

BHP

Financial results for the year ended 30 June 2020 Investor and analyst briefing speech

18 August 2020

Slide 1: Title slide: Financial results for the year ended 30 June 2020

Thank you for joining Peter Beaven and me.

We are proud to have safely delivered a strong set of operational and financial results.

Slide 2: Disclaimer

Slide 3: Title slide: Mike Henry

Slide 4: Resilient results in extraordinary times

Today we are going to talk with you about three things that build upon the operational excellence and portfolio of the future agenda that I spoke with you about in February.

- Firstly, a very strong set of operational and financial results for the year past, which aligns to the resolve I spoke about for BHP to further improve performance and to be unquestionably the industry's best operator in order to drive value and returns. Underpinned of course by our commitment to social value.
- Secondly, our further steps to create more options in future facing commodities, while investing in near term growth in existing options and in ensuring that we continue to focus the portfolio for value and upside exposure.
- And finally, a few changes that we are making to how we organise ourselves and what we prioritise to achieve our performance and portfolio agenda.

In the past half, the world has been confronted with the tragedy and disruption of COVID-19, and we have also experienced unprecedented volatility in oil and gas prices.

It's therefore all the more encouraging that BHP completed the year safer, lower cost, more reliable and more productive.

In the second half we further reduced average unit costs at our major assets, building upon our first half momentum.

We produced strong free cash flow that has kept net debt at the bottom of our target range, and allowed us to return over US\$6 billion to shareholders for the third year in a row.

This performance is a direct result of our consistent efforts to strengthen the portfolio, maintain capital discipline, and improve capability and culture.

It also required our people to step up. They've worked with purpose, focus, speed and decisiveness. I would like to extend my gratitude to them. Their performance and our resilience through the pandemic is benefitting all BHP stakeholders.

In the face of the global disruption to economies and livelihoods, we and our industry have been able to continue to provide regional jobs, business opportunities for others, support for communities, and revenues for governments.

We define BHP's purpose as – bringing people and resources together to build a better world – something underscored this past year like no other.

Slide 5: Response to COVID-19

I want to touch briefly on how we are responding to the COVID-19 pandemic and our actions over the past six months.

We knew we'd have to be dynamic, and work in partnership with others.

Consistent with our values and ways of doing business, our priorities were:

- to keep our people and communities safe;
- to look for ways to support those who rely on us to cope with the crisis; and
- to keep our operations running reliably.

People right across BHP rallied in line with our purpose and values.

They have shown extraordinary resilience and commitment along the way. The 1,000-odd people who moved interstate in one weekend to keep our operations running, is a remarkable, and yet not untypical, example.

Crucially, the strength of our balance sheet and diversified portfolio also allowed us to stay focused on the things that matter most.

We take our responsibilities seriously and social value helped guide our decisions. So, we shortened payments terms of small, local and Indigenous suppliers; we committed US\$50 million to social and health programs in our communities globally; we hired 1,500 more people temporarily; and the BHP Foundation has funded vaccine research. To name but a few.

And we are working with state and federal governments, and community organisations, to ensure we can continue to operate safely and generate returns for all our stakeholders.

More than anything else, our experience through the pandemic has powerfully reinforced for me what's possible when we work with purpose, are focused on the few things that matter most, and act in partnership with others.

Naturally, we'll embed these learnings and some of the changes we've made, where it improves how we perform.

Slide 6: FY20 financial highlights

Turning to the numbers.

The quality of our portfolio and the performance of the team meant we delivered a strong set of financial results.

Margins were resilient at 53 per cent. Return on capital employed was a solid 17 per cent. And our operating cash flow and disciplined approach to capital allocation enabled us to generate free cash flow of US\$8.1 billion, while also investing in value growth.

Our balance sheet remains strong and we have announced a final dividend of 55 US cents per share – bringing our full year dividend to 120 US cents per share.

Slide 7: FY20 operational highlights

These results were underpinned by our ongoing improvements in operational performance.

Most importantly, we were safer. We had no fatalities for the year, in fact for the past year and a half, and our other leading and lagging safety indicators improved. We will never be complacent here – safety remains our first focus.

We were also more operationally reliable – a result of our relentless focus over several years on maintenance, engineering, asset integrity, and capability. This added up to record production in a number of our operations.

This consistent focus also helped lower average unit costs at our major assets, and accelerated reductions in overheads.

Meanwhile, our major development projects are progressing well. Both South Flank and Spence will see first production in the next 12 months. We've also, in July, realised first production from Atlantis Phase 3. And we added to, and advanced, our options in future facing commodities.

Slide 8: FY20 social value highlights

I touched on social value earlier. The past six months have brought into even sharper relief the important link between the creation of social value, and the creation of shareholder value. And we're making this present in all of our considerations, activities and decisions.

We are creating a workforce that will enable us to achieve exceptional performance, and which is aligned with community expectations.

We've continued to increase permanent employment through Operations Services.

Today there are 4,000 more women working at BHP than four years ago - around 40 per cent of whom joined in the past year. We continue to make strong progress towards our target of a gender balanced workforce by 2025.

In Australia, we're on track to meet, and in some cases exceed, our employment and procurement targets in our Reconciliation Action Plan. Our Indigenous workforce increased by 16 per cent last year, to 6.5 per cent.

And we made significant progress in how we manage water, which is critical to our operations and host communities.

We're also very conscious that the value BHP creates extends beyond our business, into the communities, business partners, governments and economies we work with. This includes payments of US\$9 billion in taxes, royalties and other payments to governments around the world, on top of US\$4 billion in wages to our workforce, and US\$15 billion to our supply partners.

This matters to me and my colleagues, and we are proud of the contribution we are able to make.

We're equally aware of our 'footprint' on the world, so on the 10th of September, we will publish BHP's climate change report, and host a briefing to take you through our plans to support decarbonisation. These will include: an updated commitment to reduce Scope 1 and Scope 2 emissions, actions on Scope 3 emissions, analysis of a 1.5 degrees Celsius scenario, and strengthening how we link executive remuneration to our progress on climate change.

Let me now hand over to Peter to take you through our results in detail, but just before I do... I'd like to mark the occasion of his final results presentation after six years as Chief Financial Officer.

He doesn't escape quite yet as he'll be at BHP for another half year. However, I'd like to pay tribute to Peter's contribution to our company.

He has unquestionably helped make BHP more financially resilient, more disciplined with capital, and higher performing. These foundations are helping us protect and grow value and returns.

In fact, Peter's contribution to BHP started well before he became CFO, including his time driving strong performance while leading first our Manganese business and then Copper.

He has also been an exceptional colleague and friend for almost two decades, and he will be missed.

I know you'll all join me in wishing Peter well.

Okay, Peter... over to you.

Slide 9: Title slide: Peter Beaven

Thanks for your kind words, Mike.

Slide 10: Financial performance

This was a strong result, achieved through exceptional operating performance.

Underlying EBITDA of US\$22 billion – at a margin of 53 per cent – demonstrated again the strength of our focused, low cost, diversified portfolio.

After an effective tax rate of 42 per cent including royalties, Underlying attributable profit was US\$9.1 billion. And with the positive impact of last year's buy back, we increased our Underlying earnings per share by two per cent year-on-year.

This year, we saw an exceptional charge of US\$1.1 billion after tax, attributable to BHP shareholders. This consists of:

- A net charge of US\$176 million related to Samarco. We provided additional amounts for higher expected costs, and this was partly offset by US\$490 million of insurance proceeds and the weaker Brazilian real.
- We recorded a US\$500 million charge due to cancelled power contracts in Chile. The replacement contracts will allow us to lower our energy costs as we transition our power supply to 100 per cent renewables in Chile by the mid-2020s.
- We incurred direct COVID-related costs of US\$130 million.
- And we had an impairment of around US\$500 million for the Cerro Colorado mine due to the decision to reduce throughput and lower its operating cost base.

Around US\$200 million of these charges were related to non-controlling interests.

Including these, our attributable profit was US\$8 billion.

Slide 11: Group EBITDA waterfall

The EBITDA waterfall demonstrates our ability to effectively manage market volatility, including extraordinary events such as COVID-19. The Underlying EBITDA of US\$22 billion is a great result.

Lower prices reduced EBITDA by US\$1.1 billion, but this was offset by foreign exchange gains and the impact of IFRS 16.

Operationally, a strong performance across the board was offset by natural field and grade decline in petroleum and copper, and significant weather events in Australia.

Our cost performance was again strong. We reduced unit costs at our major assets by 9 per cent. And our baseline functional costs have come down by more than US\$400 million, or 26 per cent, since 2018, with more to come in FY21.

We have reduced unit costs over the past five years by 17 per cent in the face of serious headwinds from grade and field decline, and increased strip ratios. In FY21 we will continue to lower underlying costs but will also see further resource headwinds. With COVID restrictions in Chile and a stronger Australian dollar, unit costs may be slightly higher in FY21 than the excellent FY20 outcomes.

The resource headwinds will abate. We are looking forward to production declines reversing from FY22, as new Petroleum projects come on stream. Grades are expected to increase at Escondida from FY23 as push backs currently underway are completed. And strip ratios at BMA will peak in FY21, and reduce thereafter.

Our non cash and other costs increased due to deferred stripping depletion at Escondida and an increase in our closed mines provision, associated with more expected spend on tailings dams.

Slide 12: Segment performance

Our results were underpinned by a strong performance from all our assets.

Western Australia Iron Ore generated EBITDA of US\$14.6 billion, with a margin of 70 per cent, the highest since 2012. Our team was able to deliver record production, despite COVID-19 and two tropical cyclones in the March quarter. The team fully captured the benefit of high iron ore prices with an annualised run rate of 300 million tonnes in the final quarter of this year.

Costs continue to be well managed. We lowered our C1 costs excluding royalties to US\$11.82 per tonne for the full year, with a second half result of US\$10.96 per tonne. On an FOB basis, costs were US\$12.63 per tonne, excluding 30 cents of COVID-related costs treated as exceptional. Guidance for FY21 FOB costs is US\$13 to US\$14 per tonne, reflecting the stronger Australian dollar.

In Copper, EBITDA of US\$4.3 billion was driven by record concentrator throughput at Escondida, which more than offset the impact of grade decline, and the measures put in place to manage COVID-19.

The biggest impact on production from COVID was felt in Chile. We moved 25 per cent less material than planned in quarter four across Escondida and Spence as we had to reduce manning levels.

Despite this, record throughput and effective cost control allowed us to reduce unit costs at Escondida to US\$1.01 per pound, below full year guidance. Costs in FY21 are expected to be between US\$1 and US\$1.25 per pound, reflecting COVID impacted volumes, and lower grades.

Our Met Coal business contributed EBITDA of US\$1.9 billion, at a margin of 36 per cent. A strong underlying performance delivered records at Poitrel and Caval Ridge. However, this was more than offset by a 27 per cent reduction in price, and the impact of major planned wash-plant maintenance and port shutdowns.

As a result of major weather events this year, peak stripping has been pushed into FY21. Combined with additional spend on tailings dams, we expect higher unit costs in FY21. Costs are expected to reduce to between US\$58 and US\$66 per tonne over the medium term. This will be driven by a lower strip ratio, ongoing productivity gains in volumes and costs and a market responsive approach to bringing new tonnes to market.

And finally, even with a 26 per cent reduction in realised oil prices, our Petroleum business achieved an EBITDA of US\$2.2 billion, at a margin of 55 per cent. Lower price-linked costs, and reduced maintenance activities more than offset the impact of lower volumes from field decline, and drove lower unit costs.

Unit cost guidance for FY21 is US\$11 to US\$12 per barrel, reflecting lower volumes due to field decline and the deferral of growth capex. Over the medium term, costs will remain below US\$13.

Slide 13: Cash generation

We generated US\$15.7 billion of net operating cash flow. For the 10th time in 11 years, this was in excess of US\$15 billion. Our results continue to demonstrate how our diversified, high quality portfolio substantially reduces underlying volatility of cash generation.

This included a number of large movements in working capital, essentially incurred in the first half of the year. We rebuilt US\$ 700 million of inventory to support operational stability, following outages in FY19. The change in legislation in Chile regarding payment terms reduced our accounts payable by US\$200 million.

After continued investment in our suite of high returning projects, our free cash flow of US\$8.1 billion represents another strong performance.

With some supportive commodity prices, a stable, low cost operating base, and disciplined investment we are in a great position to continue to generate strong cash flows in FY21.

Slide 14: Capital allocation

As you know, our Capital Allocation Framework informs every financial decision we make.

Our capital expenditure this year was US\$7.6 billion, slightly below guidance of around US\$8 billion, due to the slowdown of work required at some projects due to the pandemic.

Capex guidance for next year is approximately US\$7 billion – a US\$1 billion reduction from previous guidance reflecting deferrals in Petroleum projects. Deferring this spend will ensure greater value, as the projects will enter production in more favourable price environments.

Capex is expected to be approximately US\$8.5 billion in FY22, reflecting catch up from the project deferrals, and continued spend on our high quality suite of minerals projects.

Slide 15: Maximise value and returns

We saw the benefit of our strong balance sheet play out as COVID-19 hit. Our net debt target range is set to ensure we can withstand price shocks, from whatever source.

Our net debt is US\$12 billion, right at the bottom of our target US\$12 to US\$17 billion range – where it has been for the past three years.

Off the back of our strong results, today we announced a final dividend of 55 US cents per share, or US\$2.8 billion, demonstrating the ability of our business to continue to be able to provide excellent cash returns, through cycles. This equates to a payout ratio of 72 per cent, 22 per cent over the minimum provided in our payout ratio policy. Including the dividend announced today, over the past five years, we have returned around US\$36 billion to shareholders.

Slide 16: Return on Capital Employed

Our return on capital employed for the year was 17 per cent – another solid number. The efforts of the team to improve the underlying business and allocate capital effectively have been very successful. At constant 2017 prices, our return on capital is almost 40 per cent higher than in 2016.

This year, we have delivered more in the way of underlying improvements. In volumes and lower costs, these added around two per cent to ROCE.

On the other side of the ledger, however, the impact of geological headwinds from field and grade decline, along with weather, COVID and IFRS 16 reduced ROCE by around two per cent.

As usual we have a spread of returns across our assets. WAIO's 56 per cent return on capital was the standout performance.

Despite productivity gains, our copper, coal and petroleum assets have been impacted by lower prices, especially in the second half of the year.

So, where to from here? We are, as I mentioned earlier, looking forward to the reversal of some of the big resource headwinds in the next few years. In addition, the ongoing productivity drive never ends, the positive impacts of which are reflected in our medium term cost and volume guidance. Our project suite is disciplined and very strong, and is delivering additional low cost tonnes and barrels. A number of our commodities, such as oil, the coals, potash, LNG and nickel are currently trading well down from where we expect them to be in the medium and long term.

We are very confident that returns will continue to be excellent in the future.

In summary, these results reflect the strong focus we've had on operational improvement over the past few years, the effective application of our capital allocation framework and the heavy lifting we've done setting up our portfolio and balance sheet.

There is no doubt this is a very strong organisation.

Thank you.

Slide 17: Title slide: Mike Henry

Thank you, Peter.

As you've just heard, we've delivered a strong set results this year. And our foundations are solid.

Now let me now take you through:

- our outlook for our operating environment;
- how we intend to protect and grow value and returns in light of this – building on what I outlined six months ago;
- some of our recent progress; and
- a few changes in the team.

Slide 18: External environment

First, our external environment.

Near-term uncertainty has increased yet again in the past half, while the long-term strategic themes remain intact.

In the very near term, we expect most major economies to contract heavily in 2020 – with China being the exception. Recovery prospects and speed may prove very uneven, varying considerably by country, thereby

affecting demand for our commodities. Coupled with the potential for ongoing impacts on the supply side, the price outlook for our commodities is uncertain.

However, the quality of our assets, our balance sheet and our diversified portfolio, mean BHP is consistently well positioned to weather uncertainty.

It's also worth saying, of course, that uncertainty presents potential upside as well – as we have seen in the recent strength of the iron ore and copper prices.

Looking to the medium to long-term, our view of the trends at play remains unchanged, as does our overarching view of the positive outlook for continued growth in commodity demand. Population growth and rising living standards should drive demand for energy, metals, and fertilisers for decades to come.

We know though that the need for the world to take stronger action on climate change, decarbonisation of power and biosphere stewardship, will influence individual commodity dynamics.

Some commodities will see a slower rate of demand growth than in recent decades, or potentially even a degree of demand erosion over the long-term. And, I will come back to this in a second.

So what does all this mean for BHP?

Slide 19: Growing value in a dynamic world

We have a fundamentally consistent strategy – one that will continue to serve us well. That is, to have the best assets in the best commodities, supported by the best capabilities.

With the backdrop of the uncertainty I mentioned, and slower rates of growth in commodity demand, it's even more important that we are able to grow value through an unrelenting focus on being great – greater – at what we do. That will include being super-focused on being even safer, leaner and higher performing across every part of the company – front line and functions.

While maximising the value of our portfolio today through this performance focus and financial discipline, we must also create and secure more options in future-facing commodities that have stronger long-term upside potential. Pruning, focusing, adding and transitioning to ensure we create value in the near term and in the long term.

Slide 20: Approach to portfolio

As you would expect, we seek to manage our portfolio for value, risk and returns over multiple time horizons. And how trends – like climate change, decarbonisation of power and biosphere stewardship – play out over these horizons, will affect the attractiveness of each commodity differently.

What does this mean?

In the near-to-medium term, we expect that demand for steel-making raw materials will grow, modestly. This will be underpinned by developing economies where the industrialisation and urbanisation drivers are not yet mature.

The collective need to reduce emissions globally will create advantage for higher quality steel-making raw materials (both in iron ore and in met coal), as steel makers seek to reduce the emissions intensity of blast furnace steel production.

The drivers of population growth and economic expansion will also impact oil and gas – resources still necessary for human mobility and many of the industrial processes that underpin growth and higher standards of living.

Undoubtedly, the world is moving towards cleaner energy sources, and COVID-19 has introduced some demand downside, not only in the near term but possibly to a degree in the longer term. However, for oil in particular, steep production decline curves – conservatively three per cent per annum – remain a feature of the industry and there are limited new sources of cheap supply. This makes it an industry where good value and returns can be generated for at least the next decade and likely beyond. None of which detracts from the energy transition that we are planning for over time.

Decarbonisation, electrification, diet, land use and population trends will all drive higher demand for copper, nickel and potash in the medium to longer-term. We are therefore looking to grow in these future-facing commodities.

So what are the implications for our businesses, and what are we doing about it?

Slide 21: Enhancing portfolio to unlock value and growth

I'll start with coal.

BHP has the world's best portfolio of metallurgical coal assets. This includes a core of higher-quality coking coals, which we view as particularly attractive in a world where steel makers will seek to lift blast furnace productivity and reduce emissions.

We intend to focus our portfolio on these assets, and will look to divest BMC, as well as our thermal coal assets of New South Wales Energy Coal and Cerrejon.

Collectively these assets have further upside potential to be unlocked through productivity and growth, but are unlikely to compete for capital within BHP. While it is still relatively early we are considering all options, including a potential demerger of these assets, or trade sale opportunities for value.

What won't change is our commitment to deliver the most value for shareholders. Exiting these assets would simplify BHP's coal portfolio, with the retained assets largely Hard Coking Coal, long-life, low-cost, well positioned for decarbonisation upside and competitive for capital within BHP.

As with metallurgical coal, the iron ore market is expected to continue to evolve to prioritise quality. Our position as a low-cost, high-quality producer, with long-term optionality will generate strong margins, returns and cash flows for decades.

Our focus will be on growing value in these two high-margin businesses through relentlessly lowering costs, and driving capital efficiency... although we equally have the resources to grow should market dynamics warrant.

The strong cash flows from these two businesses – metallurgical coal and iron ore – will support attractive returns for shareholders and growth in future-facing commodities.

In petroleum, we will continue to invest, recognising the opportunity to grow material value in the coming years.

We will adopt a balanced approach to the portfolio.

We will invest in existing options, and explore potential counter-cyclical acquisitions in producing or near producing high-quality assets, which will realise value well within a timeframe when fundamentals will remain strong.

At the same time, we will pursue targeted divestments of later-life assets – something we have a strong track record in. And this includes an intended exit from Bass Strait. And we will look to farm-down some of our high-equity options, monetising the value we've created and balancing future capital requirements.

Slide 22: Enhancing portfolio to unlock value and growth

Creating and securing more options in future-facing commodities remains a priority, as this will protect and grow value over the longer term.

In copper, we have a world-class, expandable resource base.

We've added to our options through partnering with junior companies in Canada, Mexico and Ecuador. And the third phase of drilling at the Oak Dam copper discovery was completed in June – taking total drilling to over 21,000 metres. We're analysing the results and will share them later this year.

In nickel, we've expanded our footprint, with the acquisition of the Honeymoon Well tenements, we've increased our reserves, and we've opened up new mines at Nickel West.

And in potash, we have progressed the shafts at Jansen, continuing to de-risk the project. Jansen is tier 1 deposit, with potential to be one of the lowest cost operations in the world. We are progressing towards a final investment decision on Jansen Stage 1, delayed slightly due to COVID-19 and the prior construction delays discussed earlier in the year. And, we now anticipate a decision in the middle of 2021. As always, this must satisfy our Capital Allocation Framework.

In summary...

We will grow value in iron ore and metallurgical coal through a consistent focus on performance.

We will further focus our metallurgical coal portfolio on higher quality coking coals, which are most resilient and exposed to potential upside.

We will continue to invest in oil and advantaged gas, which we believe have compelling near to medium term value fundamentals. But we will also adopt a balanced approach to divesting from late stage assets like Bass Strait.

And we will grow in those commodities with the most positive long-term demand, and which offer fundamental, greatest upside.

Slide 23: Strengthening safety, performance and portfolio

To deliver against the performance elements of our agenda, we remain focused on the five levers I described six months ago. And we've made strong progress.

We've continued to strengthen our workforce, including an improved gender balance and in advancing a greater proportion of permanent employees.

Operations Services, our innovative model in Australia, has increased to 3,000 extremely motivated, high performers.

Our leaders are spending more time in field; and we have accelerated the pace and urgency with which we are working.

We have been even more commercial and disciplined in our decision making. For example, in the way we have dynamically re-cut our year-ahead capital plans for petroleum for value. And how we have re-assessed the right volume growth in metallurgical coal.

Having committed shareholder capital to specific projects, the team has also done an exceptionally good job of stewarding this capital in the face of COVID-19, with both South Flank and the Spence Growth Project remaining on track.

We have also significantly refocused and restructured our Technology effort. Accelerating impact at the same time as reducing costs by 30 per cent.

And through COVID-19 we are operating in a way that has prioritised front-line performance.

Slide 24: Team aligned to strategy

So, we are unquestionably on the right track – performance and portfolio.

Now we have a number of changes to the team which will carry these priorities forward.

Two of these are a result of the planned departures of Danny Malchuk and Geoff Healy. Having graciously helped to lead their areas through the CEO transition and the recent COVID pandemic, they are now passing the baton to their successors. They have been exceptional leaders for BHP and great colleagues, and I have enormously appreciated their support, counsel and friendship.

Ragnar Udd will succeed Danny as President Minerals Americas, and Caroline Cox will succeed Geoff Healy as Chief External Affairs Officer. Our congratulations go to both of them as they step up to the leadership team.

In addition, I have asked Laura Tyler, our current Chief Geoscientist and Asset President of Olympic Dam, to take on the new role of Chief Technical Officer.

Laura will be part of the Operations Committee, along with me, the business presidents and David Lamont, our incoming CFO. This new Operations Committee will be accountable for driving improvement in safety, reliability and productivity across the company. The combination of the Operations Committee and Laura's role will ensure technical and operational excellence is front and centre in BHP.

Laura will be accountable for HSE, Technology, our Centres of Excellence, and the BHP Operating System. Tied to her geoscience accountabilities, she will also lead our minerals exploration. To create space for all this, Laura will relinquish her current responsibility for Olympic Dam.

To lift the commercial perspective of the team and align to our priority on strategy and securing new options in future-facing commodities, we are elevating Johan van Jaarsveld to the ELT as Chief Development Officer.

Together, this team has the technical depth, operational experience, financial acumen and commercial perspective that will allow us to realise our goals.

Slide 25: Investment proposition

So, to conclude.

We have delivered a great set of results, in the most extraordinary of external circumstances, demonstrating not only the resilience of our portfolio but progress on our commitment to financial discipline and operational excellence, the foundations of long-term value creation.

We have a portfolio that is demonstrably resilient today, but we are taking steps to strengthen it further and to build long-term options. We remain confident the world will continue to need the commodities we produce.

And we are making a few changes to how we organise ourselves and what we prioritise to achieve our performance and portfolio agenda.

Through this approach to building on our foundations and ensuring we actively manage our portfolio for multiple time horizons, we will continue to generate value and returns for decades to come.

Thank you.