BHP

Financial results for the year ended 30 June 2020

Investor and analyst Q&A teleconference transcript – Session 2

18 August 2020

Mike Henry, Chief Executive Officer: Introduction

Hello, everyone. Thank you for joining Peter and I to discuss our results for the 2020 financial year. I am going to say a few comments before opening it up for questions.

Firstly, we are proud to have safely delivered a very strong set of operational and financial results for the year in spite of everything the world needed to contend with over the course of the year. We have delivered $22 billion in EBITDA and an operating margin of 53%. We have managed to lower average unit cost by 9% across our major assets; underlying earnings per share are up on last year; we have a return on capital employed of 17%; and the balance sheet remains strong, with net debt closing the year at the bottom of the target range. We have declared, as you will have seen, a US$0.55 dividend. That brings the full year to US$1.20. That is our third year running where we have declared more than US$6 billion in ordinary dividends to shareholders. Most importantly, we achieved this safely, with no fatalities, with our leading and lagging safety indicators improving, and that of course remains our highest priority. In FY20 we were safer, more reliable and had lower costs in spite of the challenges, and we have managed to do that with the support of our people, communities, business partners, traditional owners and governments. We have also sought to support them, because it is in our shared interest that the business keeps going safely.

What lies ahead? Our priority remains to grow value and returns by focusing on excellence in operations and financial discipline, as well as creating and securing more growth options in future-facing commodities. In the very near term, the outlook is of course uncertain. We expect there is going to be significant global economic contraction this year. It is probably going to take about a year to get back to pre-COVID levels of economic activity. As we have shown in the past half, however, our portfolio and people give us resilience in the face of this uncertainty, and we are positioned to capitalise on any opportunities that arise. Notwithstanding the near-term uncertainty, our medium- to long-term outlook remains unchanged. We have a confident outlook for continued growth in demand for the commodities we produce.

We manage value and returns over multiple time horizons. We are seeking to grow value and returns in the near term through operational excellence and by investing in the options we already have. At the same time, we are seeking to underpin our ability to continue to grow value and returns in the longer term through ensuring we have a portfolio with increased upside exposure and with more options in future-facing commodities. We have made progress in the past year in securing and advancing future business in copper and nickel, and today we have also been clear about our intent to focus our coal portfolio on higher-quality hard coking coals and to instead divest BMC, New South Wales Energy Coal and Cerrejón. These are some great assets with embedded growth options, but they are unlikely to compete for capital within BHP. Their value is more likely to be realised through a different ownership structure, and we are looking at a range of options such as a demerger or trade sale, and we will pursue whichever one allows us to maximise shareholder value.

In petroleum, we have been clear that we intend to continue to invest in this business, in what we see as an attractive opportunity to grow value and returns for the foreseeable future. However, we are going to be balanced in our approach, and we will look to divest assets that are less long-life and which have less upside in BHP. In that regard, today we have announced that we intend to divest our non-operated interest in Bass Strait. We are focused on creating value in the near term by being great operators and stewards of capital and in the long term through actively managing the portfolio for long-term upside and growth opportunities.

Finally, today we have announced a couple of new roles and appointments. Two of those appointments are part of a natural transition of the lead team. The two new roles are aligned with the intent that I have outlined: a Chief Technical Officer, who will ensure operational excellence is front and centre for the company, and a Chief Development Officer, reflecting our priority on managing the portfolio and creating and securing options in future-facing commodities.

To close out, as I said, in FY20 we were safer, more reliable and lower cost. We have great performance momentum, and we are taking further steps to further enhance performance and to build options for the portfolio for the future. We are building on such strong foundations, and I am really quite excited by what the future holds. With that, I will open it up to questions for Peter and I.

Questions and answers

ALAIN GABRIEL, MORGAN STANLEY: Good morning, gentlemen. There are two questions from my side. On Jansen, the delay in the final decision was somewhat expected given your earlier comments. However, have you learned anything new about the project parameters that will help you with the decision? I'm trying to get some colour on how your thinking has evolved around Jansen over the last six months at least. That is the first question.

MIKE HENRY: Okay, thank you, Alain. The delay, as you said, is something that we had flagged earlier. In terms of what we have learned about the commodity, first, we continue to like the long-term fundamentals for potash, so there is no change there. I have said previously that I was going to be getting into the detail on the project to get myself personally satisfied with the assumptions we have made, and I continue to do so. I have spent quite a bit of time looking at the project in recent months, and so far there are no red flags. There are a few other things I am working my way through, and I expect to do them in the next few months, but we do have the luxury of some time before we take a final investment decision, which we have now said will be mid 2021.

ALAIN GABRIEL: Thank you. That is very clear. The second question is this: is a change to your capital allocation framework on the cards? I mean specifically a change to your dividend payout level, given that you are close to the bottom end of the net debt target range and given that your portfolio appears to be cash-generative under almost any realistic commodity price scenario.

MIKE HENRY: Alain, you are right that the portfolio is very resilient, but our current capital allocation framework caters for that, and where we have had strong results, like we have had in the past year, it gives us the ability to top things up, as we have done with the incremental amount of US$0.17 that we have paid at this point in time. So I am not feeling there is any change needed to the capital allocation framework in spite of this very strong performance that we continue to demonstrate.

ALAIN GABRIEL: Thank you. That is very clear.

JASON FAIRCLOUGH, BANK OF AMERICA: Yes, good morning, Mike. Good morning, Peter. I just have a couple of quick ones. First, on met coal, we have got the announcement today on BMA. Just thinking about the medium term, do we think there will be a more complete exit of all met coal at some point and, with that, I suppose, all hydrocarbons?

MIKE HENRY: Hi, Jason. Just to be clear, what we have announced today is BMC, which is the less high-quality met coal.

JASON FAIRCLOUGH: BMC, sorry. That is my bad.

MIKE HENRY: No, I tried to be very clear today that we see this (BMA) as being the core that we will now focus on. We see those as being attractive assets, including in a decarbonising world. You know all of the effort that we invest in running different scenarios and thinking about how the world could play out. In a decarbonising world we see there being upside for those assets. Certainly, a full step out is not on the cards for us on the basis of value. We see there being great value to continue to be generated in those remaining assets.

JASON FAIRCLOUGH: I just have a second one, if I could follow up, Mike. This is maybe taking it to another level, I guess. Peter and I talked about potential asset redundancy risk on up to 70% of your portfolio if we look out 20 years, and I guess my question is this: does this speak to a shrinking BHP or do you actually see markets where you can actually recycle and redeploy this capital? The bottom line is that we all like these future-facing commodities, but the markets are just not that big.

MIKE HENRY: We definitely see further potential in copper and nickel, and we have been clear on that. We are making some progress on it, Jason. On potash, a decision is yet to come, as per the prior discussion. But, no, I would not say this foreshadows a shrinking BHP, but, at the end of the day, it is all about value. In all circumstances, we will continue to grow value through this focus on being really good operators, through maintaining financial discipline and through bringing innovation to bear to unlock more from the resources that we have. I remain confident that, with this focus on exploration and early-stage entry, we will be able to secure more options that allow us to deploy capital in quite a disciplined way to continue to grow value.

Let’s face it: in oil and the remainder of the high-quality part of the met-coal portfolio, there are decades of opportunity ahead. In the case of petroleum, we have said that we see this commodity as attractive for at least the next decade and likely beyond. Certainly in the near term we have some great options to be able to invest in, which will allow us to grow value and returns, even as we work our way through securing more of the options that will underpin the portfolio on the 20 to 30-year horizon.

JASON FAIRCLOUGH: Okay, thank you very much, Mike. Thank you, Peter.

MIKE HENRY: Thanks, Jason.

LIAM FITZPATRICK, DEUTSCHE BANK: Thank you. There are two questions from me, the first one on coking coal, somewhat following on from Jason's question. In terms of the decision to sell the BMC assets, has there been a shift in your long-term outlook for coking coal that has led to this decision to exit?

The second question is on petroleum. The new guidance is for effectively flat volumes over the next three to five years. Is this effectively a move away from the growth plans that you outlined late last year or are you still committed to those growth options with a delay given the market backdrop at the moment? Thank you.

MIKE HENRY: Okay, thank you, Liam. I will comment on met coal; I will say a few words on petroleum, but I might ask Peter to comment on that as well.

The way you should see met coal is that this is consistent with our prior strategy. In fact, all of what we have spoken about on the portfolio today is consistent, and this is us simply continuing to tend to the portfolio and ensure we are focused on those assets that are highest quality with the longest lives. What we have gained even greater confidence around is the long-term upside associated with the higher-quality hard coking coals in a decarbonising world. As we see steel mills becoming firmer in their commitments to reduce their emissions footprints, knowing that one of the key levers that they have to pull on that front is improve blast-furnace productivity, this bodes well for higher-quality hard coking coal.

As we continue to look at the remainder of the coal portfolio and think about what is required to unlock the inherent value of those assets, more of the value of the assets we are divesting today will be realised through capital investment. Given the BHP portfolio and given what we want to achieve over the longer term and the options we have available to us, those assets are not going to compete well for capital within BHP, so it is best that we move them into a different ownership structure that allows us to realise value.

Now, in the case of petroleum, I have tried to be clear today that we do see there being value and growth opportunities in petroleum that we will continue to invest in. We have deferred some of that for value reasons, because, with prices having fallen and curves being in contango, that was the smart thing to do, but we do intend to continue to invest in petroleum. That will be in projects that will come online and replace some of the decline that will otherwise happen, and we have also been clear that we will look for other opportunities to secure producing assets or near-producing assets. But, Peter, perhaps you want to add a few thoughts on this as well.

PETER BEAVEN: Yes. To the question of do we still like our projects: yes, very much so. Are they still in in the portfolio and still on the runway? Yes, absolutely. Scarborough is a big part of that. It flips the other side of the five years because of the delay, and I think it is an absolutely justified delay. Trion probably also a little bit. Those are two big movers that will drive the really big outperformance in terms of growth.

But, to come back to it, why do we like these projects? They have great break-evens. They are going to make money in almost any circumstances. Certainly, the in-fills are US$30 and maybe in the lower US$40s and so on, and the LNGs are in the sixes. These are good projects by anybody's standards. They are big, and they can really drive some significant free cash flows and returns in the latter part of the decade. Everybody is going to have a view on price, but I think it is safe to say the price is going to be higher in the future than it is today. Obviously, we are big believers in decarbonisation, electrification and so on; on the other hand, we should not forget that in the last two months one third or so of all capex has just come tumbling out of this industry, and it is going to take a bunch of time to get it back in again. This is not just the usual suspects in oil and gas, but even Saudi Aramco, which has its own dividend policy now. That creates a sense of discipline. So there is a lot to play for, as Mike was saying earlier, in the commodity itself and in our portfolio, so I think we are still feeling very good about this.

LIAM FITZPATRICK: Okay, thank you both.

TYLER BRODA, RBC: Good morning, Mike, Peter. Thanks for the call. This is just on oil and gas. You mentioned the Bass Strait divestment and potential acquisitions, if they come along. How do you see the ideal petroleum portfolio in five years? Do you think we need to add more growth to the portfolio?

I guess my second question is on iron ore, being 60% of EBITDA. Does the Simandou development change your thinking in terms of what the longer-term shape of BHP needs to look like? Thank you.

MIKE HENRY: I will address those in reverse order, Tyler. Does Simandou change our view as to the portfolio and the things we focus on? Absolutely not. Whilst we do not think the Simandou tonnes are needed in the market, on the basis of our outlook for iron ore, our strategy remains exactly the same as it was before Simandou became more likely, and that is a strategy of continuing to focus on reducing cost, becoming more reliable in iron ore and lifting quality initially through the South Flank development, which is going to help lift Fe and the proportion of lump in the portfolio. It is a strategy for all seasons. Given where we are positioned on the cost curve and given the high-quality nature of our product, we are going to compete well with Simandou in the market or without Simandou in the market.

But we have also been clear, again earlier in the year and in fact as part of our ongoing strategy, that, because we think in multiple-decade terms, we do see us as desiring more options for growth in other commodities than the iron ores or the coking coals. Those are in copper, nickel and possibly potash, though we have a decision to take on that next year. That strategy remains unchanged, and I think, in some ways, it is perhaps further validated by the potential for what was otherwise going to be a plateauing and then declining iron ore market to be exacerbated by Simandou.

If I turn, then, to oil and gas and what we want the portfolio to look like in five years' time, I will start with the fact that we already have – and Peter referenced some of them earlier – some great growth options or options to invest for good value and returns in the petroleum portfolio today. There are projects that are coming on such as Atlantis Phase 3 and Mad Dog Phase 2. There is further in-fill drilling opportunities. We then also have projects like Scarborough, Trion and Trinidad and Tobago, which we will continue to bring through the development curve. But, yes, would we like to have more options to be able to grow value on petroleum? Yes, for the right options. We have made reference today to already producing or near-producing assets when it comes to acquisitions, but that is only if we can secure them at the right value. Whatever further options we pursue in petroleum, they have to be giving us returns in the period that we are most confident in, which means closer to us than some of the things we could look at in copper in nickel, where we have greater confidence around the long-long-run attractiveness of those markets.

TYLER BRODA: That is great. Thank you very much, Mike.

MIKE HENRY: Thanks, Tyler.

RICHARD HATCH, BERENBERG: Thank you very much. Good morning, gentlemen. Thank you for the call. My first question is just a point of clarification on the medium-term met coal guidance. Does that include the assumption that the BMC assets are sold or not? If it does not, what is reducing in terms of the BMA production?

The second question is just on Olympic Dam. There was a negative 1% return on capital employed; again, it continues to underperform. How long a leash are you going to give this asset? What are the plans for this asset to try to improve the return on capital employed and make it a BHP asset? Thank you.

MIKE HENRY: Okay, thank you, Richard. The medium-term guidance for met coal – this is standard practice for us – does not include the assumption around the divestment. As to the round-number figures when we are successful in divesting, it is around 10Mt on a consolidated basis for BMC, but please do not read that, Richard, as me saying, 'Just take that number, and that is the new guidance.' We provided guidance on the basis that BMC continues in the portfolio. If and when we are successful in divesting it, then I am sure we will provide updated guidance at that point in time.

If I turn to Olympic Dam, yes, it is not where we want it to be. It is not generating the returns we need for a BHP asset at this point in time, but we have been clear about the plan for Olympic Dam. The plan has been a multi-year programme of asset integrity, some of which has been catch-up, and developing into the Southern Mining Area, given that the northern mining area was in permanent decline. We have been successful in getting into the Southern Mining Area. You have seen grade lift, and it has been the highest grade that we have had since BHP has owned it; we have seen production becoming more reliable. It was up a bit last year, albeit I acknowledge it was not up by as much as we had intended for it to be up by. We are continuing to progress this plan, however, we get through the bulk of that plan in FY21. We then have a further major maintenance campaign on the smelter. After that, we are expecting to be up to a production level of 200,000 tonnes per annum plus/minus. Combine that with a stronger price environment for copper and reduced capex as we get through some of the development work into the SMA and the asset integrity catch-up. That is going to help us generate healthier returns in the mid-to-high single digits.

Over the longer term, we will continue to look at options around expanding Olympic Dam. It is a great resource. Of course, one of the options we are continuing to work through is BFX. The refreshed understanding of the resource clearly provides some challenges for BFX, but the long-term opportunity for Olympic Dam has not changed. The first focus is to secure reliable operations. Through that, we will lift returns to a more acceptable level and work the expansion options in parallel.

TRISTAN LOVEGROVE, GROUP INVESTOR RELATIONS OFFICER: Richard, it is Tristan. Were you asking, with your met-coal question, what the drivers were for our reduced guidance? Is that actually where your question was coming from?

RICHARD HATCH: Yes. Thank you, Tristan. Yes, it was. What gives in BMA that reduces the medium-term production? Thank you, Mike. Thank you, Tristan.

MIKE HENRY: That is great. I am sorry. I misunderstood the question, Richard, it is simply markets. Clearly, coal markets are under pressure currently. We think some of that pressure will extend on for a period of time. I mentioned earlier that we expect it is going to take about a year for the global economy to recover to pre-COVID levels. We think it is going to take about three years to get back on to the trajectory the world would have gone on otherwise. As we step back and look at that, we want to be market-responsive in our plans for production. On that basis, we have elected to pull back in some of those plans, particularly around some of the BMC coals and the Blackwater coal, where we see there being less upside, unlike the hard coking coals. The result of that is that the production growth will be a little bit less than we were previously planning. That is the first thing. Secondly, because those mines were lower-cost but also lower-margin, we will also see an upwards revision in the medium-term guidance on unit cost.

RICHARD HATCH: I appreciate the colour. Thank you.

CARSTEN RIEK, CREDIT SUISSE: Thank you very much. I have two questions from my side. The first one is on the iron ore business in the Pilbara. Given the Juukan issue we had earlier, do you expect any mine plan adjustments post 2020? Is that part of your guidance already?

The second question is this: we have learned now that you might dispose BMC, Bass Strait and some other assets. What happens to the proceeds? Could we expect some special dividends or do you need to have the balance sheet prepared to grow into future materials such as copper or nickel, as you mentioned before? Thank you very much.

MIKE HENRY: Okay, Carsten. Thank you. I will make a point on the asset disposals, but I think it would be worthwhile for Peter to talk to how we think about capital allocation more broadly, which sits behind the question you have asked.

In the case of iron ore, whilst I know the Juukan Gorge incident has caused all of this to come into the public eye in recent times, our focus on indigenous heritage is deep and ongoing. It did not start with Juukan Gorge. Part of that process sees us in constant engagement with traditional owners and, as new information comes to light, that helps to inform the decisions we take at any given point around the mine plan. We are confident that we will be able to continue to manage the business in the way we have been managing it previously, because we give so much attention to protecting indigenous heritage and engaging with traditional owners, so I don’t foresee any change to iron ore guidance as a result of that ongoing process.

In the case of the divestment question you have asked, we have said today – this applies to the coal assets – that we are exploring different options. One of those options is trade sales of these assets for value, and another one is a demerger. It will depend on which one of those two is better value for shareholders. One of those options, divestment for value, obviously gives rise to cash; the other one would not, or it would do so to a lesser extent. In the case of Bass Strait, the focus there is on a trade sale. Keep in mind that sometimes the proceeds from divestments and the investment opportunities do not quite marry up, but we do conceptually look at this as a recycling of assets that have become more mature and less long-life so we then are able to invest in assets with a longer future and more value upside. That could be in petroleum in the first instance or in these other future-facing commodities. Peter, I know you will have a few things to say from a capital allocation perspective as well.

PETER BEAVEN: I think you are right, Mike. Whatever happens, at the time when those proceeds come in, we will take a view of them as we do every six months with all of our cash flows versus our outgoings and where we see our balance sheet, and we will make a decision. If there is excess capital, will always make a decision on whether that excess capital can be returned in the form of a buyback or in the form of additional cash returned – if it is material, that is. We will make that value decision. We are not a company that goes, ‘Well, buybacks inherently make sense.’ We think that buybacks are a value decision based on what you see as the value of the company versus what the price of the stock is at that moment in time. So we make a discrete decision every single time we turn up with that.

Will go back onto that question about what changes might occur. Just a thought I suppose, in the event that you have to manoeuvre around some of these heritage sites and so on and change your mine plan. In the event you had to do that – I am talking hypothetically – if you have a very large long-life asset in your hands and you are adjusting the last years on that asset, and so the NPV impact of that is relatively smaller versus if you had a series of shorter-life mines where, in fact, you are having to bring forward the capital spend on the next replacement mines. So luckily we have the former and not the latter in terms of the quality of our iron ore asset base. That is just a hypothetical point as opposed to the answer that Mike gave, which is that it is under control.

MIKE HENRY: It is a great call-out, Peter. It really points to the fact that part of our resilience on a whole range of fronts comes from the nature of the portfolio and the assets we have.

PETER BEAVEN: Yes.

CARSTEN RIEK: Perfect, thank you very much. I appreciate the colour.

MIKE HENRY: Thank you, Carsten.

SYLVAIN BRUNET, EXANE BNP PARIBAS: Hi, Mike and Peter. My first question is on the unit cost at Western Australia Iron Ore, where you are at 6% going into next year, which is the midpoint. Besides forex, could you guide us through some of the items where you are experiencing some cost pressure there, please?

My second question is on the petroleum footprint. Should we read into your commentary that you would have a more balanced approach and 100MMboe should be a kind of cap on your production in your replenished assets which are depleting or is that not how you think about it?

MIKE HENRY: Sylvain, thank you. In reverse order, no, please do not see that we are signalling a 100MMboe cap on production. Peter has referred to some of the projects – Scarborough and Trion, for example – that may fall just outside the five-year window. We have also been clear that we are open to looking at acquisitions, of course, if they meet the test of the capital allocation framework, for near-producing or already-producing fields. There is certainly not a cap at 100MMboe. Whatever investments we make have to generate great returns, and that has to happen in a timeframe in which we still see the commodity as attractive.

On WAIO cost pressures, we have a good news story. If I can start with that, Sylvain, this is a business where we certainly were not at the front of the pack a number of years ago, but the team there has been able to focus on the day-in, day-out focus on reliability, asset integrity and engineering. They have just been able to eke out this incremental improvement. Do we see some cost pressures in the area? Yes. You called out one, which is forex. Ongoing maintenance is one as well. The team has called out the fact that we have big campaign of maintenance on one of the car dumpers, which is all about increasing reliability at the WAIO port. Yandi is in decline, as South Flank ramps up. From memory, there is a bit of an increase in strip ratio as well.

So there are a few pressures, but I would ask that everybody look to the underlying results and the performance of this team to give you confidence that, whatever the circumstances, this team is going to be delivering absolutely the best result possible for shareholders.

PETER BEAVEN: Mike, again, to zoom back out for a second, you should always think a little bit about how our operations are complex. You have field decline going on in petroleum; we have strip ratio going up. 25% more tonnes stripped in Queensland Coal over the last five years. Of course, we went from 1.38% five or six years ago grade at Escondida to what is it, 0.83% now. Against the backdrop of that, we have managed to increase production, reduce costs and so on. It is hard to contextualise how difficult it is to get over those resource headwinds in terms of to continue to deliver these sorts of results.

But the place where it is possibly the easiest to see this is probably Western Australia Iron Ore. We have these big headwinds and tailwinds from the resource. You see this steady drumbeat. It goes down from US$35 to US$15 and then a steady drumbeat down to US$10.86 in the last six months. It does maybe give you a window into what is going on in the entire organisation. They are not all on the same page; they are not all perfect – we totally accept that – but it maybe just gives you a little bit of a sense of this.

If you bear with me, the other thing that I would just say is that those sorts of resource headwinds do happen. Happily though, field decline will reverse in FY22. Grades will start to go back up in FY23 in Escondida. And, of course, the strip ratio maxes out this year in Queensland Coal. If you give all those things, you get that sense the trend and the productivity push and you put it against a series of serious resource headwinds – I term them 'tailwinds', but, Mike, you are going to have to wear that one when it comes to term but you get the same. When we put medium term guidance for production and unit costs out, we have a degree of confidence as to why that would happen despite all of what has been achieved over the last few years. It is not easy, and it is not going to be perfect, and we are not for one moment saying, 'Everything is great and hunky-dory,' and so on. We just want to give a little bit of context, possibly.

SYLVAIN BRUNET: Okay, thank you.

AMOS FLETCHER, BARCLAYS: Good morning, gentlemen. I just have a couple of questions. The first one is on FY22 capex guidance of US$8.5 billion. Can you talk through what is allocated in that to Jansen, Scarborough and any other major unallocated projects as yet?

Secondly, on Jansen, you mention that we have lost two to three years' worth of commodity demand, but it seems in the outlook statement that your conviction on timing of supply deficits on potash is a little bit lower, but you only delayed the FID by about four months. Can you explain the timing mismatch there?

MIKE HENRY: I might ask Peter to talk to the capex question that Amos had on FY22 and then I will comment on Jansen.

PETER BEAVEN: Yes, sure. In FY22, a little bit of SGO will finish and South Flank comes out. The projects that will continue to be in there will be the big petroleum projects: Atlantis and Mad Dog. We start to see a bit of Scarborough coming in there and a bit of Trion coming in, because at that point we are starting to really ramp up the study phase we are in at that point in time. Jansen has also started to get going. Again, it is hypothetical, got to get FID and so on, but it starts to appear there. That really is what makes up the difference. There is another thing which you will not have seen, which is that Laguna Seca we have to spend a bunch of money on the tailings dams. It is just part of the regular lifting process that next part of the process will start to appear in 2022. That really characterises what is changing.

If I can just take a step back again, what is the difference between FY21 and FY22, the US$7 billion to the US$8.5 billion? There is probably half a billion dollars in additional growth. Essentially, I suppose the biggest proportion of that would be the petroleum projects plus a bit of Jansen and so on. The second piece, which is another US$500 million, is additional money getting spent on improvement projects. These are smaller improvement projects, less than US$250 million, but then, again, a lot of the preferred in-fill projects and so on out of petroleum reappear, and we have a bunch of other things that we can continue to de-bottleneck across the rest of our mineral assets. They are not big projects, but there are really good returns, and they do keep the show on the road. Finally, the third part is another US$500 million. We are going to spend a bit more on, essentially, maintenance capital in FY22. SCM21 is in that: that is the statutory smelter rebuilding in Olympic Dam. But there is also an additional amount of money which is scheduled to be spent on fleet and some tailings and things like that. Across the board, we are very happy to spend that money. It is essential to keep the place safe and operating stably. Plus, as I say, the improvement capital, whether it is small or large, has excellent returns – so we are very happy with that. Hopefully that helps a little bit about what is happening in FY22.

MIKE HENRY: Amos, if I just turn to Jansen, you are right: we have talked about, in the near term, there being a year to get back to pre-COVID levels of economic activity and therefore commodity demand, another couple of years before the world is back on the trajectory it otherwise would have been on. We have to keep in mind the timeframes for Jansen. It is about five years from the point of starting construction through to first production, another two years in which to fully ramp up. That timeframe is well outside the COVID period and the COVID recovery period, where we expect the world to be back on track again. We think the underlying thesis for potash remains strong. Decarbonisation, land use and population growth all bode well for potash demand.

In terms of the reason for the delay, the delay we have made has not been about markets or trying to time the market perfectly. The delay has just been a function of COVID, in the first instance. We needed to move down to one shaft rather than two for a period of time. The second thing is that, as we discussed earlier in the calendar year, there were challenges on some of the shaft lining work, which has since been rectified. But the combination of those two things has seen us just push it out by a few months.

AMOS FLETCHER: Okay, thank you very much.

RICHARD HATCH: Thank you a lot. I am sorry; I am going again. I just have a couple of questions. The first one is on Escondida. On your medium-term production guidance of 1.2 million tonnes, can you just remind us what the steps are to get to that? The second one is just on decarbonisation and the cost of that. Some of your peers have talked about the investment of some capital just as they invest in various technologies to reduce the carbon footprint. Can you just remind us where your heads are at on that and how much you are planning to spend, if you can give any kind of guidance on that? Thank you.

MIKE HENRY: Yes, sure. Peter, why do you not take the Escondida one, and I will speak to decarbonisation.

PETER BEAVEN: Yes, so the steps to get back to the 1.2 million tonnes are actually the same steps as what we have had; we have just had a little delay because of COVID, so we have had to choose between stripping, we've had one third less people on site, so something has to give, and that give is in the mine. So two thirds of that is lower stripping; one third is less material stacked to sulphide leach. Of course, we always prioritise the concentrate. We will see how we go in terms of what that absenteeism looks like through the course of this financial year and whenever COVID ends. The rest of the mine plan essentially is unchanged except for the timing. As you recall, the grades will get a little better because we will get into those PLs (pushbacks) where we are struggling at this point in time. That will be the unpinning of the Laguna Seca line 2 project. Yes, we may delay a little bit to get back to where we wanted to be, but over the five years, essentially, we have the same production tonnes in the mine plan as there were before. It is just that the timings have changed a little. Otherwise, nothing much changes.

MIKE HENRY: On your question around decarbonisation, we get the headline numbers around the climate investment programme, which was US$400 million. That is all about how we go about working with others and coming up with innovative technologies to reduce carbon footprint and so on. That is a small drop in what is a much larger bucket of effort around decarbonisation. Look at what Danny and the team have done in Chile, with the move to fully renewable power. Those power contracts have been entered into on a value-accretive basis. They actually end up being lower cost. What has been brought to bear there is some good commercial and strategic thinking. Look at what we are doing right now around the world's first tender for LNG-fuelled bulk carriers. Again, the premise we are bringing to bear on that is: how can we get that done for similar rates to what we would otherwise be aiming at? We will pursue renewable power contracts here in Australia as well.

It is a long way of saying that there are specific things we can track that do cost more, where we are investing more money towards decarbonisation, but as much of our ability to decarbonise comes through ingenuity, commercial focus and so on. As time goes on, some of these things will become harder. For example, replacing all diesel in our fleet of equipment is less straightforward, much more challenging, and will likely require a move to other technologies, like in-pit crushing and conveying, trolley assist and so on. Those are still things we are looking at. In the near term, there is a tonne of opportunities to be unlocked through the sorts of things I spoke about earlier.

RICHARD HATCH: Thanks, guys. I appreciate it.

MYLES ALLSOP, UBS: Sorry if these questions have been asked during the call. I am a bit late through technical issues. First of all, on the climate change targets, this is a bit of a taster for 10 September. Are you concerned that you are in a losing battle here? Until you exit all your coal assets and petroleum, you are going to be the wrong side of the ESG line. Will you be thinking about taking further action in due course, if that is the way the market is and your shareholders are thinking?

Secondly, around the coal assets that you are looking to exit, can you give me a sense of the book value of the assets? Would you be prepared to sell below book value? Is a spin-out really the most likely option for those?

MIKE HENRY: On climate change, we will come forward on 10 September with renewed scope 1 and scope 2 targets, tangible actions on scope 3, a renewed scenario around a well-below-two-degree world and strengthened linkage between executive rem and climate change action. Now, as I see it through the investors' eyes, that workaround scenario is really important. If you stand back and believe that the world will accelerate even further on actions to address climate change, beyond the current actions that are in place, it is important that you understand how our portfolio plays out in that world. All the scenario work we have done to date demonstrates that our portfolio is resilient to different climate change scenarios.

The coal asset announcement we have made today is not being driven directly for ESG reasons. It is being driven by where we see upside and how best to unlock value. In this case, the broad trend towards global decarbonisation, we think, is going to mean greater premiums for higher-quality hard coking coals, as steelmakers seek to reduce their carbon footprint. That core of assets that we will continue to own and operate, we think, has upside exposure in a decarbonising world.

For the other assets, they have upside, but more of that upside is going to come through capital investment, including in growing new options, maybe like Wards Well, with potential expansions in that business. Given where we are at with our portfolio and the other opportunities we see ahead of us, they are not going to compete well for capital within BHP, so it is best to move them out. As to how we move them out, coming back to your point on that front, the short answer is that we do not know yet which option we will land on. We said two years in part because that gives us time to get out there and explore the different options, engage with various parties, including shareholders, to then land on the preferred option that is going to generate greatest value for shareholders.

MYLES ALLSOP: Have you not been exploring the sale of the thermal coal assets for quite a long time already? You have not had much interest.

MIKE HENRY: We have been exploring it for some time, but all of our commodities, as we know, are cyclical. We are at a point in time right now where coal markets are at what we believe to be certainly the low end of the cycle. In the case of New South Wales Energy Coal, we have had the further complication of currently having rising costs, as we move through a geological structure, but we expect to be able to bring costs down over time. Over a two-year timeframe, in volatile markets, we could see a better price environment for coal, full stop. We will also be clearer on the efforts we have underway to reduce costs.

I do not want anybody to take away a view that says the likely option or default option here is demerger. That is not the case. We are genuinely exploring all different options. At high level, we have potential for trade sale and for demerger. We are wholly agnostic as to which of those we end up with. The only consideration is which will give rise to greater value for shareholders. Peter, was there anything you would like to add on this?

PETER BEAVEN: It is no secret that it is quite hard to sell some of these assets at this point in the market for value. We know we are very disciplined about this, both on the acquisition and on the disposal side. We are not under any time pressure here, so we should take our time and figure out the best to do that. I have to admit to you that we are opening ourselves up a little bit here unlike to the line that BHP likes to dot all the Is, cross all the Ts and so on. That is much better. These things do not fit in our strategy or in our portfolio longer term; they are better held by somebody else.

How do you get value for these things? It is complicated. Let us open this thing up; let us have a dialogue with potential buyers. In fact, when you think about it, there are a bunch of these sorts of assets wandering around. Is the market giving them full value? Possibly not. Is there not an opportunity for a consolidation play here? Somebody should stand up and essentially get on with this thing. Why would they not see it like that? You will say, 'If you think that is a good idea, Peter, why do you not do it?' Okay, but that is where the capital allocation thing comes in. If you are going to be consolidating more, you have to put a lot of management time and energy into something that, from a commodity perspective, is not really our strategy, and you have to put some capital, in some form, in that thing. I reckon, given an opportunity in the next couple of years, with a bunch of other people, we will come up with some good ideas here, and let us see how we go. As I say, it is not all perfectly boxed, wrapped up with a bow and said, 'Here it is.' That is not the way the world has to be, every single time.

EDWARD STERCK, BMO: Good afternoon, gentlemen. I have two questions. First, as a point of clarity on Olympic Dam, the plan in place there, I think you said, Mike, is expected to deliver mid to high-single-digit returns. If I heard that correctly, could you expand a little on how that fits within the capital allocation framework? The number just looks a little low, really.

MIKE HENRY: Certainly, we would not want to stop there. Yes, you heard it correctly, obviously with all the caveats around what happens with copper price and so on. That is why I quickly followed up with: we will continue to explore opportunities to expand production at Olympic Dam, but none of that happens unless we have a foundation of reliable operations at Olympic Dam. That has been the biggest focus and the plan we have been pursuing for a few years now. Having secured that, we will then look to opportunities to further expand production. Given the nature of that operation, expansions will lead to higher returns and double-digit returns over time. What we have in line of sight right now is this near-term asset integrity remediation programme and the improved ore that we get out of the Southern Mining Area.

EDWARD STERCK: Thank you. As a follow-up on the growth options and areas in terms of commodities, you highlighted copper, nickel and potash, and the potential, if I understood correctly, to look for acquisitions. Was that just in copper and nickel, or did it also include potash?

MIKE HENRY: I want to be very clear here: we are not pursuing a strategy that is predominantly focused on acquisitions. In fact, if I think about the likelihood of the sorts of assets that we like coming up at the right time, at the right price, it would be silly for us to bank on that as our core focus. The core focus is on exploration and early-stage entry, and we have seen success on that front, certainly in copper. We have also secured further nickel resource. We are now the world's second-largest holder of sulphide resources, but we will be open to opportunities in copper and nickel. If the right assets came up at the right price, of course we would explore those.

In the case of potash, we have lots of resource, so we are not going to be looking at acquisitions to secure more resource, whereas in the case of nickel and copper we would like more resource, although another thing that Peter often talks passionately about is the potential for us to unlock more options within the resource that we already have, through a focus on innovation. That is going to be front and centre for us as well.

SYLVAIN BRUNET: As a follow-up, you were talking about nickel, which features on your growth map again. Given the difficult history of greenfield projects in this commodity, which clearly will be needed in the future, how do you think about managing those risks, if you start to accumulate more resource? Could you give us some hints of what technical innovation you have in mind and if you have this knowledge internally?

MIKE HENRY: One thing that makes Nickel hard, but that also means it has a lot of potential, is that the new high-quality nickel sulphides are hard to find. We have some further exploration work underway in Western Australia. We have had success in proving up more reserves in proximity to existing operations. In fact, we increased reserves by circa 90% in recent times. Our first focus is really on how we go about liberating more of the reserves we already have, doing some other exploration in Western Australia, but we will also consider potential opportunities elsewhere around the world. That is not the first focus; the first focus is in Western Australia.

When we talk about technical innovation, that is most relevant to our nickel story. If we can find means of liberating more of the nickel from existing sulphide resources, we have lots of resource, so one thing we are looking at is high-pressure oxidised leaching (HPOX) for nickel, which would help us to liberate more of the oxide resources that we have a lot of in Nickel West. Again, like some of the early responses, we will not stop there. We have a team that has demonstrated a lot of ingenuity in the past. They are really smart people and they will continue to focus on other means of unlocking resource there. Peter, was there anything you wanted to add?

PETER BEAVEN: No, Mike. You covered it well.

SYLVAIN BRUNET: Great, thank you.

MIKE HENRY: Thank you, everybody, for joining. I hope you can see the strength and resilience showing through in the results we managed to achieve last year, with this very strong underlying cash flow, continued strong return on capital employed, earnings up and, of course, the 55 US cent dividend. It is the third year running of greater than US$6 billion. That is the foundation. We think there is a lot more value to be unlocked through tending to the current portfolio, but also with this focus on continuing to drive operational excellence and securing more options in future-facing commodities. We have announced today not just a couple of actions related to tending to the portfolio, but also a team and structure that will carry this business forward. That team has the operational experience, technical depth, financial acumen and commercial perspective that is going to help us realise these ambitions. Thank you.