Financial results for the half year ended 31 December 2022

Investor and analyst briefing Q&A transcript – Session 1

21 February 2023

Introduction

MIKE HENRY (CEO, BHP)
Thank you to everyone on the call for joining today.

Before I speak briefly about the results of the past half and the outlook, I do want to start with safety. Nothing matters more to us than safety. I have to say it's been a tough couple of weeks at BHP. After four years of good safety performance, two weeks ago, one of our team members lost their life on the job. The individual, Jody Byrne, was an employee in our rail operations at Port Hedland, but he had also worked in the past at our BMA operations in Queensland so was known by many across the business. He leaves behind a family and many friends, so this is tragic. We're providing support wherever we can.

Most importantly we must learn from this. We do have an investigation underway and we will absolutely implement any learnings from it. We had an intense and specific effort underway in recent years to fully eliminate fatalities from BHP, but as this incident has shown us, we cannot rest on this front. We will be redoubling our efforts.

If I turn just briefly to results and the outlook, we delivered steady and reliable operating performance in the half. In fact production was up across our biggest businesses, iron ore, copper, BMA. Western Australia Iron Ore posted record half-year production, a further record there. And BHP remains the lowest-cost iron ore producer globally. In fact we stretched our lead relative to the next best who is now 12% higher than our C1 cost of $15.50 per tonne. Copper production was up for the half as Escondida accessed higher-grade ore, the Spence concentrator continued to ramp up and Olympic Dam extended its recent track record of operational stability. Our Queensland Coal business was hit hard by wet weather, but it continued to show improvement in underlying productivity and production was up there as well. This performance and delivery from our global teams has pulled through to strong shareholder returns and value creation for all of our stakeholders.

On the outlook, over the course of this calendar year, we do expect a few key themes to play out. Firstly is a slowing of growth in Europe and the US. That's as the lag impacts of last year's anti-inflation policies and the energy crisis flow through. Conversely China's reopening is progressing well with positive social and economic signposts emerging. Bank lending, mobility data, new home prices and business surveys, all showing solid signs of improvement in early calendar year 2023. The pent-up demand being released as China opens back up from the COVID lockdowns, coupled with the growth-promoting policies, are expected to drive stronger economic growth and increased demand for the commodities that we're producing. We now have even greater conviction that China will be a stabilising force for global growth over the remainder of this year.

Finally, while it varies by region, an easing of inflation may allow central banks to end their rate-tightening cycles in the coming quarters. As such we expect world growth will strengthen in 2024, but obviously depending on the region, things could play out at a different pace.

As always there are many moving parts in the near term. However, I think it's fair to say that the economic picture is clearer now than it was six to 12 months ago. Of course, over the long term, we are very confident about the demand for our commodities being driven by the global trends of increasing population, improving standards of living and the energy transition.

Overall, we continue to be purposeful and disciplined in our pursuit of future-facing growth, in our cost management and in our underlying operational performance. Importantly we have positive momentum heading into the rest of FY23 and FY24.

Operator, with that, I'll stop and take questions.

Questions and answers

PAUL YOUNG (GOLDMAN SACHS)
First question is probably to David on CapEx. David, you only spent US$3 billion in the half. That was I think the lowest half-year spend for five years. The guidance of US$7.6 billion implies a US$4.5 billion in the June half. I know it's bottom up, not top down, but I'm just curious as to how you spend US$4.5 billion in the June half. Can you just step through maybe what's driving that?

DAVID LAMONT (CFO, BHP)
Yes, so thanks for the question, Paul. Let me start by saying, as you referenced, we clearly have also indicated a mid-term of around about US$10 billion. From that side of things, we continue to see the investment in capital and exploration as a key driver for us strategically moving forward.

Specifically in the second half of this year, I'd reference here Jansen as one major project that we clearly will be spending more in the second half than what we did in the first half. That's on the back of the fact that Stage 1 we now see as ultimately coming into the market in 2026 versus what we had previously indicated of 2027. That starts to step up.

The other area is in the maintenance and sustaining side of things linked to our decarb spend. We are still working through obviously the commitments that we have there. That will also ramp up in the second half.

PAUL YOUNG (GOLDMAN SACHS)
Okay. Thanks, David. Then maybe a question for Mike around Olympic Dam. Mike, conscious obviously that you're still going through due diligence phase. Actually probably the first part of the question is around that, that OZ is - they're struggling a little bit at the moment from a project perspective on Prominent Hill and Carrapateena relative to expectations. So just curious about what you found in the due diligence process. I know it's a long-term game here, but anything that actually concerns you at all that the team’s picked up.

Secondly around the two-stage smelter Olympic Dam. I mean, one big synergy is actually potentially bringing that forward and ramping up OD and unlocking some potential there. Is there potential, the possibility of bringing forward that project? Thanks.

MIKE HENRY (CEO, BHP)
Okay, thanks Paul. So on OZ Minerals, look, I mean the underlying process around the transaction is progressing well, and indications at this point are for an OZ shareholder vote in April.

I should start by saying this is a good company run by good management. So we're actually quite looking forward upon successful completion of the transaction being able to bring the OZ Minerals team into BHP and importantly learn from them and use that to help the broader BHP improve as well. Of course, there's things that we believe we're going to be able to bring to bear from a BHP perspective to help improve underlying OZ performance.

Now as to some of the performance trends that we've seen there, these were all things we had called out as some of the pressures that OZ and the rest of industry are facing in the near-term on the inflation front, the projects front and so on. So nothing outside the range of how we were expecting things to unfold and the transaction remains underway.

Now, as we look to the future, on a standalone basis, as you've flagged, we have been looking at moving to two stage smelting at Olympic Dam, which would de-constrain the underground, so create more efficient operations.

Looking at how we scale that two-stage smelter, we'll look at Oak Dam as well and you'll see some encouraging results coming through the 40 kilometres of drilling that we've completed there. If we successfully conclude the OZ acquisition, then of course that will play into the thinking as well.

Now there is a natural breakpoint here on the two-stage smelter. That's the 2027/2028 period because that's when the next scheduled major campaign is for the smelter. So with an eye to not wanting to take the smelter down twice, that's probably the timeframe that we'd be targeting whether it be Olympic Dam standalone, Olympic Dam with Oak Dam, or a combination with the OZ assets, all of this can be looked at in quite some detail after the transaction is concluded.

HAYDEN BAIRSTOW (MACQUARIE GROUP)
So just a question firstly on Jansen, just keen to understand the requirements of getting Stage 1 up and operating before you commit to Stage 2. Does that limit how quickly you could accelerate into starting Stage 2 or are you running those processes on a standalone basis?

Then the second one just on exploration. Just keen to understand there's a lot more information there, you're obviously pushing ahead more aggressively on that front. I mean, how meaningful do you think that exploration can become or is it still more of an M&A story to try and find some earlier or more advanced projects to increase that future facing commodities exposure?

MIKE HENRY (CEO, BHP)
Got it. Okay. So on Stage 1 versus Stage 2, what we're doing right now is building the option to be able to go earlier on Stage 2. Of course in making that ultimate determination, of course we're going to have to look at how the market is playing out and so on. We'll also look at how we're tracking on Jansen Stage 1.

So far things are tracking pretty well on Stage 1, and that's allowed us to bring forward expected first production from 2027 to 2026. As we bring the Stage 2 studies to a close in financial year '24, of course, we'll have to refresh both our outlook for the market and our assessment of how Stage 1 is tracking to decide whether we want to pull the trigger there then, or leave it a little bit later.

Importantly, what we're doing is building up the optionality for the business, keeping in mind that in today's world option value I think is even higher.

Now on your question about exploration, let me start with - before I go to exploration versus M&A just recapping how we think about growth in the first place.

So the biggest single growth lever that we can pull in this business is productivity by some margin. So the more that we can do to eke out incremental production from the existing capital that we have invested in the business, and the better that we can be about controlling costs, that grows value most significantly and it's wholly within our control.

We then look to how we go about getting more out of the assets that we already have or the resources that we already have, keeping in mind that we've got the world's largest resource of copper, second largest resource of nickel sulphide. Of course, amazing potash resources as we were just discussing.

Now that requires both operating excellence and some innovation. So in addition to upping our effort on exploration, we've upped our effort on innovation.

We then moved to early stage entry, which as the name implies, are more progressed than Greenfield's exploration, but not yet developed. With the capabilities and balance sheet that we're able to bring to bear we can help those small to medium sized companies develop those resources.

We're also a long-term company. So as a long-term company, we have to be investing in the future, and that's where Greenfield's exploration comes in. Greenfield's exploration, even if something gets found in this year, it's going to take somewhere between 10 and 20 years to bring that on depending on which jurisdiction it is. So that's long-term, but we're building out the growth portfolio for the long-term as well.

We then get to the discrete lever of M&A. It is a lever available to us, but as we've demonstrated over the past period we are being very disciplined about this and we would only pursue an M&A opportunity if it's on strategy - on strategy being both commodities, but also the quality of the underlying assets. Of course, we're getting them at a price on conditions where we believe that we can create more value for BHP shareholders.

GLYN LAWCOCK (BARRENJOEY)
Good morning, Mike. Two quick ones hopefully. Firstly, you formally announced the disposal of Daunia and Blackwater. I understand the asset quality decision for the disposal. I mean, we've all seen Teck's announcement the other day.

Just your thoughts on the long-term viability of BMA then. Does it still fit the portfolio as - I know the quality argument, but in terms of ESG and everything else, just a potential for a full in-specie disposal.

Then the second question is just on Jansen, you've only I guess, awarded just under 50% of the US$5.7 billion, but you're on budget. I'm just wondering are you getting better contracts coming in or is it mainly just the FX that's giving you the confidence at the moment against your budget? Thanks.

MIKE HENRY (CEO, BHP)
Okay, well look, thanks Glyn. So David, maybe I'll take the one on the disposal of Blackwater and Daunia, if you can answer Glyn's question on Jansen.

So Daunia and Blackwater, I think you said it up front in your question there Glyn. We've been really consistent on our commentary around the met coal or the coal portfolio more broadly in recent years. That is that in a faster decarbonising world, we believe that there's upside for the highest quality of coking coals because they'll help the steel industry decarbonise.

We've gained even greater insights on this front through now having agreements in place with steel makers covering about 20% of global production. That thesis still holds for us. These two disposals or the process that we've initiated for these two disposals is wholly in line with that intent.

This will give us an even greater or more sharply concentrated portfolio on only the best of the best quality coking coals, which we believe have the greatest upside on a go forward basis. We believe that those highest quality of coking coals are going to be needed by the steel industry for some time now. So they are a core part of the portfolio.

David, I may just pass to you to comment on Glyn’s question around Jansen and what we're seeing on the contracts front as they’re coming in.

DAVID LAMONT (CFO, BHP)
Yes and thanks for the question, Glyn. So certainly as we have already stated, the pull forward of Jansen timing, et cetera, does play into the capital spend.

Just for clarity, we are looking about US$860 million this year versus where we were previously guiding to about US$740 million. So there is an increased spend and that plays Glyn a little bit to the overall schedule.

Now in any major project, schedule does drive cost. So as we're able to actually bring the project forward, that's giving us some buffering against the headwinds that are there from an inflationary pressure.

So your question was specifically around the FX. The FX is helping, but we are seeing certainly the project scope and timing has been the major driver for the ongoing spend.

LACHLAN SHAW (UBS)
Yes, good morning, Mike. Thank you. So two questions. Just in terms of Nickel West, EBITDA margin was 10% in the half but just to draw a comparison, quite a lot of lithium producers were making EBITDA margins well north of iron ore.

Could you just talk to how you're seeing nickel listing from here and any updates around appetite for lithium. I'll come back with my second question.

MIKE HENRY (CEO, BHP)
Okay, so look, I'll answer the question on nickel David, but I know that you may have something to add on this as well. So look Nickel West, it had a challenging half in terms of some operational aspects in the business as well as external to the business.

So in spite of a better price environment, we didn't see that pull through to EBITDA. Now, one of the things I would point to though here is the experience at Olympic Dam where we purposefully invested in building technical capability, asset integrity, and operational reliability over time. We see that pulling through to more reliable operational performance today.

Jess (Jess Farrell, Asset President Nickel West) at Nickel West is going through a very similar exercise, which is putting in place the foundations for future growth in the business.

Now we've already executed some of that with the nickel sulphate plant first in Australia, and that's giving us better margins through nickel sulphate. Clearly there's further to go there to establish a long-term more attractive business.

We've completed the transition of mines. So there was a pretty big effort underway over recent years to move out of all the old set of mines into the new set of mines. That's by and large been progressed.

As I said, we've got our first nickel sulphate train up and running, but there's still a bit further to go. We remain very positive about the outlook for Class 1 nickel demand and specifically nickel demand into the EV segment.

In that regard, we've shifted about 90% of our sales to the EV market or the precursor for EV market. So demand outlook strong, underlying business foundations being improved, all there as a recipe for future high returning growth.

David, is there anything you wanted to add and then I'll comment briefly on lithium?

DAVID LAMONT (CFO, BHP)
Look, the only thing, Lachlan that I'd add into that is you just need to be mindful that obviously Nickel West also has third party product that we purchase and actually process through. So the cost of that obviously alongside the rising nickel price had a negative impact from an overall cost perspective.

MIKE HENRY (CEO, BHP)
Yes, good call David. Probably just one final point on this is when the OZ Minerals transaction is concluded, of course that will bring the West Musgrave asset and their project into the mix for Nickel West as well and will, over the medium-term help to address that reliance on third party product at Nickel West potentially.

Now just on lithium yes, the lithium operations have been generating good margins. We continue to not see lithium as a commodity for BHP to pursue, notwithstanding some of the near-term factors that you've mentioned.

That really comes back to how we see lithium playing out over the long-term. The nature of the underlying operations and to some extent the BHP capability set, particularly for a good portion of the lithium cost curve, which is the brine production, which isn't something that BHP has core competencies around.

So we're happy to focus our growth efforts on potash, copper, nickel and as you'd be aware, we're also looking at whether there's an opportunity there for us to expand iron ore production up to 330 million tonnes per annum, but studies are still underway. And that's only going to happen if we see that as being attractive from a market perspective and it offers us an opportunity for a high returning growth as compared with other opportunities in the portfolio.

LACHLAN SHAW (UBS)
Right. Thank you. Then just two quick ones on iron ore. Is PDP on track and secondly, just to confirm, it was a 24-hour shutdown after the recent tragic accident?

MIKE HENRY (CEO, BHP)
Yes. So look PDP, yes on track and that effort is going to allow us to creep beyond 290 million tonnes per annum. So we think we've got pretty capital efficient growth up to about 300 million tonnes per annum and studies underway around 330 million tonnes per annum.

Now I started my commentary this morning on the tragic fatality in at Port Hedland. We did shut down operations right across WAIO. That wasn't just at the port, but right across WAIO on the back of that. That's a reflection of just how seriously we take this.

Of course we've engaged right across the whole of BHP on - and we've been very focused on this for quite a number of years now, but including over the past it's six to 12 months we've had specific messaging out there around wanting to reinforce the safety messaging and the focus internally.

So addressing the range of distractions or fatigue that can occur in the business. So it is just so tragic what's happened. Brandon (Brandon Craig, Asset President WAIO) took the right decision to shut down the WAIO business and engage everybody yet again on safety.

LYNDON FAGAN (JP MORGAN)
The first one was just on the Samarco outflows of US$1.95 billion in the next 12 months. Little bit higher than I guess people were expecting. Wondering are you able to talk about what's after that? I mean, do we keep rolling through at US$1 billion a year for a while?

I guess that feeds into how we should think about the broader claim there. Thanks. I've got another one after that.

MIKE HENRY (CEO, BHP)
Okay, all right then, I'm going to pass this one to David, but just before David, I would just call out and remind everyone this is the first time in quite a while where there hasn't been an increase in the Samarco provision but David your response to Lyndon's question?

DAVID LAMONT (CFO, BHP)
Yes, and that's exactly where I was about to start. Perhaps also it's worthwhile just stepping back a little bit and just putting this into some context.

So you will have seen that the most pleasing aspect is Samarco is actually back up and running and as a result of that, there's 12,000 jobs that have actually been employed into the region. With Samarco running that actually also helps the cash requirement to fund Renova.

So as they're producing and generating cash, that's actually directly going to help fund the Renova operation. On that, we now have 70% of the resettlement cases across the region completed and a further 15% are in progress.

So the first thing Lyndon there just to acknowledge is the spend. It will be relevant to the activity on the ground and how much cash we're putting in will be driven by partly what Samarco's producing itself and the phases that we're going through in relation to the overall resettlement.

Now just to take any confusion out of the process, our provision in the next 12 months is US$1.95 billion and that is consistent with where Vale is at as well. They've called about US$1.9 billion. So we're in the same range there.

What we have indicated though is that we have committed and funded US$915 million into the Renova Foundation for this calendar year. Now there's risks associated with that and that's why there is a difference between that and the provision that we actually have in the next 12 months.

We'll assess that throughout the year and that may mean that we might need to change that cash commitment, but that will be relevant to on the ground the activity that's actually occurring.

So the first thing to say is we're aligned with Vale. It's totally consistent our view and their view around where things are at but there is risks obviously associated with it.

Then when you get into beyond the next calendar year, obviously we have the provision. There's a range of uncertainties that actually sit within that but ultimately it comes back to the large amount being those resettlements as we see those progress through.

So as Mike mentioned, this time around, we haven't increased the provision. There is uncertainties clearly alongside, as we've called out in our notes around the ongoing legal cases. We haven't provided for any of those just to be clear.

LYNDON FAGAN (JP MORGAN)
Great, okay, thank you. The next question is just on Escondida costs, gross costs up at US$1.9 billion, I'm just wondering whether we need to extrapolate that going forward or whether you could talk to any possible relief there in terms of dollar-million costs, thanks.

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

DAVID LAMONT (CFO, BHP)
Yes. So again, Lyndon, you need to see that in the context of just where we are with the overall outcomes at Escondida, so it was pleasing to see the Escondida volumes were up 5% period on period. Escondida is not any different to any other part of our operation whereby inflationary pressures are certainly flowing through. I would call out here that of Escondida's costs, around about 40% are labour related and they are linked, substantially linked to the CPI or inflation numbers that are actually flowing through in Chile as such. So that's a key thing that you need to focus on.

Equally, obviously the overall volume and grade that we see coming through for Escondida has a material impact on where we are from a unit cost perspective. So you need to factor those aspects in. As we said at the start, what we are also seeing though on the inflationary side of things, some of the inputs for raw materials we think have peaked. One area around that is clearly alongside the diesel side of things, so we continue to see that play through as well.

So the last thing is we haven't changed our medium-term guidance in relation to the unit cost at Escondida, nor have we, I should say, changed any of our cost guidance across the board as a result of where we are in the first six months. So US$1.15/lb is still the medium-term guidance for Escondida.

ROBERT STEIN (CLSA)
Hi Mike and team, thank you very much for the opportunity. Just a question on Escondida. So looking forward in the future and the copper supply/demand deficits projected by most to build through time, just wondering what's the hold back on executing the fourth concentrator, even potentially a fifth concentrator? Because the market is going to potentially be short copper and the asset is scalable by your own admission, long life and the like, so just wondering what the key hold back there is. Is it the royalty situation or uncertainty around that, or are there technical risks to consider?

MIKE HENRY (CEO, BHP)
Well, so first of all the studies have to be progressed, Rag (Rag Udd, President Minerals Americas), to his credit, has really accelerated our effort around looking at a variety of growth options at Escondida, new concentrator, leaching and so on. But studies take time to do them properly and given the capital numbers involved, we want to make sure that we have progressed them properly. Of course then those projects need to compete with capital within the capital allocation framework that we have and just as we're progressing studies there, we're progressing studies for Jansen Stage 2. At WAIO studies are also underway for a 330Mtpa option, so we're trying to increase the options we have for deploying capital into hybrid turning growth across the business.

Sorry, I should have mentioned Olympic Dam, Oak Dam and possibly the integration of the OZ Minerals assets into that as well. So there will be competition for capital. But as you say, Escondida is a huge resource in a commodity that is going to be in strong demand going forward. In addition to the studies, however, we also have to think about permitting, so permitting takes time to play out in Chile as it does elsewhere and yes, royalties are an uncertainty. Where they ultimately land of course will have a bearing on the financial attractiveness of the projects there and whether they're able to effectively compete for capital or not. But that's not holding up the timeline at this point. It's not like we've got a project that we could pull the trigger on or are just waiting for royalties. We've got the studies and the permitting to play out alongside.

ROBERT STEIN (CLSA)
Thanks Mike. Then just potentially a follow up just on productivity. So obviously the tragic news that happened in WAIO recently and my thoughts go out to the rest of the team there, but in terms of the BHP Operating System and its deployment and its purpose to eliminate fatality risk and the like, are we not seeing the benefits flow through from that and how do we expect that to progress over time? Are you going to double down your efforts there in terms of BOS and implementation across sites?

MIKE HENRY (CEO, BHP)
Well yes on both points. Are we seeing the benefits come through - much more reliable production from BHP over recent times, extended our lead as being low-cost producer in iron ore, all of that is improving returns for shareholders on the same capital. But that job's not done and yes we will be doubling down, that was part of me creating the role of Chief Operating Officer last year and asking Edgar (Edgar Basto, Chief Operating Officer) to step into that role, was because we want to double down on the operating system, on getting even more reliable, even more productive performance across BHP and so importantly even safer performance.

As I noted in response to an earlier question, the single biggest value growth lever that we have as a company is productivity. So we will double down on that and there's still so much opportunity to be unlocked across all of our assets in that regard.

RAHUL ANAND (MORGAN STANLEY)
Mike, David and team, thanks for the call. Look first one and pardon me if this has already been covered, I did miss part of the Q&A at the start, perhaps the first one on WAIO, I just wanted to touch on a couple of things there. Look firstly, taking into account the run rates in the first half of the year, it seems as though you're going really well, you're tracking to above guidance, I mean what critical path items are left in the second half in terms of your perhaps tie ins and debottlenecking that are keeping you conservative within that guidance range? Obviously cyclone season is one of the factors.

Then the second part of that question is in terms of that cost guidance, how are you seeing some of the underlying inflation rates to play out in WA now? Are you starting to see a bit of a tapering? Obviously there's a lagged impact there, but how should we think about numbers going into perhaps next year and where it should start to flatten out? That's the first one, thanks.

MIKE HENRY (CEO, BHP)
Okay, so David I'm going to answer this, but there may be something that you want to add as well. So yes, I mean the team's done a great job in the first half, Rahul, in terms of operational reliability, so good run rates. But in the second half we do have PDP or the port debottlenecking project tie ins occurring. Rail was also shut down for three days. So we're happy to stick with guidance as it is, but what I'd point everyone to is this period-on-period-on-period-on-period improvement in underlying business reliability and how that's flowing through to better production, better performance on containing costs in the face of high inflation.

Which brings me to your second point, which is what are we seeing on the inflation front. So are we seeing some of the inflationary pressures easing? Yes. In spite of good performance in the first half, one of the other challenges that we had in WAIO and in the East Coast coal assets was labour availability. We're seeing turnover drop and some of those pressures alleviate, but the nature of these inflationary pressures is that there is a lag.

So just like there was a lag on the way up, there will be a bit of a lag on the way down, so I wouldn't want to say that just because the pressure is easing, that we see it immediately flow through to the bottom line. But trend wise, we are seeing a plateauing or easing on a number of fronts. But most importantly, we're doing, I think, as good a job as could be expected of containing those cost pressures and stretching our performance lead.

David, anything you want to add?

DAVID LAMONT (CFO, BHP)
Look the only thing that I would say is on that medium-term guidance, we're still guiding towards below US$17 a tonne, so no change in relation to that. But yes, we are seeing some headwinds at the moment that we would anticipate will come off certainly in the second half and especially on diesel costs.

RAHUL ANAND (MORGAN STANLEY)
Understood, okay. Look, second one, perhaps a quick update on SGO. I mean if we look at quarter-on-quarter performance, recovery has picked up despite grades having come off slightly and I also saw that throughputs were tracking in the right direction, so perhaps if you can help me understand which way do you see the project progressing now. It seems, like it's going to be a higher throughput, perhaps a bit of a lower recovery project in the long run, or how are you starting to see some of these impacts flow through and what's the latest on that?

MIKE HENRY (CEO, BHP)
So latest is kind of in line with our most recent updates, still expecting 270,000 tonnes per annum on average. You're right, recovery is improving. That's through a lot of focus on the part of the team on optimising the circuits there. We do have the capital that we're investing from, David, US$100 million from memory, to get that 270,000 tonne per annum level. The other issue of course that we're managing through currently is the anomalies we picked up in the tailings dam, but the team is doing a great job of navigating those and the underlying business performance is picking up.

RAHUL ANAND (MORGAN STANLEY)
Okay. Can I perhaps ask a final one, Mike, it's more of an iron ore question, philosophically really, in terms of the grade profiles. Obviously we've seen some of your competitors now progress further towards higher-grade ore deposits, without taking names, some going to Africa and looking at new opportunities to build there. I mean you don't necessarily have a great problem, you know, you're very close to that benchmark, but I mean do you see a place in the portfolio for higher-grade opportunities as inorganic options perhaps to then in the medium term be able to lift beyond the 62%? Or are you sort of happy in terms of where your portfolio sits?

MIKE HENRY (CEO, BHP)
So first of all, one of the reasons we don't have a grade issue per se is because of the decision we took back in, from memory, it would have been 2016/2017 to progress South Flank, which is helping us to lift overall Fe (Iron) content by 1% and increasing the proportion of our product that is lump. That was a very deliberate strategy because of how we saw the market unfolding over time and the increased premiums that would be paid for better average grade and penalties would be applied to impurities. The market has played out in that way.

Now are we going to go further afield to pursue grade? Short answer, no. However we are looking at further opportunities within the WAIO suite of products, so, for example, beneficiation of Jimblebar is one of the projects that we're currently considering. Just like the comments earlier about Escondida, that will have to compete for capital against other projects in the portfolio. But there are further things that we could be doing within the WAIO suite of products.

Then one of the other things that we're working with others on is the steel making technologies of the future. That can be through electrolysis, but we're proponents and believers in ESF (Electric Smelter Furnace) as a production route for steel and I'm talking multi-decades in the future when it becomes significant, but those routes to steel making or ESF in particular would fit Pilbara-type ore qualities.

JAMES REDFERN (BANK OF AMERICA)
Sorry if this has been covered off already, I just wanted to ask about the WAIO production to target, if you like of over 300 million tonnes in the medium term. The production rate in the December half was 293 million tonnes annualised, just wondering does the medium term still refer to five years and if so, do you think that's overly conservative? I've got one more, thanks.

MIKE HENRY (CEO, BHP)
Well thanks James for the vote of confidence in the underlying operational performance. Now is it overly conservative? WAIO is a business that is being fine-tuned as we speak and you see that coming through period on period. But like any fine-tuned system, as you reach the kind of outer limits of performance, the performance increments come through perhaps a little bit more slowly, but all heading in the right direction.

Of course the 300 million tonne per annum is also going to be unlocked by some of the investments we're making in port debottlenecking as we speak and we'll see some tie ins occurring in the half ahead. If we can achieve the 300 million tonnes per annum earlier, I know Brandon (Brandon Craig, Asset President WAIO) will be absolutely committed to doing so, but we're happy to stick with the current outlook of medium term.

The other point I would note is that there's work underway on the RTP (Rail Technology Project) projects. This is the train signalling project as well, which is one of the enablers of that 300 million tonnes per annum and that's still to be fully implemented.

JAMES REDFERN (BANK OF AMERICA)
Okay, thank you. Then maybe just a quick question regarding met coal, so BHP divested BMC and now Daunia and Blackwater are up for sale as well. Is it safe to assume that there'll be no further divestments in met coal after these two last mines, being Daunia and Blackwater, that you're happy with the rest of the portfolio? Thank you.

MIKE HENRY (CEO, BHP)
Look probably the best way of answering that one, James, is because of course we constantly review operations and assets in the portfolio. Having said that, we've been super consistent in recent years about how we talk about our met coal portfolio, which is that we believe there is upside in a faster decarbonising world for the highest quality of hard coking coals because they're going to help steel makers reduce their emissions intensity over the medium term.

If you then had to compare the quality of coking coal produced from the remaining mines against that statement, you'll see that we're going to have even higher stronger alignment amongst those remaining mines with that positive outlook for high-quality hard coking coal.

LYNDON FAGAN (J.P. MORGAN)
Look just a follow up on the US$10 billion CapEx guidance for the future, didn't really rate much of a mention in the presentation. Is this still something that we should be thinking a lot about or is this really something that relies on further acquisitions to fill a pipeline as such? I'm just wondering if you can back solve that with internal projects or not. Thanks.

MIKE HENRY (CEO, BHP)
So let me take this one in the first instance, David and then I'll pass it to you. So Lyndon, I can be definitive in saying we're not chasing a US$10 billion CapEx number with acquisitions and the US$10 billion CapEx would only ever be spent if we've got attractive high-returning projects to deploy that capital towards. Now at the time it was developed, very early stage, but of course we've got some line of sight on potential projects can be pulled through in our copper business, the successive stages of Jansen and so on, but not definitive enough yet to say it's definitely going to be US$10 billion.

What we were trying to do is provide a bit of an indicative number there for, as we seek to grow shareholder value and returns, how we see capital progressing over time. But again, it all depends on having good projects that we can be confident in that are attractive and going to increase value for shareholders and that work is still underway.

But David, anything further you wanted to add?

DAVID LAMONT (CFO, BHP)
Look other than to say that built into that also is our decarb spend that we've come out and mentioned, the US$4 billion that we're going to spend out to 2030, so that's factored into that US$10 billion as such. But as Mike said, all of this still needs to go through the capital allocation framework and ensure that we do see that there's value in that, both on the social value side of things, but also from a shareholder return basis. So yes, take it as guidance.

LACHLAN SHAW (UBS)
Yes, hi again Mike, thank you for the follow-up question. So just wanted to come back on the Chile fiscal regime, what's the timing and what's got to play out there?

MIKE HENRY (CEO, BHP)
So Chile fiscal regime, David do you want to talk a little bit about the timing? I mean broad brush, obviously still a process in train there. Multiple bodies that it needs to go through for approval, revision and reapproval and so on.

Whilst almost certainly things are trending towards some increase there, it's been encouraging to see the level of serious engagement that's happened on the part of the government with industry and with other interested parties, academics and so on, to ensure that whatever is landed upon is well informed and maintains a competitive copper industry.

David, any specifics you'd like to call out?

DAVID LAMONT (CFO, BHP)
Look, I think you've covered it, Mike. The only other thing that I would just raise is you need to remember that we do have tax stability arrangements in place at both Escondida and also at Cerro Colorado and Spence. Escondida is to 2023 and Spence is out until 2032. The constitution regime will continue to move its way through but it won't as though hit us straightaway given those tax stability agreements that we have in place.

TRISTAN LOVEGROVE (IR, BHP)
It's perhaps worth adding that it goes to the Treasury Committee likely in March and then it goes through a series of other votes et cetera, so it will take a few months.

LACHLAN SHAW (UBS)
Got it. Just the stability agreement at Escondida, is that just covering existing operations or would that also cover potential future CapEx should that be rolled over from this year?

MIKE HENRY (CEO, BHP)
Well, because of the timeframes involved in it, Lachlan, it's really only going to apply to the existing Escondida, but that's a timeframe issue more than anything else.

ROBERT STEIN (CLSA)
Hi, Mike. Just a follow-up on copper growth. Cerro Colorado was looking to ramp down and close at the end of the year. Are you potentially looking to hold that one on the backburner for a while as you wait to see how the market develops in terms of a concentrator build there and the sulphide mine or is that potentially another asset up for sale, and if it is up for sale, how does the stability agreement apply to that asset? Is it also under the scope of Spence or is it separate? Thank you.

MIKE HENRY (CEO, BHP)
No, Robert - and you're right on it moving towards closure in the near term but it's a large resource with grade comparable to what we've seen developed by some others. It's part of the overall effort that Rag (Rag Udd, President Minerals Americas) and the Minerals Americas team has underway. We're looking at what the long-term prospects may be for further development to reopening development of Cerro Colorado. It's within the scope of potential future copper growth that we will want to continue to hold inside the portfolio.

Okay, operator, thank you for that and everyone, thank you for joining the call today. I hope that you can see coming through in the underlying business results a continued focus on operational excellence, that leading to improved productivity and shareholder returns, and a very disciplined multifaceted approach to how we go about increasing future growth, in particular in future-facing commodities.

We're executing well on strategy and creating a business that is going to benefit from the big trends that are underway around us. Thanks, everyone again for joining us.