, and maybe give an example, or is there a risk around the oil volumes component of that?

PETER BEAVEN

I think from the beginning, we did a huge amount of work in just trying to understand where the risks were in our supply chain from COVID. And I think, more or less, what has ended up, is that thanks to Australia's very good work, and our own very good work, and I think that probably the risks at this point in time –things can move – but at this point in time, the risks to the supply chain here in Australia are lower, certainly than what we had in some of the scenario planning, so that's good news. And as I said a number of times, the assets continue to perform well.

I think the Chilean assets are probably a little bit more interesting. As I say, we are producing well out of those assets. And in fact, some extremely good numbers out of the concentrators at Escondida and so on. But we've had to pull people off those sites. Some people we've asked not to go to work. In fact, that's just a global thing, where if they're over 60, or they've got issues with their immune systems – and so, we ask that people please don't come. And then we've removed other people from the sites in Chile, just for social distancing and so on. And so that has had some impact on a number of areas. Not on basic equipment reliability maintenance, Paul, we've absolutely kept that part of the business going, along the way. But if it's an improvement project, we've probably had to sacrifice that. And I think in Chile, there is some stripping. We've focused on pushing tonnes through the concentrators and we have seen impacts on stripping. And so that will inevitably, turn up in the numbers. We're not ready to provide guidance on next year, but there is no question that there will be some impact relative to where we saw Escondida and Spence to be.

The other impact, I would say, is on SGO. We're 91 or 92 per cent of our way through. That project was absolutely on time and on budget but, again, we've had to pull some folks off the site, so that will have some impact. More likely than not the startup of that concentrator, which was imminent, is going to be somewhat delayed. So we'll probably think our way through the throughput and, therefore, the production is for next year.

And, finally, I'd say there's another part of this which is we've got some levers to pull on what sort of product we push through the concentrator, particularly in base metals - oil has a slightly different sort of set of circumstances. But, we think a little bit about what sort of grade profile we'd seek to push through the assets, because if there is going to be a couple of years of lower prices you want to think about where you want to deploy your best grade, according to those prices. And same in oil and gas, there was a moment there where we thought – and, you know, we may go back to there – we might have had to shut in production because there was simply nowhere to put the material. That seems to have dissipated somewhat, and so we would hope to avoid a COVID shut in. But no question, for value, we'll think very hard about what the capex profile, the activity profile on some of those projects are. And so, again, that all helps – that'll turn up in some impact in medium-term production profiles.

I suppose the other thing, Paul, it's not all about COVID. There is other issues that are afoot at the moment. I just want to highlight, some of the issues around trade and some of the relationships between governments and so on. This is also worth highlighting, particularly in our coal business at the moment. It is possible, we started to hear from some of our customers in China that they may not be taking Australian coal – thermal, that is. And so that's a bit of a concern. And so we're going to have to work our way through that. Obviously, thermal coal is a very, very small – tiny part of our portfolio, but, nevertheless – probably about 45 per cent of that New South Wales Energy Coal product goes into China, so we'd have to find a new market for that, or – and we'd probably have to change the grade spec on that, if we were to place that in other markets. So there's a lot of moving parts at the moment, Paul.

PAUL YOUNG

Yes. There are, Peter. We might stay on the topic of projects before we get, actually, to a few questions– specifically more on and back onto commodities. The question here about your petroleum growth projects – and the question is, is Scarborough the only petroleum project that has been deferred due to the current oil price environment or has work slowed on the other petroleum developments? And what's been called out here is Trion Wildling, Trinidad and Tobago gas. And another question, also on projects, specifically Olympic Dam, Peter, is how far through the asset integrity program are they, and has it identified anything that will help lift returns from that asset? So a question on petroleum and also OD.Probably a couple past that. One is how you're tracking, and also, with the additional studies, whether it be on the underground, is there any update there, I guess, on BFX and lifting returns?

PETER BEAVEN

Look, I think on petroleum, Scarborough is the closest to FID, so it is what it is. The rest – Trion and Trinidad and so on – these are studies, and I mean, I think we just keep going on those studies because I think they have every making of a good project. So I don't think there's any particular delay in those. I think the things that we are being thoughtful about is infills, because you can turn those on and off pretty quickly, and the paybacks on those are really short. So I think there's no issue with us, deferring some of those and putting those into production a little bit later when the market really needs them and the prices should be a lot better than what they are at the moment.

So that's probably where you're going to see – but it wouldn't be a surprise to anybody to think there will be a bigger emphasis, shall we say on deferrals of capex in petroleum by some distance than there would be across the minerals business. I think a lot of the the spend in minerals, particularly the bulks, it's not really growth orientated. It's asset integrity, so we should keep going on that. And we should finish the projects that we've got underway in Spence and South Flank. You can shut a project down midflight, but boy, does that cost you. There's no reason for us to do that, and that's where you should expect to see the balance of the cuts that we'll get round to announcing in, as I say, in August.

I think on OD it's a three-year program. We've got another two more years of pretty heavy spend there – it's probably in the US$600 millions or something like that. That's the sort of the nature of what we're spending. Some of that is in FY21 because we've got the SCM, the statutory shut, and so that will contribute to – the smelter shut, that is - to a particularly high spend in FY21. After that, the capex spend will reduce by a lot, and we should be in much, much clearer air from a reliability perspective and so on, and so we should be able – you know, we absolutely need to, must be able to produce the 200 to 220 thousand tonnes out of that asset, with as I say, a lot lower capex, and we start to get some free cash flow.

The next edition the team is coming up with for with BFX and so on. I'm looking forward to seeing that in the next month or so. Again, I guess we'll probably be in a better position to talk about that in August.

PAUL YOUNG
Okay. Thanks, Peter. One other question coming through on capex, projects and capex, and you might have somewhat answered this, Peter, but I'll ask it anyway. But can you comment on your planned reduction in capex through 2021 ex-oil, in view of your business through the cycle approach to investment?

PETER BEAVEN
Yes. I think I've sort of more or less answered that. I think we have got good growth projects. We should finish those things off. We should always look after our business, and I think, as I say, we'll be able to get a fair, you know, a material amount out, for value, I think, honestly, in oil and gas and I'm quite satisfied with the direction of travel in our thinking on capex. I think the most important thing is, though, we are not a company – as we learnt, almost had to learn, shall we say, in 2015/16 – where the strategy becomes a balance sheet or frankly, the dividend becomes the strategy.Wwe're just not like that. I think, as I say, we learned so many lessons, and we have applied those over the last few years, so feeling relatively okay about this in terms of our ability to deploy capital for value through the cycle.

PAUL YOUNG
Yes. Thanks, Peter. While we're on the comments on the balance sheet, let's explore the buyback versus the build discussion – it's usually for the one for the board but, the CFO guides the board. But with the potential difficulty of executing on projects and the fall in the BHP share price, does this now make it more attractive to buy back shares? And how meaningful would a buy back need to be and what are the return hurdles? And I'll just add another comment, actually, a comment on the dividend, Peter. It's a question that's come in, has BHP changed its view on the dividend to revert to the stated payout ratio of 50 per cent instead of distributing excess cashflow to shareholders in this period?

PETER BEAVEN
Well, we haven't changed our capital allocation framework; we haven't changed our dividend policy. And so, that's the simple answer to that question. When we get to August, we'll make a call on what the level of that dividend will be. As I said, minimum 50 per cent. There's no issue with that. It's a great, well, gee, all the discussion we had around the dividend policy. I'm super happy we've got this dividend policy. I think it makes sense and I think we should apply it. And I think we're in a position to do so. Just to recall, our capital allocation is (1) the capital goes to maintain the business. That's number 1. Number 2, we look after the balance sheet. Number 3, assuming every time something's left over, we pay 50 per cent of our earnings in the form of a dividend. With the strength of the business, as it's currently performing and with the position of our balance sheet and so on, I think that's 1, 2, 3 in the level of the capital allocation framework. I'm feeling relatively good about that.

Where do we go from there? Then the next level, of course, as you know, in our capital allocation framework, is buybacks, further additional dividends beyond 50 per cent payout and growth capex that all gets to duke it out. And, again, I'll just repeat what was said before. If it's a buyback, then it competes exactly in the same way with any other growth project and we put it through exactly the same evaluation framework. One thing to say, though, is that, to do a buyback we need to have some material amount of money to put, to deploy, particularly for an off-market buyback, probably about a billion and a half before it sort of makes any sense because your scale-back just gets crazy, right. It's not a hard and fast rule necessarily, but we prefer to do things in material licks. So nothing much new to say on that, Paul. We'll get to it in August.

PAUL YOUNG
Yes. Thank you, Peter. We'll add to that, discussion on the balance sheet and cap allocation. Few questions on M&A. One here about, isn't it the time in the cycle when we should be doing M&A? And looking at previous deals from BHP and the comment about oil being a growth commodity, should BHP be trying to pick the growth commodity or, rather, just focus on the potential return on investment regardless of the commodity?

PETER BEAVEN

Yes. Well, actually, what we do is, as you know, our strategy is to have exposure to the best commodities, have the best assets and obviously to operate those with the best capability. And so it's not a question of the best asset or the best commodity; we have to put those things together. What we say, and we'll consistently say it, is that we would like to grow in our resource base in things that we don't have a huge amount of options in, and that is oil. We have got options, we don't have, we never have enough, right. We're super greedy on oil, copper, nickel and potash to an extent, right. On the other hand, things like the bulks and so on, we've got masses of optionality and it's the best of it. So why go out and buy more because if you've got better stuff inside of our own organisation?

So I think, there is no doubt that you want to be buying things at the bottom of the cycle. So we're very active at looking, but the probabilities of finding this incredible sweet spot of an asset that fits our criteria from a quality perspective and fits our return perspective, because you've got to pay for the thing, right, and then operate it so on, does continue to be very challenging; no question about that. But, yes, we'll continue to look and see what happens. Who knows? We've got a balance sheet. We set it up for this moment in time. So, yes, we should be active, but I don't know.

Not a lot of people want to give up good assets at any point in the cycle. That much I've learnt over many years, Paul. And if they do, they extract very high prices no matter what. So I think you've just got to be realistic about that.

PAUL YOUNG

Yes. That's a fair point. Peter, couple more topics addressing your view on commodities and then also diving back into some of the projects and divisions. A few questions on commodities coming through. One on iron ore, the first being Brazilian supply continues to struggle and China steel demand, it's rebounded very strongly. Are these two factors enough to offset weak rest of world steel demand? And also, what are your marketing teams seeing in China at the moment? The second question also on met coal. There have been some supply side disruptions, but rest of world steel declines having a bigger impact. When do you see recovery in met coal demand taking place? And also, the potential instability between China and Australia – could that actually pose a risk to your sales?

PETER BEAVEN

Yes. Okay. So, look, just in terms of steel, China are really coming through very nicely. MySteel said I think 90 per cent utilisation. They've kind of recut the way that they calculate utilisation. I think on the old version it's like 82, 83, so well above 80, which is kind of the reasonable cut-off to say whether the steel industry is going at a pace or not in China, and it is, so annualised over a billion tonnes. Not a huge amount of margin still in the business, so your differentials for iron ore and some of the met coal grades and so on aren't quite as pronounced as you would normally expect to see when you've got those sort of very high utilisations. But nevertheless, very healthy, and, of course, what is it, three quarters of the world's seaborne iron ore goes to China, and so, yes, that is the obvious sort of combination.

You've got slightly weaker supply out of Brazil, other parts of the world around places like India and so on, and meeting a very strong demand and you see what's happening with port stocks and so it's flowing through. Some response from the domestic iron ore business industry in China, but, again, not enough to really make up for some of the loss of the tonnes that have come out of the supply side. It'll be interesting to see what goes forward on this. I suppose Australia will continue to be – we can only expect that Australia will continue to be as relatively strong as it has been across the board. But Brazil – they've had weather, they've had issues with getting some of the permits back post-Brumadinho, which COVID hasn't helped, by the way, because of various shutdowns and admin and so on, and the general nervousness, I think, in those communities in Minas Gerais.

But the other thing which I guess we're all watching is Brazil's impact of COVID, and, in particular you see some – across their states, Minas Gerais is probably not – in the southern system as concentrated as Minas Gerais. Probably not a huge hotspot. Probably more Sao Paulo and Rio de Janeiro. But not great. But the north, Maranhao and Para and so on, those states do not look great. So I really hope they would turn the corner there, but it's brutal. So you've got to watch how that supply side comes out. In any event we'll see.

On met coal, a little bit more interesting, as you said, Paul, probably one quarter of seaborne goes into China, so it's much, much more important what happens in the rest of the world steel industry in terms of demand for met coal than it is for iron ore. And you've seen that very much play out in the differentials in the price.

Last year, India became our biggest customer, and, of course, India has more or less banked its steel – its blast furnaces, so they're running at probably 30, 40 per cent. If you add up the whole of the rest of the world, probably about a 50 per cent utilisation rate, and that's certainly turning up in the demand side for met coal. Some disruption, but not particularly material, sort of helps I suppose, a little bit. In terms of where this goes from here, probably we have a weak quarter. Certainly we've had a weak quarter. We'll continue probably to have a weak quarter until those rest of world steel – those blast furnaces start to reopen, which honestly is probably towards the back end of this year before that really starts to see some impact.

In terms of the Australia-China issues and so on, it's not a little thing to think about. As I said, maybe it's turning up in thermal coal already, but there's import restrictions, as you know, already of coal total into China. Probably last year in CY19 was about 300 million tonnes, so all coal types from all import regions. It's a possibility that they further restrict that, and so we'll have to see how that goes. Certainly the coal industry in China is asking for it, but the one thing that's certainly in our favour – a couple of things are in our favour, one of which is that there's a big arbitrage between local-sourced PLV which is probably trading US$180 equivalent (per tonne), something of that order, and we're delivering our PLV into China, which is like US$120 (per tonne) or something like that. So, there's going to be a big demand for our products given that arb from the steel mills. So they're going to have to duke it out with the coal industry, and the Chinese Government will arbitrate on that.

But also because of our quality, if there is a restriction on – as we saw late last year – that big impact on the met coal market because of these import restrictions coming in. If that starts to tighten, you've got to think that because of the scarcity of the PLV and because of that big arbitrage, you've got to think that, if the market had its way, then the PLV from our mines is going to be the best economic thing to import into China – for those reasons. So we'll wait and see, Paul, but it's going to be an interesting little period. I think if you want to be somewhere in this, you'd want to be in BHPs portfolio, that's for sure: tiny portion of energy coal and the vast majority of PLV met coal.

PAUL YOUNG

Yes. Let's continue the discussion on iron ore supply. And we know Brazil's struggling at the moment and will continue to struggle, and it's also one of your competitors in the Pilbara, which is struggling as well. So the question is twofold. First of all, just with the South Flank development, maybe just run through the benefit of that project – a US$3.6 billion project, 100 per cent share – and how it's tracking? And also, you're submitting to the Pilbara Ports Authority an increase or a change in permit to increase your shipments to potentially 330 million tonnes per annum. So can you just run through the creep options you have. Of course, when you submit permits, you always go the upper end of where you want to go, but maybe you could just – where you think you might go eventually. Maybe just run through I guess those options you have incrementally to get to 290 and then maybe to 330.

PETER BEAVEN

Look, as you say, we don't know quite where the world goes after this, but we've got to be prepared for everything. We've got latent capacity in our system, so we should go and think through whether we should deploy that or not, and one of those key things is to get a licence. That takes a long time, so we should go and start that conversation with the authorities, with our community and so on. So we'll see. But in the meantime, we just reiterate to the market that we haven't hit 290 (million tonnes per annum). We've at least got to hit 290 reliably. We're not far off it, and so that's really where I think we'll continue to be very much focused.

I think in South Flank, what would be super ideal is if we focus our bulks, not necessarily adding a lot more tonnes into the market, that's probably not the smartest thing we could do, but just creep so that we max the efficiency of our capital, but get better quality at lower cost. I think that makes for a much better business. And so I think that's where South Flank comes into that. Okay. We're going to miss Yandi because it's a great product and it's low cost and it's installed capital, but everything has its moment. So if South Flank comes along, it's a great project as a replacement, it is low capital intensive at US$45 a tonne. And it will improve the quality of our overall product. We'll have lump coming in there, so that'll be a 10 per cent increase from 25 to 35 per cent *(* actual grade 33 per cent*), because Yandi doesn't have lump, and it'll increase our grade up to more or less 62, 63 per cent because Yandi is a 58 per cent product and – and South Flank's more a 62, 63. So better grades, more lump, probably a tiny bit higher cost than Yandi because Yandi has that very low strip ratio but nothing enough to really write home about.

So overall, again, we'll have a better quality business post South Flank than even with having Yandi in our business. So happy with that and I think it fits into that general sense of what we should do with our bulks.

PAUL YOUNG

Okay. All right. Thanks, Peter. I think we've probably got time, hopefully, for two more. We've had a question come through on Jansen, Peter. This one's come at the back end of the Q&A – take that how you like. But the question on Jansen is just with respect to the slowdown on the shaft sinking there and also just generally restrictions around labour, could we see actually that decision by the board, which is scheduled by February 2021 actually pushed out?

PETER BEAVEN

Yes. Paul, it could be. I think we've just got to sort of work our way through what the COVID implications are cross all of our suite. If it makes sense for us to delay things because a supply-demand gap that we're looking for in the market, whether it's LNG or it's potash or whatever is, then yes, we should think our way through it. Now, it may be, it may not be. You know, with this, it feels like COVID's been around for a long time, but actually, we're five seconds after this thing, so we have to just take a moment and think our way through that rather than come out and just say, "Okay, it's going to be like this."

But the project continues. We've had to pull some people. It's a bit like SGO, we had to pull some people off the site. Work continues, but there's going to be some delays. It wouldn't be particularly a problem for the overall project, a critical part, because we're talking the shaft, which is a project within an overall project if we ever get there. So that's probably not particularly concerning from an overall project perspective. But as I say, we've always said this, we want to look at the possibility of putting projects to work where there is capacity required for additional product, and we want to be thoughtful when that product is required, and so Jansen fits that same model. And we've got some new information, so we'll go and take a look at that.

PAUL YOUNG

Okay. Great. Thanks, Peter. Time for one more, I think, and it's come through on the transformation program and unlocking value through transformation. Big focus for Mike and yourself, and a number of programs and initiatives there with the BHP Operating System, value chain automation, World Class Functions, et cetera. The question is, how do we assess the benefits and returns and value creation of these programs? And I know you're targeting a US$500 million reduction in overheads, can we put that into perspective about what percentage reduction that is off what cost base?

PETER BEAVEN

Yes. When we're talking here on the World Class Functions, we're really going after what we call global functions. This is like finance and HR, external affairs, technology, supply and marketing. Those are that group. So off that cost base, we're probably talking US$2.2 billion versus down US$500 million or so, something of that order. Every company has a different definition of what their overhead is. We have more in our overhead bucket because we have a globalised functional model, whereas where we came from, and I guess probably what most mining companies have as opposed to oil and gas companies that very often are set up as we are. A mining company tends to have all of its functions sitting underneath a particular asset or a region or something like that, so they'll say, my overheads are low.

So we benchmarked all of those processes and the costs exhaustively and we've gone to work on that. I'd say all up it's a good number. We could – if I'm really truly honest with you, we could have gone a little faster, but I think it's coming out and we are moving now, and we're moving in a material way, and that's all good, and we're halfway through this already. So, again, this is great.

I think one of the other parts you mentioned, BHP Operating System (BOS) and the Centres of Excellence and so on. There's an acid test on that stuff. Are we getting more reliable in our operations? Are we getting more through our bottlenecks, whether they're car dumpers or they're concentrators? And ultimately are we getting lower costs and so on?

Happily, we are getting some excellent performance through car dumpers, concentrators and stacking and all the rest of it, better than we've ever done before, so it is having some impact. And I think, incredibly importantly, there's much more that can come out of this as we start to wind up the real capability of this organisation, which, we've done okay over the last few years, but to be a truly proper globally world-class manufacturing business, which you've heard me say many times, there is still a long way to go. But these are the things that have to be put in place, so we have to go after this and we have to be methodical about this and we have to be consistent and we have to stay the course on these things. And, as I say, happily they turning up in the only thing that matters, which is, safety, production and costs. Anyway, you'll see the next addition in a few weeks time. You can figure it out for yourself. There you go.

PAUL YOUNG

Thanks. Yes. That's great, Peter. Well, we are conscious of time and we are up against the 45 minutes, so, Peter, I'd like to thank yourself for all the insights. That was really valuable. And also for your time today. And also to Tristan, Tara and the team. And also for the questions from the participants, and I thank you for dialling in, and I hope you found this useful. And, Peter, good luck for the upcoming quarterly and also your full-year results.

PETER BEAVEN

Yes. Appreciate it. Thanks, Paul.