BHP

Financial results for the half year ended 31 December 2021

Investor and analyst briefing Q&A transcript – Session 1

15 February 2022

Questions and answers

PAUL YOUNG (GOLDMAN SACHS)

First question is for David, on the net debt range. David, that $10 billion range, it's much wider, I presume that's due to the increased earnings volatility without petroleum. The question is, are you prepared to go above the top end of the range in the event a good opportunity comes along?

The second question is for Mike around the portfolio and it's actually on met coal. Mike, fantastic half for met coal, it's going to get even better this half, where met coal prices are. You dropped your medium-term target on volumes a while back, how do you create value from met coal from here, Mike? Is it around creeping volumes with demand or is it more around decarbonising the truck fleet? Thanks.

MIKE HENRY (CEO, BHP)

Okay, David, do you want to take net debt?

DAVID LAMONT (CFO, BHP)

Yes, so thanks Paul for the question in relation to the net debt range. You're right, we've widened the range. Effectively the basis behind that is obviously looking at the petroleum impact and the fact that petroleum came out and that's why we've now got the range of $5 billion to $15 billion and importantly, as you did flag, we have significantly de-levered the balance sheet and when we're paying out the sorts of dividends that we've just announced, the $7.6 billion coming on the back over the $10 billion at the full year and that just meant that we were getting below the bottom end of that range.

So yes, we've widened the range to $5 billion to $15 billion, which recognises the significant deleveraging that we've actually had. Specifically to your question though, is would we be prepared to move above the top end of the range. There has been no change to that as a result of the change in guidance from the $12 billion to $17 billion, to the $5 billion to $15 billion. We always said for the right acquisition we would be prepared to move outside that range.

But obviously that is dependent upon finding the right acquisition as part of that process and we'll be very diligent, as we have been in the past, around the application of the capital allocation framework to any opportunities on growth.

MIKE HENRY (CEO, BHP)

Look Paul, let me pick up on your question around met coal. Your question was around how do we go about creating value in met coal and really it's a strategy that's similar to what we have in iron ore, is the value, the way that we create value that is most enduring is through a sharp focus on productivity and improving the overall quality suite or the average quality of the product suite.

Now the way we're going about that in met coal is through optimising the portfolio, so you've seen the successful divestment of the BMC assets, which leaves us with a portfolio that's more skewed towards the highest quality hard coking coals that we believe are going to be in greatest demand and have the greatest price premium. In tandem with that, we need to be driving productivity further.

Now some of that will come through things like decarbonisation of the truck fleet over time, but there's a lot more that we need to do there as well in terms of driving operational performance, which is we've had some external drags on operational performance like the doubling of rain over the course of the past year, COVID and so on. But once we're through that and hopefully into a more stable period in terms of weather, then we'll see the true operational performance of that business.

So that focus on reliable operations, driving productivity, is the value lever that is most in our control. In addition to that, depending on how markets play out, there is upside there on volume, but it's all very uncertain at this point in time because we've been locked out, or Australian coal's been locked out, of a market that made up about 25% to 30% of our sales before the ban was put in place. If that were to change a few years down the road, then the effective market we could access would grow and there may be more by way of volume upside. But not for now. Right now the focus is all on that portfolio optimisation and driving productivity.

PAUL YOUNG (GOLDMAN SACHS)
Very good, thank you for that.

HAYDEN BAIRSTOW (MACQUARIE)
Morning Mike and David, just two questions from me. Firstly, is there any sort of guidance you can provide on capital management? Obviously with that debt range being nice and wide now, there's plenty of flex there. Is there any likely plans to look at anything post the Woodside transaction or are we just going to be waiting for the full year result in August before you potentially look at off-market buybacks or whatever, some shifting in some capital management plans?

Then the second one Mike, just on the iron ore business, obviously the government's finally rebased Port Hedland at a more sensible capacity level. Has it cleared the path for you guys if you wanted to push beyond 300 towards 330 you could. Is there anything in the works that may become part of the base case that you'd look at more train load out capacity to get that ultimate system capacity to that sort of level?

MIKE HENRY (CEO, BHP)
Thanks Hayden. I'll take the one, David, on Port Hedland and iron ore and then I'll pass it to you for capital management. So Hayden, the strategy in iron ore remains exactly as it was, which is continue to focus on reliable operations, creeping out a little bit more production, keeping a lid on costs and improving the overall product suite in terms of quality.

You've seen us do that with South Flank, which has increased the proportion of lump in the mix, increased the average Fe content, all of that's playing towards that strong focus on decarbonisation of the steel industry and the draw that's going to exist for higher-quality products. We're seeing the benefit of that now. As you can see coming through the cost performance and the production performance, things are going pretty well there operationally as well.

Now what the increase at Port Hedland does do for us is two things. One is it ensures that we don't get into this weird situation where we run up against, because of the strong underlying operational performance, we hit up against the 290 million tonne-per-annum wall and then have to curtail things, so this gives us a little bit of flex beyond that and we may, all things going well and current trends on performance continuing, we'll creep beyond that.

But there are no plans in the works right now to go to the 330 million tonne allocation that's been given. But of course we have the ability, if market circumstances were to warrant to grow further, but we don't have anything currently in train for that. David.

DAVID LAMONT (CFO, BHP)
So, Hayden, on the capital management side of things, first thing that I would say is that the Board looks at the quantum of cash to be returned back to shareholders on a half yearly basis, as we have done obviously through this period as we continue to look at how do we ensure that we return an appropriate amount back to shareholders. I would just flag that obviously with this announced dividend, it's some $22 billion that we've returned to shareholders over the last 18 months, so a significant amount of return in that context.

Specifically on your question around would we look at doing anything on capital management post the merger with Woodside, the short answer is no. We'll obviously continue to monitor things throughout the period within that debt range that we've come out with between the $5 billion and the $15 billion and as I said, the Board looks at that on a six-monthly basis.

JAMES REDFERN (BANK OF AMERICA)
Hi Mike and David, thank you for the opportunity. Look a question in relation to the potash and nickel aspirations for BHP, so is BHP becoming a more simple company post the demerger of petroleum, so effectively three key commodities, iron ore, copper, met coal, which you're a top three global producer in all three commodities. I'm wondering is BHP happy to wait until 2027 before generating any earnings from potash?

Then for nickel, BHP is currently the ninth largest nickel producer globally. Does BHP also have aspirations to be a top three global nickel producer as well? So I guess, yes, just wondering around the aspirations around potash and nickel in near to medium term, thank you.

MIKE HENRY (CEO, BHP)

So on the case of potash, that is a long-term, quite significant growth opportunity for BHP. First focus is on executing the Jansen project well and you've seen the track record we're building around good, solid project execution with both South Flank and SGO coming in on time and on budget. Then we'll look to the Jansen Stage 2, 3 and 4 beyond that, so we do see that becoming a pretty significant part of the BHP business over time.

We will look to whether there is opportunity to accelerate the build of Jansen Stage 1, but it's still going to be around that timeframe, James. We're not feeling any need to do things materially quicker than that, but as David said in response to an earlier question, we'll always been opportunistic and look at things as they arrive.

Now in terms of nickel, I think not all nickel – so nickel, isn't nickel. We're very focused on class 1 nickel and in particular, you've seen us weight about 90%, from memory David, of our sales now, 85%, 90% of our sales to the battery market. So that's really going to be the focus for us there. We do want to grow volumes; we have some opportunities to do so at Nickel West. You've seen the investment we've made, small investment we've made into a project in Tanzania.

And we're also looking at how we can go about enhancing value for the nickel units that we're already selling and that's come through the development of this nickel sulphate plant at Kwinana and we realised first crystals coming out of that in the past period. We hope to see that or that will add more to our margins in the periods ahead.

JAMES REDFERN (BANK OF AMERICA)

Excellent. Okay, thanks Mike. Thank you.

ROBERT STEIN (CLSA)

Hi Mike and team. Firstly, congrats on the great result, especially cost control in the Pilbara in this environment. I've got two questions, both on capital allocation and inorganic growth. So the first question is on net debt at $6 billion, currently represents 3% of the current EV. Is that overly conservative given the cash generation potential of the business both in the last half but then also potentially for this half given where spot pricing is?

Then the second question is around M&A and considering that in the capital allocation framework. Now that we've collapsed the DLC, does offering scrip as a way to acquire assets offer a different risk return framework to how you consider M&A, given crystalising prices for cash at cyclical highs may not be the most prudent way forward?

MIKE HENRY (CEO, BHP)

Okay, so David I'm going to talk just very briefly to M&A, then net debt, then I'll pass to you because I know you'll have further to add on net debt. So Robert, just on your question around having collapsed the DLC, does it change the equation then in terms of risk/returns and give us more ability to do the scrip-based acquisition, I should be clear we've always had the ability to do scrip-based acquisitions if we so wished. They were just harder in the past, so we'd be slower, there would be more complication associated with it.

So this will free us up to be more commercial and agile, but – and this is the big caveat – we're only going to pursue the right opportunities at the right time and at the right price because we have a strategy where the growth – we do have a strategy where we intend to grow value, but our means to growing value come through driving better performance out of the business that we already have, looking at how we can go about liberating more of these huge resources that we have in copper and nickel already, so how we can go about unlocking more of them more quickly at good returns.

We've then upped our effort in exploration and early-stage entry and then comes M&A. So if we do identify the right opportunity and the right opportunity comes along, then of course, we'd be looking at cash versus a scrip and so on. But I really do want to emphasise that the way that we think about growth in this Company is multi-faceted and it starts with driving better performance out of the current business and looking at unlocking more current resources, but we have upped our effort on a number of those other dimensions as well.

Now on net debt, your question was are we being overly conservative on net debt and I assume the flipside of that is returns to shareholders. I look at it, if we were, we don't believe we are, but if we were to, it's a six-month issue because we reconsider this every six months, so if cash generation continues to be as strong as it's been in the period ahead, well in six months' time that'll play into the thinking around returns to shareholders at that time.

David, anything you'd like to add?

DAVID LAMONT (CFO, BHP)
Other than just to say that we obviously want to maintain a resilient balance sheet and we're mindful of uncertainties. Some of those play out in the context of Samarco and where are our liabilities in that regard. But equally what I would say to you is you referenced the $6 billion and the 3% of EV, I mean obviously that's towards the bottom end of that $5 billion to $15 billion range. When we actually then pay out the $7.6 billion of dividends this time around, we'll move up towards the top end of that current $5 billion to $15 billion range.

So as Mike said, it's a six-monthly exercise that we look at and determine what's appropriate given that the outlook that we see and the uncertainties at that point in time.

ROBERT STEIN (CLSA)
Thank you. Perhaps just a quick follow up, so the $5 billion to $15 billion, is it inter-period range rather than an end-of-period range? How should we think about that in terms of cash outlays and dividends?

DAVID LAMONT (CFO, BHP)
Yes, so it's a range that we're looking to manage the balance sheet to within the periods that we're talking about, so it's something that we reflect on half yearly when we look at the return to investors as part of that. But certainly we're looking to maintain throughout all periods $5 billion to $15 billion.

ROBERT STEIN (CLSA)
Thank you.

PAUL MCTAGGART (CITIGROUP)
Morning guys. So it seems like all the roads lead to Rome in the sense that many of the questions are getting at the same thing. So in the past petroleum was going to be one of your growth areas. That's obviously going to go. And if you think about Escondida, I mean in the long run we have grade declines, so we know we need to expand concentrator output just to offset grade decline.

So it's not clear to me that in the current portfolio you've really got growth opportunities that are meaningful in the scale of the current profit line. So that sort of gets to the question about how you think about M&A, et cetera. So how should we think about what your vision is, Mike, for the future? Are you looking for a fourth strong arm for the Company? Or are you happy if you can't find the right deal, that you'll just return cash to investors either via dividends or buybacks? I'm trying to get a sense of your vision for what needs to happen at BHP on a five-year deal.

MIKE HENRY (CEO, BHP)
Okay, so let me address the back end of your question first around are we happy to return cash to shareholders if we don't find the right opportunity? Absolutely, yes.

So we will not pursue things here just for the sake of creating a new business or just for the sake of growth. We've got a multi-year track record now of being very, very disciplined when it comes to the capital allocation framework. That's not going to change.

So anything we do, be it internal growth - capital projects internally, I'll come to that in a second - or M&A, has to stack up under the capital allocation framework. One alternative under the capital allocation framework is to return further cash to shareholders.

Now, having said that, we do have an aspiration to grow for good value and returns. The levers available to us to do so are (1) continuing to drive more out of the business that we currently have. That's a combination of high productivity but also looking at further de-bottlenecking and brownfield expansions within the current resources.

We have some early thoughts and concepts around further opportunities to do so and there is a slide in the pack that outlines some of those but there is further work to be done and the teams have increased the amount of spend on project studies internally, including at Escondida, to look at how we can go about unlocking more of these great resources that we have in copper and nickel.

I was looking at the numbers earlier today and 45 billion tonnes of resource. So it's at one end but sitting at just under 0.6% copper from memory and we've got the world's second largest nickel sulphide resource as well.

So I'm confident that we'll be able to secure more options within the resources that we already have in time but I also recognise that we would like to be able to secure more options over and above that through things like exploration and early stage entry.

We've had some great wins on that front in the course of the past six months with more partnerships in place. You've seen the small investment we've made in the world's best undeveloped, but close to being developed, nickel sulphide deposits in Tanzania.

Then comes M&A. For the right opportunity in the right construct at the right price, we have a foundation now that allows us to pursue that sort of opportunity but at all times with discipline and with it being put through the wringer of the capital allocation framework.

GLYN LAWCOCK (BARRENJOEY)
Good morning, Mike. Two quick questions from me. Firstly, in your opening remarks you made some comment that said inflation that is demand-led is positive for pricing. I would have put lithium in that bucket.

Just wondering if you could maybe comment on how your views about the market not being big enough, the cost curve not being steep enough in lithium, may be changing, if at all?

Then the second question is just on the decarbonisation spend. I think the Company talked about $2 billion to $4 billion by the end of the decade.

Some of your peers have already talked about building their own solar and wind farms in the Pilbara with some pretty ritzy capital numbers. Just what's BHP's intent? How are you thinking about in-house versus perhaps outsourcing through power purchasing agreements et cetera? Thanks.

MIKE HENRY (CEO, BHP)
Okay, so thanks for the questions, Glyn. On lithium, so the statement around demand-led inflation, all other things being equal, being positive for commodity prices, that's a broad statement that applies to most commodities.

But, of course, it's not just a demand-side question. We also have to look at the supply side and our views around lithium have been less about market size because I think all factors point to the market size growing over time and it becoming of sufficient materiality to be of interest.

But we do view the cost curve as being flat and therefore haven't been able to see our way through to it being an industry with good strong long-term margins like we would see in other commodities. That view hasn't changed but we review these things regularly.

On decarbonisation spend, we've said we'll be at the upper end of that $2 billion to $4 billion range. So let's say $4 billion or close to that. Importantly, we look at all of the spend on a returns basis.

So current numbers indicate that we'd be about minus $500 million NPV on that $4 billion spend but the challenge that we've set ourselves is to get back to NPV neutral or better because all of these projects compete for capital under the capital allocation framework as well.

Now, the point that you raise around, what are we going to do in-house versus contract out? One key area where we do have the ability to go to third parties to help us decarbonise, is stationary power. That comprises about 40% of our decarbonisation target and we've done that to great effect through our Chilean operations which has underpinned the 16% period-on-period decrease in scope 1 and scope 2 emissions. We'll certainly look at those alternatives as well for the Pilbara.

GLYN LAWCOCK (BARRENJOEY)

Okay, thanks, Mike.

PETER O'CONNOR (SHAW AND PARTNERS)

Good morning, Mike. Good morning, David. Just on portfolio optimisation and Mike, I wanted to pick up on a thread that we talked about a little while ago. Two assets in your portfolio account for about 33% of your net operating assets. That's met coal in Queensland and Olympic Dam.

You've talked a lot about portfolio optimisation and productivity, which I admire and I think that's a tremendous way forward. How can you unlock those two businesses to get a reasonably accepted return on capital?

Is that achievable? Do you need more asset terms or do you need lower cost or do you need both and will you actually be able to do that given the track record of the past decades? And I've got a second to follow up.

MIKE HENRY (CEO, BHP)

Yes, okay, so look, let's take that one first then, Peter. Look, two very different businesses, obviously. In the case of Queensland, it is just day-to-day continuous improvement.

Again, we have had the noise of things like weather and COVID but even if I adjust for those, there's more that we can do in that business in terms of driving productivity without a doubt.

It'll be things like improved truck cycle time, improved discipline when it comes to mine planning and compliance to plan but we've built the capability to be able to do that.

With the advent of autonomous haulage in Queensland, that's going to help us drive that truck-shovel productivity as well, which is the bottleneck in that business.

Olympic Dam, different kettle of fish. So Olympic Dam, we've been on a multi-year journey now around rectifying a legacy of under-investment in asset integrity. We're at the very back end of that now with SCM 21. The smelter has come back on line, performing well.

The combination of the improved productivity that we're seeing on the surface and the underground is already leading to improved operational performance and you saw that last year with the record production under BHP's stewardship.

But, because the capital base at Olympic Dam is so high, even with that very solid performance, return on capital employed was still low so the long-term way of increasing returns at Olympic Dam is through further growing production.

There's some things that we can do around minor debottlenecking to allow us to increase production a bit further but for there to be a significant change in returns there, it does require a long-term way of further unlocking that resource.

That may come through Olympic Dam, it may come through Oak Dam or a combination of the two. We've continued to look at that in the background but none of that is going to happen if the base business isn't running well and that's what we've been focussed on and are starting to see the success shine through on.

Peter, you had a second question as well?

PETER O'CONNOR (SHAW AND PARTNERS)
Yes, I'll shift gears to dividends and dividend payout policies. Your capital allocation framework is very clear and has been for the last six years. The base payout ratio of 50%, we all work from. Looking at your average of the last five or six years, I think it's around about 74%.

Just thinking about how that drops out of the policy but more looking ahead, with growth in the Company, additional capital calls, maybe M&A inorganic stuff, payout ratios staying well above that 50%? How do we think about that beyond just the short-term large cashflows you're generating?

MIKE HENRY (CEO, BHP)
David, do you want to take that one?

DAVID LAMONT (CFO, BHP)
Yes, so Peter, as we have said, we look at this on a six-monthly basis and we're committed to that 50% minimum. Then over and above that, it's an assessment of how much do we wish to reinvest back into the business to maintain that resilient operation which we've seen. Which clearly we've looked to do but also looked to grow the Company.

It's a balance every six months that we review that. What I think you're flagging is, to date, we're not going to sit on the cash.

We have the net debt range and we will return money to shareholders as we have done with the $22 billion declared over the last 18 months. Which is a demonstration of returning money to maintain the discipline.

I think the key through the capital allocation framework is to ensure that we maintain that discipline that exists. It's a matter of assessing both internal and external opportunities. It's about managing the risks that we see through that versus returning money to shareholders and that's what we continue to actually look at.

MIKE HENRY (CEO, BHP)
So if I just add one thing, Peter. We've shown that we have shareholder interest strongly at heart. So the combination of disciplined application of the capital allocation framework and a keen eye on shareholder interest. I'd ask that people take some confidence then in decisions that we'll make along the way.

PETER O'CONNOR (SHAW AND PARTNERS)
Mike, can I just push back? The policy's been in place for six years, seven years and its base case of 50% average call it 75%. Is that the right number? 74%, not 50%?

So should you re-base the policy? Are you being too cute and if not, should investors not capitalise current levels of dividends and capitalise the future around dividend strength would each be at 50%?

MIKE HENRY (CEO, BHP)
Look, so we continue to believe that the 50% is appropriate and this is a long-term industry. We go through cycles. Both cycles of growth and reinvestment in the business as well as market cycles. So we still believe 50% is the right level.

Now, we're as transparent as we can be with the market about how we see forward production levels, growth projects and so on. Conversely, if we were reinvesting more back into the business, that's likely going to be to lift long-term production levels.

So I would say that either way, as long as we're applying the cash in a disciplined fashion, shareholders should see or be able to capitalise one of higher cash returns or reinvestment in the business and higher growth, which leads to longer-term higher cash returns.

But you'll have to rely upon our constant reporting and transparency around our plans and where the cash is flowing to.

PETER O'CONNOR (SHAW AND PARTNERS)
Thank you.

RAHUL ANAND (MORGAN STANLEY)
Thank you. Hi, Mike, David and Tristan plus team. Two questions from me. First one, David, if I can labour the point on net debt range a bit more, if I may?

Look, I just wanted to understand in terms of the bounds, once you start going outside these bounds. So on the bottom then firstly, if you are sitting below that bottom end comfortably, can we assume that that capital comes back to shareholders?

Then once you do decide to go above that top end of the range, what would dictate how much over you go in a transformational transaction? Is it fair to think that would be driven by that investment-grade credit rating? That's the first question. Second one's on copper, I'll come back with that if that's okay.

DAVID LAMONT (CFO, BHP)
So let me deal with the range and specifically your question around the credit rating side of things. I mean, clearly what we're looking to do is maintain a resilient balance sheet.

Credit metrics are one way for you to assess how that's playing out but from our side of things, we also need to look at what we see around the future and how the businesses are performing. The uncertainty that exists there, as I flagged earlier. Also in relation to the Samarco liabilities et cetera.

So there's a number of factors that we actually look at when we're looking at the overall range and where we feel comfortable at any six month period when we assess the dividends as to where we want to land within that range.

Your question around if we were at the bottom end, below the $5 billion, is it appropriate to think that that would be returned to shareholders? Yes, because we would look to see how we're looking into that range.

I would, again though, come back to - and it's a bit back to Peter's question. The capital allocation framework has been in place since 2016 and has allowed the Company to de-leverage hugely to the position that we're actually in at the moment.

The balance sheet is in a very healthy position and that gives us the opportunity to think about how much do we re-invest back into the business versus looking at organic growth opportunities or any external growth opportunities as well.

They're all factors that we'll look at on a six-monthly basis to determine where do we want to actually sit in relation to that $5 billion to $15 billion range but the range is there to give you an indication of where we would be from a capital return side of things.

In relation to how we would assess going above the top end of the range, that really comes down to the opportunity. We don't have a generic view around that, that would be based on the specifics of anything that we were looking at from an M&A perspective and how would that play out.

We would look at how quickly could we necessarily return back into that net debt range but also, obviously, with a core focus to how does it add to overall shareholder value and over what time period? So we don't have a generic response to that, it would be specific based on any opportunity as we assess at that time.

RAHUL ANAND (MORGAN STANLEY)
Perfect, thank you and second one…

MIKE HENRY (CEO, BHP)
You had a second question on copper?

RAHUL ANAND (MORGAN STANLEY)
Yes, I do, Mike. That one's for you. Look, I wanted to talk about the copper production in the South Americas in the near-term and the medium-term.

The near-term, obviously the average at Pampa Norte of 300,000 tonnes per annum guidance, you've had some issues with recoveries at SGO. I just wanted to understand if the critical items - the orders are in place for you to be able to get to that number?

Then - I guess the longer term question in terms of copper is around Escondida. I just wanted to understand, post the grade decline, what's the plan? Is it to allow that production to taper off in line? Or do you expect to spend more capex and increase concentrator capacity there to be able to keep that production at a level which is higher than what grade would dictate?

MIKE HENRY (CEO, BHP)
Sure, okay, both good questions. In the case of SGO, you asked very specifically are orders in place yet? The short answer is no because the project has only recently been commissioned. Obviously had a period now of running it.

We have achieved full throughput levels in terms of volume over the month of December so we're confident that the throughput is there. The issue is recoveries.

We have a pretty good understanding of what's going to be required - plant modifications, which are all manageable, to get to the full production rate but we're still early on in that project planning phase.

So exactly when we'll get the full production rate is subject to where we ultimately land in terms of the project and execution schedule and so on, but we can say with confidence that we will ultimately get to the original intended levels of production.

Keep in mind it's a long-term resource. It's a 50 year project so it's not something that just impacts the next year - or the opportunity isn't just the next couple of years. We're confident that the long-term payoff is there.

Now, in terms of Escondida, what's the plan? Rag and the team have been working - or they've been very focused on looking at developing more options for how we go about addressing the long-term grade decline that kicks in post the five year window at Escondida.

Big resource, of course, but we do know that there's going to be a number of options available to us but they all have to be attractive from a returns perspective as well. That's really where the focus is at currently, is on proving that up.

I know we'll have more to say about that in due course but suffice it to say at this point that the team's beavering away at a number of project concepts in and around Escondida and at Spence and so on.

RAHUL ANAND (MORGAN STANLEY)
Perfect, look forward to that visibility. Thank you very much, I'll pass it on.

LACHLAN SHAW (UBS)
Good morning, Mike and David. Thanks for the update and congratulations on the result. Just a couple of questions from me. So just firstly in terms of the work around decarbonising scope 1 and 2 in West Australia iron ore.

Just interested if there've been any updates on studies around beneficiation of fines and I guess more generally, updates on your expectations of capex required, looking out into the medium term? I'll come back with the second question then.

MIKE HENRY (CEO, BHP)
Okay, so just can I confirm on the capex, do you mean the capex associated with decarbonisation?

LACHLAN SHAW (UBS)
Yes but also the potential studies and the possible beneficiation at Jimblebar.

MIKE HENRY (CEO, BHP)
Oh, I see, sure. Okay, so no update on beneficiation other than the study at Jimblebar continues. I don't think, David, we've given any numbers around capex.

DAVID LAMONT (CFO, BHP)
No.

MIKE HENRY (CEO, BHP)
I will just say that Jimblebar is an ore that lends itself well to beneficiation and being able to generate returns off the back of that but still too early in the process to give specifics around schedule and costs and so on. In terms of overall capex for decarbonisation, we have said that we expect now to be at the upper end of the $2 billion to $4 billion range.

For returns, on paper currently of about minus $500 million NPV. So, $4 billion capex, minus $500 million NPV, but a lot of work underway to get that back to being NPV neutral, or better. Keeping in mind that all of these projects have to compete for capital under the capital allocation framework.

LACHLAN SHAW (UBS)
Got it.

KAAN PEKER (ROYAL BANK OF CANADA)
Happy New Year, Mike and David. Two questions from me. The first one is just on future-facing commodities. In December you decided not to increase or extend your offer for Noront. I understand the argument about not paying too much. I just wanted to understand the specific appeal in Noront, the geology, the base and the possible size. With the Noront acquisition not being progressed, is there any read-through for Nickel West? Will you be forwarding the projects such as Honeymoon Well or the smelter upgrade? I'll circle back with a second question.

MIKE HENRY (CEO, BHP)
Sure, okay. Look, we were clear at the time that we saw Noront as being attractive in its own right but also because it's part of a basin. It was a very early-stage play with all the risks that come with that but we could see our way through to there being a potentially attractive opportunity there. But we have to be disciplined. We've spent five or six years now building up trust and a track record of being very disciplined when it comes to application of the capital, and you saw that in its full glory in and around Noront.

Now, as for the implications for Nickel West, there's no direct implications. We were looking at opportunities to further improve value for Nickel West before we looked at Noront. We've continued to look at opportunities since. Where do those opportunities lie?

Number one, let's increase the margin that we secure on existing production. We've done that through pivoting into the battery raw materials market, 90% of sales now going there. We've upgraded product through the first nickel sulphate plant which will give us more margin for the nickel units that we're selling. We are looking at things like what we do with the smelter longer term and whether there's an opportunity in there to de-constrain the operation in terms of ore quality and so on.

So, quite a few things that the team is looking at there, the HPOX leaching project as well, which I'm confident that over time are going to allow us to grow value of Nickel West. We've also got further efforts underway on the exploration front both in WA and elsewhere, and you saw our small investment into a nickel sulphide project in Tanzania recently.

You had a second question as well?

KAAN PEKER (ROYAL BANK OF CANADA)
Yes, thanks. It's on the iron business. Circling back to Hayden's question, I think on slide 30 the medium-term target is 290. I understand the focus is on sustainably achieving 290. I think Mike, you've mentioned that you could possibly get to 300 and 310 in the medium term. I just wanted to get clarity on this in terms of timeframe; what does medium term mean? Is it 2024 when South Flank ramps up? I think you've talked about the debottlenecking program underway. What are the key components there we should be focusing on? Thanks.

MIKE HENRY (CEO, BHP)

I have been clear that the plans at this point are to sustainably get to 290. But I've also recognised that the team is doing such a wonderful job there that all things going well – continuing reliable operations, a bit of improvement on productivity and some debottlenecking things that I'll come to in a second – there was every potential that we would end up creeping beyond 290, let's say to that 300, 310-level, but no plans in place for a major capital program to get us to the 330. We have the flexibility to be able to do that with the new allocation but there's no plans in place to do that and we'll always be guided by the way that markets run fully.

Now, what are the key components of debottlenecking? First and foremost, it's rail. We are looking at how we go about increasing capacity on the rail and safety through the implementation of a new signalling system. Then there's a bit at the port itself where we've been looking to improve car dumper reliability and so on to give us more port capacity.

If we were ever going to lift production and throughput at WAIO more significantly, that will require further work at the port, potentially another car dumper and some work on the yards and so on. But again, that's not the current plan.

LYNDON MORGAN (JPMORGAN)

Thanks very much. The first one is just on BHP's view around flat steel production in China this year. Just wondering if you could maybe provide a bit more granularity there given the slowdown in the property sector and what gives you confidence around a flat outcome for the year. Then the next one was just to dive into Chile a bit more. There's been proposals to nationalise assets over there and I think we'll end up with a royalty increase of some sort. I'm wondering if you could maybe give us a bit of an overview of how you see the situation playing out. Thanks.

MIKE HENRY (CEO, BHP)

Okay. David, do you want to comment on steel and I'll take Chile?

DAVID LAMONT (CFO, BHP)

Yes, certainly. Lyndon, just specifically in relation to China and the property side of things, we are seeing some recovery coming through there. Again, I'd point you towards credit side of things within China, et cetera. What we would have said in the six months just gone, China came off probably quicker than what we had anticipated but we certainly see some recovery coming through there. For the fourth consecutive year we do see over a billion of steel coming through from China. That's how we're seeing things play out in China at this point; a little bit of recovery, if you like, in the short term.

MIKE HENRY (CEO, BHP)

Now, on your question about Chile and royalties, clearly a big process underway around the constitution but also looking at royalty increases there. We expect that that will come through that those discussions will be landed post-March with the new government and the new Congress. Now, at the start of this process there were some more extreme calls around what a royalty increase might look like but I think more balanced voices have come into the debate.

There is a broad understanding or a building understanding around the criticality of the copper industry to the nation and the national economy, and knowledge that at the end of the day Chile needs to compete for capital. There's been earlier questions on this call about grade decline and so on; the only way that the nation will be able to address that grade decline is through attracting more investment. It can only attract more investment if it has the right fiscal settings.

I think there has been a growing recognition around that such that the more recent proposals and thinking around royalty increases are more measured, let's put it that way. So, not yet finalised but signs are emerging that there's a more balanced perspective being brought to bear on this. The only further thing I would add is we have in place of course tax stability agreements that give us certainty or delay the changes for BHP's operations for a period of time, shorter for Escondida than for Spence but David, I think it's out to 2023 from memory for Escondida.

DAVID LAMONT (CFO, BHP)

Yes.

MIKE HENRY (CEO, BHP)
We have a tax stability agreement in place and then it's further out for Spence.

DAVID LAMONT (CFO, BHP)
Spence is 2032.

MIKE HENRY (CEO, BHP)
2032, okay.

LYNDON MORGAN (JPMORGAN)
Thanks for that. Just a quick follow-up, related. Can you maybe provide some broad indication of the cost to rectify the Spence design issue?

MIKE HENRY (CEO, BHP)
All I'd want to say on that one at this point, Lyndon, is that it's manageable. We're still looking at things but it's going to be possibly one extra flotation circuit but certainly manageable both in timeframe and in cost, but not yet fully nutted out.

LYNDON MORGAN (JPMORGAN)
Thanks, Mike.

JAMES REDFERN (BANK OF AMERICA)
Hi again. I just wanted to ask a question on New South Wales Energy Coal. Obviously you had a big improvement in profitability, EBITDA $435 million in the half compared to a loss of $180 million in the previous half, and obviously the sale process or review still ongoing has until August to complete. Is there any chance you could please give us an update on how it's progressing? Is this asset being held a little bit longer to extract more cash flow or is the sale process I guess struggling, if you like? Thank you?

MIKE HENRY (CEO, BHP)
James, at the time that we embarked on this process we recognised that these processes, particularly for coal assets, can be a little bit more complicated. We've got three of them away, one more to go, but still within the two-year window that we gave ourselves. There's been no proactive decision here to hang onto things a bit longer given where market prices are at. Of course, happy that the asset is generating a lot more value now but that's not what's driving the timeline. As to the where to from here, you can be certain that we'll come back with further once the two-year process is up but until then not much more to add.

JAMES REDFERN (BANK OF AMERICA)
Okay, thank you.

GLYN LAWCOCK (BARRENJOEY)
Hi, Mike. Just a quick one. We spent a lot of time today talking about capital returns but there's obviously multiple ways and you've chosen just to continue to pay higher than your minimum 50%. How do you think about then when you sat down this last couple of weeks versus say a buyback, given now the DLC has collapsed, we don't have to go offshore to buyback their stock to keep it equal? How did you approach your thoughts around the off-market versus the increased payout? Thanks.

MIKE HENRY (CEO, BHP)
Great. Thanks, Glyn. Clearly, this is something we consider every six months. We have had pretty healthy returns and that's continued in this period but David, maybe you just want to talk about the framework that we bring to bear on thinking about this and how we landed at where we landed.

DAVID LAMONT (CFO, BHP)
Yes. Thanks, Glyn, for the question. Clearly, it starts with how much and so we firstly look at what is the return that we think is appropriate given the capital allocation framework and given the net debt range, et cetera. Then what we do is we look at what's the most efficient way to get that back to shareholders. Clearly, a buyback is one of the things that we look at, whether that's on-market or off-market, we consider those.

At this point in time we felt the best way to return and keep things for all shareholders was actually the cash dividend and so that's where we landed from an overall perspective, and that's where we really situate ourselves alongside balancing out the various different demands of shareholders as part of that overall process. I would just say as part of that again, come back to $22 billion returned in the last 18 months, it's been a great return to shareholders and we think that think that's consistent with the application of the capital allocation framework.

GLYN LAWCOCK (BARRENJOEY)
I understand that. Can I just challenge you a little bit more then? I mean a 14% discount for an off market, am I interpreting therefore that that's not an attractive entry point into the shares versus just returning cash?

DAVID LAMONT (CFO, BHP)
So again, that goes into that framework that we assess things on from our point of view. As I said, we felt that it was appropriate to return our cash dividend to all shareholders in the form that we did and felt that was the best way to return money to shareholders this time around.

It is something that we assess on a six monthly basis and will continue to do so.

MIKE HENRY (CEO, BHP)
I think the important point there Glyn is that there is a number of parameters that we consider. Where shareholders are at overall in terms of sentiments, the broad base of shareholders and so on.

So it's but one factor and as David said, taking all of that into account, the Board decided this time around to go with all cash but we'll consider it in six months' time.

GLYN LAWCOCK (BARRENJOEY)
All right, thanks again. Appreciate it.

LACHLAN SHAW (UBS)
Thanks guys. Just a follow up question from me just around your commentary around the outlook for many commodities – quite strong demand, low supply, low inventories in respect of copper particularly.

I'm just thinking about the improvement we've seen in the uranium market recently. You talked about Olympic Dam, Oak Dam optionality there, the importance of getting the asset producing reliably but is there any update there on timing and potential scope of how those projects in that province may come together in the short to medium term?

MIKE HENRY (CEO, BHP)
Short answer is no. To be totally transparent, I don't want to get ahead of ourselves in terms of painting a growth outlook for Olympic Dam at this point given some of the scars of the past.

All I can say is that none of - so any growth ambitions we have around Olympic Dam won't happen unless the base business is running well. So that has been 90% of the focus of recent times and you see it shining through.

Of course, we continue to look at what more we can do with this large resource at Olympic Dam and now we've got the added plus of Oak Dam. In the case of Oak Dam, there is further drilling underway to tell us exactly what we have. Then in the coming few years we'll look at whether we can turn all of that into a high returning growth opportunity for us in copper.

Of course, it will be aided if we have the tailwinds of higher uranium prices but that's probably it for now. Once we have greater confidence around things, I'm sure we'll come back and talk about exactly what that might look like and whe,n but not for now.

LACHLAN SHAW (UBS)
Thanks Mike.

PETER O'CONNOR (SHAW AND PARTNERS)
Mike, can I just go back to the answer about the buyback versus dividends question from Glyn and just clarify; is part of the decision tree in deciding on a buyback as part of that process, does it involve a hurdle which is share price versus your assessment of NPV of the shares? I have a follow up.

DAVID LAMONT (CFO, BHP)
Yes, Peter, so understand the question. Again, there's several factors that contribute to the decision as to whether it's a cash dividend or whether it's a buyback as part of the process.

As I said, we evaluate that on a six month basis through the capital allocation framework, so that's the mechanism that we use. We obviously as part of that are conscious of where the share price is at yes. You'd expect us to factor that into the equation.

Having said that, this time around we felt that it was more appropriate to return a cash dividend with all things balanced out as we look at where we were also with the revised range and where we are also in relation to the ongoing organic growth options that we have.

MIKE HENRY (CEO, BHP)
I think if I cut to the chase, Peter's question, Glyn's question, really at the heart of it is do you think your shares are overvalued? Short answer, no. Very happy that they've rallied since their lows, Tristan when was that? Back in November, thereabouts. So shares have rallied.

This really is a decision. It's not a spreadsheet driven decision. There's a value component to it but there's a whole host of other factors that come into the decision about what the best option is at any given six month period.

PETER O'CONNOR (SHAW AND PARTNERS)
Just a quick follow up. So I'll frame question Mike, in terms of nickel and you've mentioned several times about Nickel West being the second largest resource of nickel sulphide in the world.

Thinking about the future and adding in Kabanga and the IP that you may pick up there in terms of a move towards hydrometallurgy and you mentioned HPOX as well, how does WA Nickel West unfold?

Is pyrometallurgy part of that process and if so, for how long or is hydrometallurgy the way to go? Is that the way you unlock the resource?

MIKE HENRY (CEO, BHP)
Way, way too early for us to know Peter. All I can say is that, of all the BHP businesses, we're at the advent of bringing innovation to bear on how we unlock more value, Nickel West is right up there.

That includes the nickel sulphate plant that we've developed, some of the things like HPOX that we're looking at. I think innovation does hold within it, quite a bit of potential around Nickel West but too early at this point to be calling for what is going to be the winning technologies and the approaches.

TRISTAN LOVEGROVE (GROUP INVESTOR RELATIONS OFFICER, BHP)
With that operator, just wanted to thank everyone for joining the call today. If anyone's got any questions feel free to ask us in the Investor Relations team, but with that we'll call it a day.

MIKE HENRY (CEO, BHP)
Thanks all.

DAVID LAMONT (CFO, BHP)
Thanks everyone.