BHP

Financial results for the year ended 30 June 2022

Investor and analyst briefing speech

16 August 2022

Mike Henry

Slide 1: Resilience and strength

Hello and thank you for joining us today to hear about BHP's results for the 2022 financial year.

I'm joined by our Chief Financial Officer, David Lamont, who will take us through the financial details shortly.

First though, I'd like to mention some highlights from the year

Slide 2: Disclaimer

Slide 3: Financial results

Slide 4: Delivering value

BHP delivered a record set of results for the year, continuing our track record of strong performance.

Our assets overcame multiple challenges to deliver solid operational performance, demonstrating the resilience of our business.

Most importantly, we had another fatality-free year.

And we did what we said we would do, making significant progress on reshaping our portfolio to deliver value now and into the future.

- We merged our petroleum business with Woodside, capturing value and providing choice for shareholders;
- We completed the sales of our interests in Cerrejón and BMC, further focusing our coal portfolio on higher quality coals for steel making;
- We unified our corporate structure, making us simpler and more agile;
- We approved the Jansen Stage 1 potash project in Canada, giving us a pipeline of high quality growth in what is an exciting, future facing commodity;
- We're accelerating studies for growth, including Jansen Stage 2 and Western Australia Iron Ore to 330 million tonnes per annum;
- And we continued to take action on climate.

We have a differentiated, proven approach to growing value. This is reflected in the quality of our portfolio – that saw a rise in earnings in the second half of the financial year, unlike many others in the sector; as well as our approach to social value; and how we bring together our people and culture, systems and processes, and ways of working.

Slide 5: FY22 operational and financial highlights

We remain unwavering in our efforts to improve safety and protect our people, and it is thanks to that clear prioritisation and its application by our workforce and leaders that we have now gone more than three and a half years without a fatality.

We are also experiencing fewer High Potential Injuries – those that could cause significant injury or fatality – which is a leading indicator of our safety performance.

Our strong focus on safety and health includes our work towards the elimination of sexual harassment, racism and bullying from BHP. We have continued to take strong action – making upgrades to security at accommodation villages, enhancing training programs (including for both leaders and bystanders), and improving support services.

I want to take this opportunity to thank our people and our stakeholders for their ongoing feedback and recommendations – their insights continue to inform our approach. We know we have more work to do and we are determined to make continued progress and ensure BHP is safe and inclusive for everyone.

I mentioned the challenging circumstances of the year. To be specific, we continued to experience the disruption and uncertainty of the pandemic, we saw the Ukraine crisis exacerbate global supply chain pressures, and we experienced inflation impacts across our portfolio.

Managing uncertainty and risk is a core part of our business, and our people and approach have allowed us to address these additional challenges in a disciplined way. This, along with our focus on operational excellence, the quality of our assets, and our leading approach to social value means that we remain better positioned to protect and consistently deliver strong results through the cycle.

We have delivered well against production and unit cost guidance. We achieved record shipments from our iron ore business in Western Australia for the third year running, and we remain the world's lowest cost major producer[1]. In copper, Escondida in Chile had record material mined and near-record concentrator throughput, while Olympic Dam in South Australia performed strongly in the fourth quarter after planned smelter maintenance.

I'm very proud of the way people across BHP have united to deliver such a strong safety and operational performance in the face of the challenges in the external environment. Our sector leading performance confirms my belief that our people and the way we work are a defining feature of our business and a substantial competitive advantage.

This strong and reliable performance enabled us to capture the benefits of high commodity prices, and deliver record Underlying EBITDA of almost US$41 billion.

This has allowed us to return[2] a record US$16.4 billion in ordinary dividends to shareholders over the past 12 months.

Slide 6: FY22 social value highlights

Now these are important figures, but they are only one part of our overall contribution to the lives and livelihoods of people around the world – through employment, through supplier relationships, through community support, and through royalties and taxation.

The scale of our contribution supports economies, powers small and large businesses, and helps to fund services and infrastructure in the nations where we operate.

During the year, BHP's total economic contribution was US$78 billion, which includes a record US$17.3 billion paid to Governments – up over 50 per cent year on year, and more than our dividends to shareholders[2].

BHP continues to deliver social value wherever we operate. Creating social value isn't a by-product of our business, it's a core aim – planning and operating in a way that delivers long term, sustainable value and opportunity for BHP, our shareholders, and the broader community.

[1] Based on publicly available information.
[2] Based on ordinary dividends determined in respect of the 2022 financial year.

We see it in our commitment to the environment. We've lowered our operational greenhouse gas emissions by 24 per cent over the past two years[3], mostly through increased uptake of renewable energy, and we've built on our research and development partnerships in steelmaking and maritime. This works towards the goals and targets detailed in our Climate Transition Action Plan, which received strong support from shareholders at our last AGMs.

And we've reduced our reliance on fresh water. Through efficiency initiatives and desalination, freshwater withdrawals are down almost 30 per cent since 2017[4] – nearly double our target.

We also continue to make strong progress on making our teams more inclusive and more diverse, because we know these teams are stronger performing. Our workforce is now over 32 per cent female, and that number continues to rise.

I'll hand over to David now to detail our financial results.

David Lamont

Slide 7: Financial results

Thanks, Mike.

This was a very strong result. Even more so given the backdrop of the challenging operating environment.

Slide 8: Financial performance

Excluding Petroleum, Underlying EBITDA was up 16 per cent to US$40.6 billion, at a record margin of 65 per cent.

After an effective tax rate, including royalties, of 38.5 per cent, Underlying attributable profit was US$21.3 billion. And Underlying earnings per share increased by 25 per cent to a record 421 US cents per share.

Our total attributable profit was US$30.9 billion, including Petroleum and a net exceptional gain of US$7.1 billion after tax, comprising:

- A gain on the merger of our Petroleum business with Woodside of US$8.2 billion;
- A gain on the disposal of BMC of US$840 million;
- Partly offset by a charge for the Samarco dam failure of US$1.1 billion; plus
- Unification-related transaction costs and an impairment of US deferred tax assets of US$851 million.

To ensure shareholders again benefit from our strong performance, we've announced a final dividend of 175 US cents per share, taking our full year ordinary dividend to a record 325 US cents per share.

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[3] For our baseline year of FY20, our operational GHG emissions were 14.5 Mt CO2-e, adjusted for Discontinued operations (Petroleum) and the divestment of BMC, and for method changes (use of AR5 Global Warming Potentials and move to facility-specific emissions calculation methodology for fugitives at Caval Ridge).

[4] Refers to our FY17 baseline, which has been adjusted for a range of factors (including divestments).

Slide 9: Group EBITDA waterfall

EBITDA benefited from higher prices for most of our core commodities. Metallurgical and energy coal prices were more than triple that of last year; copper and nickel prices were up by nine and 43 per cent, respectively. These were partially offset by lower – although still very healthy – iron ore prices.

The favourable impacts of the weaker Australian dollar and Chilean peso against the US dollar helped offset general inflation and commodity input cost pressures. It's worth noting that the transition towards fully renewable power at Escondida and Spence generated more than US$100 million in cost savings this year.

On the controllable side of the ledger, volumes were lower driven by:

- the planned smelter maintenance at Olympic Dam;
- lower copper grade at Escondida;
- significant wet weather impacts at BMA; and
- the impacts of COVID across the group;
- partly offset by ongoing strong operating performance at Western Australia Iron Ore and the ramp up of the new concentrator at Spence.

On the cost front, we continued to perform well. Controllable cash costs increased by just US$540 million, with more than 50 per cent of this associated with COVID, which were treated as exceptional in the prior year.

The US$1.7 billion increase from ceased and sold operations primarily reflects the strong performance of BMC until completion of the sale.

Slide 10: Consistent performance

These results continue our track record of strong and consistent performance.

We have again achieved margins above our peer group, giving us greater through-the-cycle resilience and producing a high baseline of cash flows. We've delivered net operating cash flows of more than US$15 billion again this year, extending this track record to all bar one of the past 13 years.

We've achieved this due to the quality of our portfolio, and our focus on operational excellence and cost discipline, despite market and operating conditions varying greatly over these years.

This stability is a hallmark for us, with few businesses in our sector having delivered this consistency.

Slide 11: Strong segment performance

Across the portfolio our underlying operations performed well. We delivered well against production and unit cost guidance, despite the COVID and inflationary impacts. And all of our segments, except Nickel West, delivered EBITDA margins in excess of 50 per cent.

Western Australia Iron Ore continued to perform strongly, with EBITDA of US$21.7 billion at a 71 per cent margin underpinned by record sales volumes of 284 million tonnes. The ramp up of South Flank to full capacity is ahead of schedule, with an average rate of 67 million tonnes achieved in the June quarter.

In Copper, the increase in EBITDA to US$8.6 billion was driven by higher realised prices, partly offset by lower volumes and inflation.

Despite significant wet weather impacts and labour constraints, BMA achieved a US$5.8 billion increase in EBITDA and a 62 per cent margin, with average realised prices more than three times the prior period.

And New South Wales Energy Coal generated record EBITDA of almost US$2 billion as it increased its proportion of washed coal to capture record price premiums. Higher quality coals now make up almost 90 per cent of sales compared to approximately 60 per cent last year.

So, we continue to perform well overall, both operationally and on the cost front.

That said, we're acutely aware that the lag effects of inflation and labour availability are challenges we will continue to deal with.

While we anticipate higher unit costs across our major assets over the next 12 months, we expect to maintain our advantaged cost position, aided by our world class assets, differentiated approach to operational excellence and continued, relentless focus on cost discipline.

Slide 12: Increasing capital spend in future facing commodities

Now, turning to capital expenditure.

As Mike spoke to, we are accelerating growth. Capex is expected to increase over the medium term, as we've said it would, and about 60 per cent of that will go towards future facing commodities – namely copper, nickel and potash. One of the great strengths of BHP is our ability to invest through the cycle.

Over the next two years, the majority of funds will be allocated to maintenance and improvement capital.

- Maintenance capital will increase by around US$1 billion by 2024 as we invest to continue our reliable operational performance. This includes over US$500 million of operational decarbonisation capital.
- Improvement capital includes projects that enable improved productivity, quality, facilities and organisational culture.
- In terms of major projects, spend at Jansen will increase near term, to approximately US$740 million in 2023.
- Other projects across the group include capital efficient debottlenecking works in iron ore, plant modifications at Spence, and studies on options at Escondida.

As we look to the medium term, the increase in spend relates to future facing commodities. This includes:

- Continued spend on Jansen Stage 1, and potentially Stage 2;
- And growth options in copper at Escondida, Spence, Olympic Dam as well as in nickel.

Mike will touch more on the projects we are studying and looking to accelerate later on.

We will also spend on our steelmaking commodities – which remain important for the energy transition.

- Getting Western Australia Iron Ore to 300-plus million tonnes per annum in the medium term will require an acceleration of sustaining mine development and continued capital efficient debottlenecking works.
- Studies are also underway for a 330 million tonnes per annum option.

Combined, we expect annual capital and exploration expenditure of around US$10 billion over the medium term.

Slide 13: Balancing investment with shareholder returns

Of course, all investment decisions will be subject to our Capital Allocation Framework, which has served us well since it was put in place in 2016.

We have built a very strong balance sheet that can withstand external shocks and market volatility, while reinvesting in the business to accelerate future options and delivering very substantial returns to shareholders.

Reflecting our strong performance, we generated record net operating cash flows of more than US$29 billion for the year. Our balance sheet is in an outstanding position, with net debt of US$333 million.

Off the back of our strong results, we have announced a final dividend of US$8.9 billion, which takes our full year dividend to more than US$16 billion. In addition, we distributed US$19.6 billion as an in-specie dividend, through the merger of our Petroleum business with Woodside. All in, we distributed over US$15 billion in franking credits this financial year.

With that, I'll hand back to Mike for an update on the business.

Mike Henry

Slide 14: Business update

Thanks David.

Slide 15: Well positioned in a complex environment

Amid the complexity and volatility of the external environment, we see significant opportunity for BHP.

In the year ahead, China's stimulus policies are expected to contribute positively to growth. Infrastructure and the automotive sector are already responding, however a rebound in housing activity is expected to take longer. The potential for further lockdowns, of course, remains a source of uncertainty.

Outside China, the conflict in Ukraine, the unfolding energy crisis in Europe, high inflation and policy tightening in response to this are expected to result in an overall slowing of global growth.

The effects of inflation are expected to continue through next year, as will tightness in labour markets and challenging supply chain conditions.

While the external environment is complex, BHP is well positioned to outperform in these conditions.

Our ongoing focus on productivity and continuous improvement stand us in good stead. Over and above this, our experience and capability in managing through previous cycles, and track record of early and decisive action, gives us confidence we can successfully navigate current market volatility.

As David has explained, we have done well to minimise the effects of inflation this last year, and we intend to do better than others going forward. And as inflationary pressures continue to lift and steepen operating cost curves, low-cost operators like BHP stand to capture higher relative margins.

And our scale, global procurement function and network of trusted partners means when supply chain disruptions occur, we can quickly adapt and continue to prosper where others may not.

Slide 16: Portfolio positively leveraged to megatrends

None of these complexities alter the positive fundamentals that underpin our business.

The realities of climate change remain. The world still needs to decarbonise, and the infrastructure requirements for that are immense. The world's population will continue to grow, urbanise, and demand higher standards of living. And that means the demand for our commodities will continue to grow.

Under BHP's Paris-aligned 1.5 degree scenario, our modelling shows considerable growth in global demand for the commodities we produce.

BHP has some of the best assets in the world to meet that demand.

- Escondida, the world's largest copper mine, providing BHP with the world's largest copper endowment when taken together with our other copper assets.
- Western Australia Iron Ore, the world's lowest-cost major iron ore business.
- Nickel West, the second-largest nickel sulphide resource in the world.
- BMA, a leading supplier of higher-quality coals for steelmaking.
- And Jansen in Canada, which marks our entry into the world's best potash basin, and opens up significant growth potential.

Slide 17: Social value framework

These assets provide a strong platform for growth. But for us to fully capture this, it's essential we also create mutual value for the communities, governments and partners that support us.

In June, we released our new social value framework to help guide our actions for the greatest mutual value. Our aim with social value is to be deliberate and proactive in taking into account social and financial impact in the choices we make. By prioritising both, we can create mutual benefit for our stakeholders and deliver long-term value for our shareholders.

In doing so, we build better relationships, that help us gain insight to better understand, manage and avoid risks. These relationships bring opportunities to work creatively and collaboratively, which unlocks different ways of thinking. And through this, we increase the resilience of the business and create new opportunities along the way.

Doing this well is essential, and will create a competitive advantage. It will influence our access to resources, to partners and markets, to the best talent and to capital.

And we're embedding it into every level of the business, from strategy and capital allocation, to everyday processes and decisions at our sites.

We've also introduced a new social value scorecard with 2030 goals, metrics and milestones. This provides clarity to our teams on our ambitions and allows us to measure progress, transparently report and hold ourselves to account.

The scale and longevity of our resources bestow on us a big responsibility to get this right. They also provide significant and numerous pathways for organic growth.

Slide 18: Accelerating the pathway to deliver on organic options

At Escondida, we still expect production to average 1.2 million tonnes per annum over the medium term as we mine higher grade areas. Looking further forward, we've accelerated studies to potentially grow production through our concentrator strategy and leaching opportunities.

At Olympic Dam, our recently completed maintenance campaign has raised baseline production rates. We're progressing drilling at Oak Dam, and we're studying two stage smelting as a way to de-constrain operations.

One of our most exciting growth pathways comes from our entry into potash. We see huge potential in Jansen, and we are looking to bring forward first production from Stage 1 into 2026 and have started Stage 2 studies.

And at Western Australia Iron Ore, our success in debottlenecking our supply chain gives us confidence we can get to over 300 million tonnes per annum over the medium term, and we're studying options to increase this up to 330 million tonnes.

The quality of our assets, and the organic opportunities embedded within them, are incredibly valuable today. However, in a world where high quality development options to meet growing demand are limited, the value of incumbent producers with existing world-class resources – like BHP – will only increase further.

On top of these organic opportunities, we have many levers to deliver value growth. We are being more agile and commercial, and building our capability to add to our options, through exploration, innovation and technology, early stage entry or mergers and acquisitions.

Slide 19: A differentiated continuous improvement approach

We are also growing value through how we bring together our people and culture, systems and processes, technology and innovation.

Let me be clear. This is a mutually reinforcing system. It's the way we bring these together – the way they amplify, support and drive each other – that unlocks the true potential of each, and sets BHP apart.

These things take time to embed in a business. We have been laying the foundations across each for the past decade.

First and foremost, our people and culture. We have an inclusive, performance oriented culture. Our teams are increasingly diverse which, as I said earlier, we know drives better outcomes. We have reduced frontline supervisor spans of control… and are enabling our supervisors to spend more time – above 90 per cent – in field with their teams. We're bringing more people in house – through Operations Services – and investing in their training. As well as developing the next generation of talent, through our Future Fit Academy.

Our people are engaged and empowered through the BHP Operating System – our way of working that creates a culture and capability where we make continuous improvement central to everyone's role.

Our common, enterprise-wide systems allow us to identify and lock in best practice. And our Centres of Excellence encourage deep technical capability, bring in best practise from other industries, and enable faster deployment of improvement ideas around the business.

When we combine these with the power of data – of which we have a lot – we accelerate improvements across our value chain – from the geoscience required in exploration through to the marketing of our products.

Our holistic approach is delivering safer, lower cost, more reliable and more productive operations – accelerating value creation.

Slide 20: Resilience and strength

This year's results demonstrate the resilience and strength of BHP.

We've faced challenges, but we've adapted and overcome them. And in doing so we've delivered a very strong performance, while reshaping our portfolio and redoubling our focus on growth.

We've done that because of the combination of qualities that differentiates us from our competitors – both inside and outside of the resources sector:

- Our continuous improvement culture and leading capability;
- Our portfolio of world-class assets – low-cost, and with expansion options;
- Because of the discipline we apply to capital allocation;

- And through our efforts to lead on social value.

Our ability to consistently deliver strong returns – year-in and year-out – is what sets BHP apart. We have done so for many years, and our assets, our portfolio and our growth options position us to continue to deliver for our shareholders and society into the future.

As the world moves to decarbonise, as our population continues to grow, and as the demand for the commodities that we produce continues to be driven by those persistent trends, BHP is strongly positioned for ongoing success.

Thank you.

Disclaimer

The information in this release is current as at 16 August 2022. It is in summary form and is not necessarily complete. It should be read together with the BHP Results for the year ended 30 June 2022.

Forward-looking statements
This release contains forward-looking statements, including statements regarding: trends in economic outlook; commodity prices and currency exchange rates; demand for commodities; medium-term guidance; production forecasts; plans, strategies and objectives of management; closure or divestment of certain assets, operations or facilities (including associated costs); anticipated production or construction commencement dates; capital expenditure or costs and scheduling; operating costs and shortages of materials and skilled employees; anticipated productive lives of projects, mines and facilities; provisions and contingent liabilities; and tax and regulatory developments.

Forward-looking statements may be identified by the use of terminology, including, but not limited to, 'guidance', 'outlook', 'prospect', 'target', 'intend', 'aim', 'project', 'anticipate', 'estimate', 'plan', 'believe', 'expect', 'may', 'should', 'will', 'would', 'continue', 'annualised' or similar words. These statements discuss future expectations concerning the results of assets or financial conditions, or provide other forward-looking information.

The forward-looking statements are based on the information available as at the date of this release and/or the date of the Group's planning processes or scenario analysis processes. There are inherent limitations with scenario analysis and it is difficult to predict which, if any, of the scenarios might eventuate. Scenarios do not constitute definitive outcomes for us. Scenario analysis relies on assumptions that may or may not be, or prove to be, correct and may or may not eventuate, and scenarios may be impacted by additional factors to the assumptions disclosed.

Additionally, forward-looking statements in this release are not guarantees or predictions of future performance, and involve known and unknown risks, uncertainties and other factors, many of which are beyond our control, and which may cause actual results to differ materially from those expressed in the statements contained in this release. BHP cautions against reliance on any forward-looking statements or guidance, particularly in light of the current economic climate and the significant volatility, uncertainty and disruption arising in connection with the Ukraine conflict and COVID-19.

For example, our future revenues from our assets, projects or mines described in this release will be based, in part, upon the market price of the minerals, or metals produced, which may vary significantly from current levels. These variations, if materially adverse, may affect the timing or the feasibility of the development of a particular project, the expansion of certain facilities or mines, or the continuation of existing assets.

Other factors that may affect the actual construction or production commencement dates, costs or production output and anticipated lives of assets, mines or facilities include our ability to profitably produce and transport the minerals and/or metals extracted to applicable markets; the impact of foreign currency exchange rates on the market prices of the minerals or metals we produce; activities of government authorities in the countries where we sell our products and in the countries where we are exploring or developing projects, facilities or mines, including increases in taxes; changes in environmental and other regulations; the duration and severity of the Ukraine conflict and the COVID-19 pandemic and their impact on our business; political uncertainty; labour unrest; and other factors identified in the risk factors discussed in section 9.1 of the Operating and Financial Review in the Appendix 4E and BHP's filings with the U.S. Securities and Exchange Commission (the 'SEC') (including in Annual Reports on Form 20-F) which are available on the SEC's website at www.sec.gov.

Except as required by applicable regulations or by law, BHP does not undertake to publicly update or review any forward-looking statements, whether as a result of new information or future events. Past performance cannot be relied on as a guide to future performance.

Presentation of data
Unless specified otherwise: variance analysis relates to the relative performance of BHP and/or its operations during the year ended 30 June 2022 compared with the year ended 30 June 2021; operations includes operated assets and non-operated assets; total operations refers to the combination of continuing and discontinued operations; continuing operations refers to data presented excluding the impacts of Onshore US from the 2017 financial year onwards and excluding Petroleum from the 2021 financial year onwards; copper equivalent production based on 2022 financial year average realised prices; references to Underlying EBITDA margin exclude third party trading activities; data from subsidiaries are shown on a 100 per cent basis and data from equity accounted investments and other operations is presented, with the exception of net operating assets, reflecting BHP's share; medium term refers to our five year plan. Queensland Coal comprises the BHP Mitsubishi Alliance (BMA) asset, jointly owned with Mitsubishi, and the BHP Mitsui Coal (BMC) asset until it was sold to Stanmore Resources on 3 May 2022. Numbers presented may not add up precisely to the totals provided due to rounding.

Non-IFRS Information
We use various Non-IFRS information to reflect our underlying performance. For further information please refer to Non-IFRS financial information set out in section 11 of the Operating and Financial Review in the Appendix 4E for the year ended 30 June 2022.

No offer of securities
Nothing in this release should be construed as either an offer or a solicitation of an offer to buy or sell any securities, or a solicitation of any vote or approval, in any jurisdiction, or be treated or relied upon as a recommendation or advice by BHP. No offer of securities shall be made in the United States absent registration under the U.S. Securities Act of 1933, as amended, or pursuant to an exemption from, or in a transaction not subject to, such registration requirements.

Reliance on third party information
The views expressed in this release contain information that has been derived from publicly available sources that have not been independently verified. No representation or warranty is made as to the accuracy, completeness or reliability of the information. This release should not be relied upon as a recommendation or forecast by BHP.

BHP and its subsidiaries
In this release, the terms 'BHP', the 'Company, the 'Group', 'BHP Group', 'our business', 'organisation', 'we', 'us', 'our' and ourselves' refer to BHP Group Limited and, except where the context otherwise requires, our subsidiaries. Refer to note 28 'Subsidiaries' of the Financial Statements in the Appendix 4E for a list of our significant subsidiaries. Those terms do not include non-operated assets.

This release covers BHP's functions and assets (including those under exploration, projects in development or execution phases, sites and closed operations) that have been wholly owned and/or operated by BHP or that have been owned as a joint venture[5] operated by BHP (referred to in this release as 'operated assets' or 'operations') during the period from 1 July 2021 to 30 June 2022.

BHP also holds interests in assets that are owned as a joint venture but not operated by BHP (referred to in this release as 'non-operated joint ventures' or 'non-operated assets'). Notwithstanding that this release may include production, financial and other information from non-operated assets, non-operated assets are not included in the BHP Group and, as a result, statements regarding our operations, assets and values apply only to our operated assets unless stated otherwise.

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[5] References in this release to a 'joint venture' are used for convenience to collectively describe assets that are not wholly owned by BHP. Such references are not intended to characterise the legal relationship between the owners of the asset.