Financial results for the year ended 30 June 2022

Investor and analyst briefing Q&A transcript – Session 2

16 August 2022

Introduction

MIKE HENRY (CEO, BHP)

Thanks and welcome, everyone. I am going to keep my introduction pretty short. I think the numbers speak for themselves. Business is in good shape operationally, financially and strategically. First and foremost, we had a good year from a safety perspective. No one lost their life while working for BHP. That makes three and a half years. We remain very focused on that. Operationally, business is running well, and that reliable underlying operational performance and good cost control has allowed us to maximise returns from the strong commodity price environment that we found ourselves in. That has underpinned this 16% increase in underlying EBITDA, record returns to shareholders on a cash basis, but then also of course, we had the US$19.6 billion in specie dividend from the Woodside merger, so there were good shareholder returns throughout this period as well.

It was not just about the day-to-day business. Over the course of the year, we executed against a number of strategic initiatives that are intended to set BHP up even better for the future. I mentioned the merger with Woodside of BHP's petroleum business, capturing value and providing choice to shareholders. We continued our optimisation of the coal portfolio with the divestment of our stake in Cerrejón and BMC. We triggered Stage One of the Jansen project, opening up a new front for high returning growth in a very attractive commodity for the future, and we unified the corporate structure, moving away from the DLC to the single primary listing.

While doing all of that, we have continued to reduce carbon emissions within our operation. There was a significant reduction during the course of the year, keeping us on track for the 30% target that we have by 2030. We have continued to improve the underlying composition of the workforce and the culture in the business. Good ground was taken on all fronts taken during the course of the year, but we know that there is further potential yet to be unlocked in the business, and we have spoken about some of the things we are focused on to do that, both inside the business but also on the growth front, in unlocking more options from the existing copper and nickel resources, and our increased focus on exploration and early stage entry.

I will stop there and open it up for questions.

Q&A

LIAM FITZPATRICK (DEUTSCHE BANK)

Good morning or good evening, depending on where you are. I have two questions, just on the growth options in iron ore and copper. On iron ore, over the past two to three years we have seen very high returns in prices because of a lack of supply. I am just interested to hear what will drive your decision on when and how to expand up to 330 million tonnes. Will it be price-driven, i.e. prices remaining above a certain level, and will it be linked to ongoing underperformance from some of your global peers?

Secondly, on Escondida, can you flesh out some of the options that you are looking at and potentially the timeframes in terms of approvals? Thank you.

MIKE HENRY (CEO, BHP)

On iron ore, it is really going to be driven by value and returns. If you look at the position that we have captured over recent years, yes, it has been a high price environment, but as we have been saying for some time now, we expect competition to heat up in that market, and we wanted to establish ourselves as a low cost, most reliable supplier. We wanted to improve the quality of our product suite, and we wanted to ensure that, through our product placement, we were capturing maximum price outcomes. We have done all of that for multiple periods running now. Of course, there is always further to go, so I do not want to say we are generating maximum returns for the capital invested in that business, but the business is much better positioned than it was a few years ago.

With the 330, we have said that we are progressing studies to tell us what it would require to get to 330. That is very different from an investment decision. As those studies land, we see what the returns look like. They will be compared then against other options within the business to deploy capital for returns, and if they stack up well then we would look to trigger. I would not say it is dependent solely upon price. We do look at the impact of expansions on price to see whether the economics still hold or not. It is really going to be driven by a combination of price, which comes back to market dynamics, but also the internal capital efficiency the studies show as the studies get concluded.

On Escondida, I want to keep the response very high level because we are progressing the studies as we speak, and I do not want to get too far ahead of ourselves. It is a range of things, looking at further concentrator capacity, potential leaching capacity, a future potential move to add underground operations there, but still at a very early stage. We are looking at quite a few different options. What I would call out is that Escondida is about 27 billion tons of resource that is over 0.5% grade. I am confident that there is lots of optionality in that resource, but we need to connect that underlying belief in the business to actual projects fully costed and so on. That is the work that we have underway currently. In due course, when we have enough by way of the numbers and confidence in the underlying projects, then we will reveal further. David, is there anything you want to add?

DAVID LAMONT (CFO, BHP)
The only other thing that I would add to that is we have not changed our mid-term guidance for Escondida. We do have time on our side in relation to this because, over the next five years, we still see 1.2 million tonnes coming out of Escondida. We are flagging that there are options. We are flagging we are entering into studies, but we do not have to solve this tomorrow.

JASON FAIRCLOUGH (BANK OF AMERICA)
Good evening, guys, and thanks again for giving us the opportunity for the Q&A here in London. I appreciate it a lot. I have a question on M&A. Talking to investors, I think many were surprised by the OZ bid, and there was a view that the assets were not high enough quality to be in BHP's portfolio, and then more generally, that OZ was not seen as being big enough to be material to BHP. I guess the question is, has your view on asset size and quality changed? With that, what about jurisdiction? Are you now willing to consider more challenging geographies to get your hands on a properly tier one copper asset?

MIKE HENRY (CEO, BHP)
Thanks for the question, Jason. There is lots in that, obviously, but can I just take a step back though? Point number one, and I think I have said this from the get-go, is BHP’s strategy is not dependent on M&A for growth. I flagged earlier the Escondida copper resource alone. As we spoke about earlier in the year, BHP has the largest endowment of copper of any player out there, similar with nickel sulphides, as number two. Of course, we have this pipeline of growth we have opened up in potash.

I am really confident that the internal options, coupled with exploration, coupled with this increase commercial agility in terms of taking toehold positions in as yet undeveloped deposits, is a solid foundation for growth. That opens up a great ability to be disciplined when it comes to any M&A opportunities that we consider, and I do not want to not consider M&A as one of the levers of growth, but we are not dependent on it.

You asked two other questions there. You commented on the OZ Minerals assets, and you asked about new jurisdictions. If I speak about new jurisdictions first, are we willing to pursue opportunities in new jurisdictions? Yes, but only for the right opportunities with the right returns that reflect the risk that one would be taking on.

OZ Minerals assets – specifically has our view on what is required by way of asset quality generally, in terms of what BHP would invest in, changed? No. We remain focused on high quality assets with growth potential. But if you think about OZ Minerals, come back to the copper nickel thesis, we like copper and nickel. The assets are in a jurisdiction that we like, so at the right price, we think there are some synergies to be unlocked. Those have been reflected in what is a very full and fair offer, but it is not a must-have. This is something we are going to be very disciplined about, and we have shown that previously with the Noront bid, albeit a smaller bid, last year, but similar circumstances. We will be disciplined about it. As I said, we think we have lots of other options for growth.

JASON FAIRCLOUGH (BANK OF AMERICA)
Thanks, Mike. I appreciate the colour.

MYLES ALLSOP (UBS)
I have a couple questions. First of all, on your long-term copper price, has that changed over the last 12 months or do you still have a long-term copper price broadly in line with consensus around $3.50? Obviously, that will impact where you see value from an M&A perspective.

Thinking about restructuring, with the benefit of hindsight, do you think you should have retained BMC and Cerrejón and adopted a similar strategy to Mount Arthur and just taken the cash flow and responsibly depleted those assets? Are there any other restructuring options left within the portfolio now or you are pretty much done?

MIKE HENRY (CEO, BHP)
I will take the second question there around the coal assets, and David, maybe if you can comment on copper price. Myles, do we regret the Cerrejón, BMC decisions? Not at all. I think they were the right decisions as we look to create the best long-term portfolio for the company. I am equally comfortable with the decision that we have taken on New South Wales Energy Coal, given the divestment process and how that played out. I am very comfortable with those decisions.

Is there anything further to come? As we have said previously, we will constantly look at opportunities for optimisation of the portfolio, but there is nothing that we have out there at this point in time. David, maybe you want to comment on the copper price.

DAVID LAMONT (CFO, BHP)
Yes. Myles, let me start by saying we constantly look to refresh and update our commodity price protocols, as you would expect us to do. We have a bottom-up approach to that. From that perspective, we clearly look more at the short term. It is pretty much in line with where the market is at, but we have a view around the longer term. That is not just for copper. That is obviously for iron ore, metallurgical coal, etc, so we look at all of our platforms. In short, to answer your question, we have not changed our long-term copper price of late, and I am not about to tell you what it is.

DANIELLE CHIGUMIRA (CREDIT SUISSE)
Hi there, and thanks for the call. I have a couple of questions, firstly on the decarbonisation spend of US$4 billion. It is good to get that colour in terms of the negative NPV of US$500 million or better. Can you give an idea of the spread of those individual projects in terms of highest to lowest IRRs, or how much of that US$4 billion is NPV positive compared to how much is negative? I will ask the second question after.

DAVID LAMONT (CFO, BHP)
Thanks for the questions. You are right in relation to the total spend being US$4 billion. I will just flag that, equally, we see these ramping up through to 2030. It is not a uniform number. We have called out that in FY2023 and FY2024 we would expect to spend around about US$500 million into that. In relation to the returns, they vary greatly. Let me say up front that, if we look at our emissions and what we are looking to do principally around scope 1 and scope 2, 80% of our emissions come back to an equal split – 40% each – on power and use of diesel. On the power side of things, we are looking to enter into purchase price agreements with suppliers to assist us. We are doing some small solar farm set ups as well. I will reference that we are well on track for operations in Chile to use 100% renewable power. That has actually been accretive. We have seen US$100 million of savings in FY22 in relation to those contracts. There are contracts within that US$4 billion spend that do have a positive impact.

On the diesel side of things, we are also looking at how we electrify the fleet. There are also some technology improvements that we need to see as well to work our way through. The short answer is that overall there is a negative carry of US$500 million, as you called out, but there is certainly a spread between what is accretive in that mix and what has a greater drag. We have not outlined all of those as such.

DANIELLE CHIGUMIRA (CREDIT SUISSE)
That is useful colour. Thank you. Keeping with emissions, is the FY30 emissions reduction target still appropriate given that you are 80% of the way there? Have you acquired any more carbon credits in FY22? Is that reflected in the fall in emissions you have reported so far?

MIKE HENRY (CEO, BHP)
On the carbon credits, David, maybe you can answer that, if you are aware of it. If not, that is fine.

On the first part of your question Danielle, is the FY30 target still appropriate? Yes. Keep in mind that this is a floor, not a ceiling. It is at least a 30% absolute reduction. The other thing I would call out is, as we discussed on this call today, we do have some ambitious plans ahead of us on the growth front. As we grow and as we invest in more projects, that 30% does not change. On a net basis, it will be greater than what otherwise may be apparent just looking at the 30%.

The other point I would note is that, when we set targets like that, they are very well thought through and costed. It is one of the reasons why we talk about the US$500 million negative NPV on emissions investment. That is how we look at it. That is the level of granularity that we have as we develop the projects required to achieve the targets we have set. You can see it as a highly reliable target. It is a target that we will achieve in spite of the ambitious growth plans we have ahead of us. If we are able to achieve more, we will achieve more.

David, did you want to comment on carbon credits? I know that we do bring carbon credits into the portfolio on a regular basis.

DAVID LAMONT (CFO, BHP)
Yes. Let me say that it is not material in relation to that overall picture, but it is probably worthwhile putting a little bit of colour around the context of how we see this. There is not a capital project that would come forward under our capital allocation framework now that would not have a climate aspect to it and a social value aspect to it. In every investment we are making, we are looking at what that means in relation to the impact. It is worthwhile noting that the targets Mike just referenced are against the backdrop of us just growing the business. By nature, as we continue to expand the business, we are doing so in a manner that still delivers those reductions of 30%.

TRISTAN LOVEGROVE (GROUP INVESTOR RELATIONS, BHP)
Danielle, it is Tristan here. We did not retire any offsets for the purposes of 2022, and it is in our 4E.

DANIELLE CHIGUMIRA (CREDIT SUISSE)
That is useful. Thank you. Okay, thank you.

AMOS FLETCHER, BARCLAYS
Yes. Evening, gents, and thanks for the opportunity. My question relates to the capex profile. I just wanted to get a bit more granularity on the various unapproved projects you alluded to in the presentation. At Escondida, there is the new concentrator and potential chloride leaching. Does that help you sustain 1.2 million tonnes for longer? Could you potentially grow output at the operation? Do you need new water and power solutions there?

At Olympic Dam, I just wanted to ask about the potential for a second smelter. Could you unpack your thinking in a bit more detail on the benefits of that in terms of possible capex and the production uplift as well? Thanks.

MIKE HENRY (CEO, BHP)
Let me talk to the Olympic Dam smelter, David, and then I will pass to you for Escondida. Amos, on Olympic Dam what we have referenced there is two stage smelting. It is moving to a different smelting technology or methodology, if you will. If we were to invest in that, it would allow us to, at minimum, de constrain the operations. Right now, with the single stage smelting process that we have at Olympic Dam, you have to optimise for copper sulphur ratio. That has certain implications in terms of the efficiency, or lack thereof, of the mining operation. This would liberate some of that.

Of course, if we were going to go down that route, we would be looking at the appropriate scale for the smelter and so on. It is still too early to call not just because we have the smelter study to undertake but because it depends a bit on things like Oak Dam, where we still have drilling underway. It continues to look promising, but there is further to go before we have enough confidence in Oak Dam to be able to bring that in and say, 'Between Oak Dam and the existing resource at Olympic Dam, what is the scale we could expand to? How does two stage smelting play into that?'

David, do you want to take the question on Escondida?

DAVID LAMONT (CFO, BHP)
Yes. Certainly, on Escondida, as I said earlier, for the next five years we do see the 1.2mt. That obviously will require some capital to support. It is important to note that our capital expenditure includes all the deferred stripping, as we need to. There is certainly capital in the numbers that we have painted. In that US$7.6 billion guidance for FY23 there is pre stripping in there.

To sustain the 1.2 million tonnes, we are certainly comfortable on the water side of things and also on the power side, so the infrastructure that comes forward. We need to continue to maintain those operations and we need to continue to look at how we expand when we get into the life beyond the 1.2, as the grade comes off. That is what the studies are. We have not actually articulated what that looks like, but there will be improvement capital in Escondida in the go forward position of US$7.6 billion and also some improvement and maintenance capital.

SLYVAIN BRUNET (EXANE BNP PARIBAS)
Good evening, Mike and Dave. My first question is on the medium term capex guidance. I want to get a sense of how much inflation is embedded in that. Can you be a little bit more specific for Jansen? Do you see some items being a little bit more at risk?

My second question is on OZ Minerals, if I could. I want to get a sense of whether you have identified more unique operating synergies to pursue this acquisition or whether it is more driven by the exposure and a portfolio decision. Thanks.

MIKE HENRY (CEO, BHP)
David, do you want to comment on the capex? Then I will comment on OZ Minerals.

DAVID LAMONT (CFO, BHP)
Certainly, as we have looked forward in relation to the capital, we are reflecting what we see the current market position and conditions to be over time. Right now we are in an environment whereby we are seeing some inflationary pressures. We are not immune from that, and we have factored that into the guidance we have given based on our view of the overall tightness in the supply chain that we are seeing, as I said earlier, not only on the capital side of things but also on the raw cost side. I have nothing more to add other than to say we have already factored it in.

MIKE HENRY (CEO, BHP)
Sylvain, you also asked about Jansen. There are a few things to note here. One, we had engineering fairly well progressed. From memory, David, it was 55% or something at the point of pulling the trigger on Jansen.

We have got a fair amount of the contracts already let. Importantly, when we were pulling the trigger on South Flank – this was a few years back – we were entering into a heated period in the market as well. The team was very thoughtful about the commercial contracting strategy and how to stage things to ensure we best guarded against the impact of inflation. We did a good job of that. We brought it in on time and on budget. The individual we had leading that project was then asked to go across to Jansen, and they are leading Jansen. Similar frameworks are being brought to bear in how they think about managing Jansen Stage 1 as well.

If I move to OZ Minerals, your question was about whether this was a broader exposure and portfolio decision or whether we see synergies. On the latter, we like copper. We have been clear about that. We see South Australia as being an attractive investment jurisdiction. Those are the threshold issues. Of course, at the end of the day, this is all about value. We do see some synergies there, given the proximity to our business. Those are all baked into the offer we put on the table, which we see as a pretty compelling and full and fair offer. It is both in line with strategy from a commodity perspective and, yes, there are some synergies. Of course it is highly uncertain, but we have reflected those synergies in the offer, which the other side has chosen not to engage on.

TYLER BRODA (RBC)
Good morning and evening. Thanks very much for the call. I just have two questions. The first one was just on the capital allocation framework. You generated US$13.4 billion in cash plus another US$1.3 billion from divestments. With that, despite the fact that you are at US$300 million of net debt, you decided to hold back about US$4 billion of cash for the balance sheet. Can you just talk about that, the decision between buy backs and additional dividends and the US$4 billion within the context of your thoughts on the portfolio?

Second, I just wanted to go through the capital spending. In terms of the medium term capital spending for steelmaking, is that the expansion for the 330 million tonnes? I am trying to get a sense of the non-aspirational part of the capex.

MIKE HENRY (CEO, BHP)
To confirm where your numbers are coming from, Tyler, if I understood you correctly, on the point you were raising around net debt, you are talking about the pay down of net debt to 300 million, which you are couching as a hold back. I do not know whether that is quite the right way to look at that. David, why do you not comment on that and the question about iron ore?

DAVID LAMONT (CFO, BHP)
Yes, let me start by saying that we are pretty clear that we have a target net debt range of US$5 billion to US$15 billion. The reality is, though, that in any six month period, given the cash we are actually generating, we sometimes end up below the US$5 billion. That is what is reflected when you look at the capital allocation framework with the balance sheet aspect of the US$4 billion that you called out. We ended up, as you rightly said, with US$330 million of net debt.

Now, we are looking to pay out a dividend, with a final dividend of 175 US cents per share. That is a total of US$8.9 billion. That will certainly move us back into the range that we are focused on. I would just say to you that the 77% pay out is a fair reflection of where we see the market moving forward. It was a good reward to shareholders. It is a record dividend. I do not know whether I would couch it as us having held anything back as part of the overall picture.

MIKE HENRY (CEO, BHP)
On the question Tyler has asked about the steelmaking capital, it is indicative, Tyler. Yes, it would include expansions in iron ore, if we got to the point of wanting to pursue that. Please view that $10 billion and the breakdown there as indicative. What we are trying to bring to life there is the fact that we are increasing investment in future facing commodities. That is becoming an increasing proportion of where we are allocating capital towards. David, do you have anything to add?

DAVID LAMONT (CFO, BHP)
I think the only other thing that I would add, Mike, is that you can see that we have in both FY23 and FY24 an increase in our maintenance capital, but that comes back down when we are talking about that US$10 billion view. Importantly, in that maintenance capital is the capital for our decarbonisation. That is US$4 billion going into that area of the portfolio, which, as we spoke about earlier, we see as being a) critical but b) does have a bit of a negative carry. We are looking to balance that out versus the growth. We are giving people some colour about the fact that we have options to grow the business and we are looking to execute against that.

The final point I would make is that I think one of the strengths of BHP is the fact that we have a portfolio and we are able to invest through the cycle in growing the business and doing so in a value accretive way.

RAHUL ANAND (MORGAN STANLEY)
Hi, Mike, David and Tristan. Thanks again for the opportunity. The first one was about SGO. Mike, can you perhaps provide a bit of colour on how that is progressing? You had some issues there with regards to the plant and recoveries. I just wanted to gauge how progressed you are in being able to rectify those issues. When do you expect to be at nameplate there? I will come back with the second.

MIKE HENRY (CEO, BHP)
You are right. As we have previously spoken about, there are some teething issues with SGO. Subsequent to bringing the project in on time and on schedule, we identified that if we had our time again we would probably have designed things a little bit differently. There are some things that need to be rectified there. We have called out that there is about US$100 million to be invested to get us to 270,000 tonnes per annum at Spence generally. Ragnar and the team are looking at what the best returns and greatest capital efficiency options are then to get higher than that, but we are not being constrained by saying, 'Original plans were X'. In fact, the team is looking at the full gamut of options around potentially being able to even go a bit further than we had previously considered, but it is still in the study phase so it is too early to call. I think you had a second question?

RAHUL ANAND (MORGAN STANLEY)
Yes. For the second one I just wanted to circle back to iron ore. Looking at the FY23 production numbers in terms of midpoint, it is very similar to the FY22 performance. What I wanted to touch on was MAC is obviously far more progressed than it was last year. When do you think you can start pushing towards that 300 million tonnes per annum level? Is there a bit of de bottlenecking already tied into that infrastructure schedule for this year that potentially gets you closer to 300 million tonnes per annum in FY24? The premise of the question is obviously that you have the optionality on the mine side. I do not think you are quite constrained there, because you could even ramp down Yandi if there was a need there, but I just wanted to get your views on when you can potentially hit that mark, and how much de bottlenecking of that infrastructure you have this year.

MIKE HENRY (CEO, BHP)
Good question. We have said that that is medium-term guidance, so that is the best way to call it. I would not say it is just around the corner. The reason that you see the midpoint on guidance for the year ahead coming in similar to FY22 is that we are dealing with some of the same external challenges by way of labour availability and so on and so forth. Importantly, we also have a major car dumper rebuild that we undertake, and these things only come around once every X years. We have one of those being undertaken in iron ore in the year ahead as well, so that masks what is otherwise continuing improvement in reliability and productivity in that business.

To your directional point around whether we are continuing to invest in debottlenecking and so on, we absolutely are, yes. It is this combination of focus on continuous improvement, operational excellence and a bit of debottlenecking capital, combined with the continued progress on the RTP1 rail signalling project that will allow us to reach the 300 million tonne per annum level, but that is still a few years out.

ALEXANDER PEARCE (BANK OF MONTREAL)
For 2023 your guidance shows some inflationary pressures coming through in the costs year on year, but obviously your long-term target does suggest some easing again. For iron ore particularly, you have that less than US$17 target in the medium term versus US$18 to US$19 this year. Could you comment on what the key drivers are for this easing? Does it assume you are already through that 300 million tonne per annum target rate, or is it at the full 330mtpa?

MIKE HENRY (CEO, BHP)
No, it will not be the full 330mtpa. Will it include ongoing volume creep to that 300 million tonne per annum level? Yes, but the big part of it is the pullback in some of the quite intense inflation that we have seen on some inputs, and ongoing continuous improvement in the underlying business.

DAVID LAMONT (CFO, BHP)
I would also just flag into that the ongoing operational enhancements, looking at how we autonomise the fleet, which clearly has an economic benefit. There are things that we are doing on the ground that help offset some of those inflationary aspects that are actually playing through.

RICHARD HATCH (BERENBERG)
Two questions. The first one is following up on Spence. Reading through the commentary, there are now issues with the TSF liner. More broadly on Spence, can you remind us what the recovery rate target is and where you are with getting there? Secondly on Spence, is there anything there that you continue to worry about? Is there anything else that we should be thinking about that could impact the production ramp up on that one?

Secondly, on capex, we have talked about capex this morning, but on copper it looks like capex is going from US$2.5 billion this year to US$4.3 billion into the medium term, based on what I can work out with my ruler. Can you just split that out as to where we need to put that, please?

DAVID LAMONT (CFO, BHP)
On the copper side of things I would reference you to slide 27 – off the top of my head – where we also gave the US$10 billion split in relation to maintenance improvement, future-facing commodities and the steel side of things. As I said earlier, maintenance comes down. Part of the maintenance in there is certainly for copper, but what we have called out is that, in the future-facing commodities what we do see in that US$10 billion is around about US$2.4 billion going into the growth side of things. That is not just copper, but clearly copper is a component of that, and it goes back to the earlier discussion. We have options here. Which one of those options we ultimately execute on are things that we are still studying at this stage, but we are flagging in the medium term that there will be an increase in that growth capital. As I said, US$2.4 billion for the future-facing commodities and US$1.7 billion for the steelmaking side of things, which we have already covered off, which includes the 330 expansion.

On the copper side we have options, as we said earlier, in relation to Oak Dam and Olympic Dam. We have options at Spence. We also have options at Escondida, and we are working those through. There is not a lot more colour we can give you at this point in time, other than to say that they are growth orientated. From our side of things I would reference where we were in relation to Jansen in relation to the 12% to 14% internal rate of returns that we see on stage one. That would be indicative of at least the floor that we would be expecting on any returns.

MIKE HENRY (CEO, BHP)
Richard, if I come back to your question on Spence, first of all let us keep in mind that the SGO project has allowed us to extend the life of Spence by 50 years. We need to think about the long-term value being created here. Yes, in the near-term we have had some issues with the concentrator and recoveries and so on. We need to get recoveries from the mid-70s currently up to low-to-mid, maybe mid-80s. Ragnar and the team are working through the work required to get us there.

On the liner you should see that that is us acting with an abundance of caution. The way these things work in Chile is where you have identified anomalies – and the tailings dam is only about 1% utilised at this point – you go to the regulator to make sure that they are aware of it. Given that it is with the regulator we thought the appropriate thing to do would be to include something in the current reporting suite around that as well. Again, as with the concentrator, the team is working through what the remediation is. The long-term attractiveness and fundamentals of the Spence asset remain.

DANIEL MAJOR (UBS)
My first question is on M&A and what you define as future-facing commodities. You have previously spoken about lithium. The indicator is it is a commodity you have not been particularly interested in. Maybe the assets are subscale or not a good enough quality. When I look at your approach for Australia, mid tier acquisition and mid-quality assets, how should we be thinking about lithium? Would this be something that would fit in the future-facing commodities bucket in your M&A strategy going forward?

MIKE HENRY (CEO, BHP)
There is no change in the view on lithium. Is it a future-facing commodity? Yes. Is it a future facing commodity for BHP? No. It does come back to the scale of the underlying assets and how we see the cost curve over time, and frankly there is an issue of prioritisation for us. We need to stake out the ground that we want to grow in. We have said that for us that is potash, copper and nickel. That is where we see the best combination of scale, attractive cost curve and alignment with BHP capabilities.

Your question was framed around M&A again. M&A is but one growth lever for us, and frankly it is the minor growth lever. The bigger opportunities and focus for us is on getting more out of the resources that we have, exploration and early-stage entry. We will also be present to M&A opportunities, but we will only go after the right opportunities, the right asset quality, potential synergies with the business and in the right commodities. There is by no means a reliance upon M&A. In fact, the bulk of our growth focuses on the other levers that we have to pull.

DANIEL MAJOR (UBS)
Just to follow up on that around growth and Oak Dam, you mentioned Oak Dam potentially being a part of a decision on the second smelter at Olympic Dam. Is that a requirement from the metallurgy of the Oak Dam ore from a perspective of it needing to be processed like the Olympic Dam material, or is it more of an operational synergy standpoint? Could you market the concentrate at this point from Oak Dam as you see it today?

MIKE HENRY (CEO, BHP)
We still have not zeroed out the answer to that question, Daniel, because we still have the drilling underway at Oak Dam. We do know that processing onshore – going through concentrate, smelting and refining – gives you access to more ore generally for the ores in that basin. I thought where you were going with the question was, ‘Is Oak Dam essential for moving to two-stage smelt?’ The answer to that is no. We are pretty sure it is not, but we still have to complete the two-stage smelting study as to whether we would need to take Oak Dam through smelting onshore or not. We still do not know. That is the subject of further work proving up in the resource.

IAN ROSSOUW (BARCLAYS)
A question on Queensland coal. In the release you mentioned you are reassessing investments due to the new royalty, but if you assume the royalty changes become more acceptable down the line, how should we think about the Blackwater South project longer term? Will these be new incremental coke and coal volumes post-2030, or will that offset some of the declines in BMA? How should we think about this in the context of your net zero target, given it seems like this project’s mine life is up to 90 years?

My second question is on WAIO. You have given the production level over the medium term, but how should we think about the capex intensities or ranges of capex intensities that will come with these volumes?

MIKE HENRY (CEO, BHP)
Let me deal with the iron ore question first. Capex intensity is still subject to further study, but what we can say is that what would be involved in getting us to 330 million tonnes would be some mine capacity, but we would potentially be able to leverage the Yandi infrastructure as the existing Yandi mine runs down and port debottlenecking capacity. I do not have an exact figure to give you yet, other than to say I think all the ingredients are there for there to be, in relative terms, some attractive capital intensities. It is the subject of further work.

If I then come back to Queensland coal, I know you are referring to the regulatory processes underway right now around Blackwater South and some of what has been reported in that. Please keep in mind the way these regulatory processes are run. The regulators are trying to step back and assess the cumulative impact of projects. The process drives you towards putting in the biggest possible scenario, so an application to be able to go for 90 years does not mean that that is how we would necessarily see things play out.

Now, would we even trigger South Blackwater? If circumstances change, and I will come back to what those circumstances are, it depends on whether the project is attractive and competes well in the capital allocation framework or not. We are still miles away from knowing the answer to that question, but of course any investment would be predicated as well upon the risk of that investment being acceptable and that comes back to needing to have comfort around the stability of the fiscal terms that you are investing against.

We would also have to be confident in the market outlook and, in respect of the market, what we have said is that, for the foreseeable future, blast furnace steelmaking is going to need to remain because the true green steel technologies are still too early stage and the economics have yet to be improved further. However, steelmakers are going to have to decarbonise their blast furnace steel making process or reduce the carbon intensity and, in order to do so, they are going to need higher quality coking coals. That is the core of what BMA is now producing, those high quality coals that we think have upside leverage in a faster decarbonising world. Of course, in addition to investing in some of these breakthrough technologies, we are also working with and investing with steelmakers on some of their efforts to decarbonise their operations.

JASON FAIRCLOUGH (BANK OF AMERICA)
In the past, you guys have used the word ‘agility’. That was one of the reasons for the DLC collapse and I am thinking about moving quickly in terms of projects and, specifically, if we look at some of the latent leaching capacity you have at Escondida, how do you think about low capital intensity growth projects that you could actually move on much more quickly than we have ever seen mining companies do before? Is that possible? Related to that, just on Chile, how do you think about potentially allocating billions of dollars in incremental capex into a country where the rules of engagement could be changing materially?

MIKE HENRY (CEO, BHP)
The concept of agility definitely is front and centre for us, and that requires an internal culture, good exercising of judgement, streamlined processes. In today’s world, it also requires us to have really good relationships with all stakeholders, because that is what oftentimes creates a drag on a project. You would have seen Jason, the social value framework that we announced in June, which is all about how do we go about ensuring that we are creating value for all stakeholders and, through doing so, we get a better sense of what is important to them? That will allow us to be more agile when it comes to projects, in addition to the capability and culture that we are building internal to the company. You saw some of that shine through last year, in our ability to execute all of these big initiatives in parallel.

Now, regarding the specific acceleration in copper, Rag went across to Chile with part of his specific remit being, ‘Let us develop more growth options and figure out how we can go about accelerating growth in what we see as such an attractive commodity’. I am confident that we will be able to move more quickly; I am just not yet confident enough to talk about the specific projects, because the studies are still underway and I do not want to get too far ahead of ourselves, but we are moving more quickly. You see the way we brought forward the Jansen Stage 2 study. I know that is bigger than what you are talking about, Jason, but it is indicative of how we are thinking about accelerating on building growth optionality into the business.

JASON FAIRCLOUGH (BANK OF AMERICA)
And what are your thoughts on Chile, Mike?

MIKE HENRY (CEO, BHP)
Oh, Chile. Yes, well there is the good and the bad. The good is that there is a very good process of engagement in Chile on the royalty front, so lots of engagement between government, industry, other stakeholders, building awareness of the need to maintain sufficiently attractive fiscal terms to attract investment to offset grade decline and to grow Chilean copper to meet the world's needs. Of course, for us, we have to see that process settled before we look to deploy big licks of new capital into Chile, because we need to know what the fiscal terms are going to be that underpin the investment, but yes, the process remains underway and, as I said, there is an ongoing engagement between the various stakeholders and a growing awareness of just how important it is that the terms remain attractive for investors.

MYLES ALLSOP (UBS)
Just back on Queensland Coal, the introduction of the royalty earlier this year and the inability of the industry to respond was quite shocking. A 65% effective tax rate just had to be accepted, when coal prices are getting a bit more elevated. So what are you doing in response to that? Is there any potential for a review of that royalty structure, and what would stop other states in Australia, whether it is Western Australia, Southern Australia, New South Wales, from taking the Queensland precedent and thinking, 'This is a good way of filling the coffers'? Could you talk a little bit around that?

Then maybe the second follow up, just looking at met coal pricing at a big discount to thermal coal, which is certainly a once in a lifetime type situation, how long is that sustainable? How much switching can you see between met coal and thermal coal? Can you sell some of your met coal volumes into the thermal coal strength at the moment?

MIKE HENRY (CEO, BHP)
Yes, it was very disappointing to see both the significance of the royalty increase and the way that that was gone about, because that goes to risk. I spoke about Chile, how, notwithstanding the fact that there has been a lot of talk there about increasing royalties – and the likelihood is there will be some increase – there is a degree of respect shown by the government for industry, a real willingness to engage, understand, try to come to an aligned view. From an investor perspective, of course that gives you a greater degree of confidence, then, about the process and how fiscal terms will play out over time.

In the case of Queensland, it is pretty hard to be confident in that now, given a snap decision was taken and just implemented. Now, you asked the question about, 'What is the risk of contagion here?' Of course, you can never say it is not there, but, certainly for the more savvy governments, they understand that capital is mobile and for a company like BHP there are options. We can invest in other places. Certainly, for the industry or for capital markets, capital can flow elsewhere and it is the classic golden goose. Whilst it may be tempting in the near term, it ultimately undermines jobs and investment and, therefore, long term returns for resource producing jurisdictions if they increase royalties too much or in a way that causes fear amongst the markets.

If you look at a number of the Australian states, Queensland included, there is a pretty heavy reliance for state revenues on the resources sector as it is, and so anything that dis-incentivises long term investment, job creation and royalty streams, the test of time will show is not a wise decision. I have a couple of stats for you here. BMA, which of course is a joint venture, alone, or together with BMC, saw a contribution of about 10% of Queensland's non GST revenue already, before a royalty increase, and so that is the sort of thing that is at risk over time, if we and others pull back on investment because of concern about sovereign risk.

DAVID LAMONT (CFO, BHP)
Certainly, Myles, as you said, there has been what you described as a ‘once in a lifetime occurrence’, where thermal is actually ahead of met coal. You need to also just appreciate the different mix that we have between the two assets, being BMA now, now that we have got out of BMC. There was, with BMC, more towards that lower end of the metallurgical coal spectrum, which would have played potentially into the thermal side of things.

What I would say to you is our Marketing team has done an outstanding job on both fronts. Clearly, when the met coal ban came in from China, we needed to find homes for all of that and we have been able to do that and source that into other jurisdictions. We are seeing that those prices for the rest of the world are ahead of where we are from a Queensland perspective.

The other thing that I would just say to you is, on the thermal side, what we did flag is that we have been able to now wash the coal and get 90% of that coal coming out of New South Wales Energy Coal going into the premium part of the market. Within each segment, we are looking to optimise what we can do alongside the overall price dynamics. Importantly, we are also very focused on the customer relationships that we have and how we continue to maintain those as part of our overall mix.

MIKE HENRY (CEO, BHP)
Look, thank you everybody for joining. I hope you can see, shining through in the results, a very solid underlying operational performance, continuing the track record that we have built up over recent years. Not just operationally and financially, but strategically, the company is in great shape. We have taken significant ground over the course of the past 12 months in terms of building the business that we believe is going to generate attractive returns and value to shareholders over the long term. As we have spoken about on this call, there is lots of effort underway right now to develop more options within the portfolio of existing resources and on longer term options through exploration and early stage entry. Thank you for joining and have a good day.