Financial results for the year ended 30 June 2023

Investor and analyst briefing Q&A transcript – Session 1

22 August 2023

Introduction

MIKE HENRY (CEO, BHP)
Hello everyone and thanks for joining today's call. We've reported full year underlying attributable profit of US$13.4 billion. That is down nearly 40% as a result of lower commodity prices and high inflation, partially offset by strong operational performance. We did have production records at WAIO, Spence and Olympic Dam, so three of the big assets, and we've shown disciplined cost control.

Dividends to shareholders totalled $8.6 billion for the year. We paid $14 billion to governments in taxes and royalties, all of that being part of a total economic contribution of $54 billion globally. That includes, of course, payments to employees, suppliers and communities.

So, overall results were strong, even with lower prices and inflationary pressures and that's spelled out in great assets and consistently running them well, as well as our ongoing focus on cost control and capital discipline, and you really see that shining through in Western Australia Iron Ore where we doubled our lead as the lowest cost major iron ore producer globally.

We're also making good progress on future growth options, and you see that coming through the presentation today. This includes the creation of a new copper province in South Australia with the OZ Minerals acquisition, and in potash, Stage 1 at Jansen is progressing really well. First production now forecast from late 2026.

On the macroeconomic front looking forward, the global economic outlook in the near term is mixed and a bit uncertain. We have seen central banks and governments step in to contain inflation and that's resulted in slowed demand in the developed world.

China and India have been sources of relative stability for commodity demand amongst the broader global uncertainty, notwithstanding the slower Q2 for China. Even as overall momentum as China has slowed, I do want to call out the fact that there is a lot still going well there, and that includes growth in green technology, infrastructure and autos.

But undeniably, housing starts have been slower than many were expecting and we're yet to see a pull through of the government policy that has been set at the top level, or central level, interchanged activity on the ground. We have seen strong, new house, or property completions, 19% up year on year, but looking forward we really do need to keep an eye on how effectively central policy is translating to action on the ground. We think that's going come back to confidence. If we do see an uptick on that front, then we think there will be good momentum on growth coming out of 2023 into 2024, but it's a bit of a watch and see at this point.

I would note that overall, combined, China and India are expected to represent half of world GDP growth in FY24.

Now, in the longer term, the megatrends – population growth, urbanisation, industrialisation and, of course, the energy transition, all metals intensive, and they provide a strong outlook for commodity demand. So for BHP, the long-term outlook is positive. We have a clear and consistent strategy aligned with the megatrends, we're continuing to execute well against that strategy, near term performance is strong in spite of the external headwinds and we continue to invest in value accretive growth that's aligned to those trends.

Questions and answers

PAUL YOUNG (GOLDMAN SACHS)
Mike, a few questions on copper seeing it's roughly 50% of your capex outlook. Firstly, good to see all the indicative timeframes on the investments in Chilean and South Australian and also the increase in investments in copper over the medium term.

Mike, can I dig firstly into Escondida. Production guidance for FY25 and FY26 of 1.2 to 1.3 million tonnes is positive versus consensus expectations, but you probably know that. But one thing I'll put out is you've never really achieved the 1.2 million tonne average you outlined back in 2015. Strikes, COVID, other challenges, geotech issues more recently – all those combined are the reasons, so I'm just curious about the confidence around the 1.2 to 1.3 million tonnes and your operating assumptions roughly around increases in mill throughput and head grades that form that guidance.

MIKE HENRY (CEO, BHP)
David, you might want to comment on this as well, but I do acknowledge that we didn't achieve the 1.2 million tonnes that we had spoken about previously, Paul. But you can see the momentum building now around grade as we've gotten more into PL1, better at managing some of the geotech issues we were having behind that, so I think you can see the emerging trends that support that 1.2 to 1.3 million tonnes for that period. But David, did you want to provide any further comment?

DAVID LAMONT (CFO, BHP)
Yes. Specifically, Paul, if you look at the grade that we saw in FY23 was 0.82%, we're certainly seeing somewhere more 0.85% to 0.9% moving forward, so that grade certainly helps into the overall output for Escondida.

PAUL YOUNG (GOLDMAN SACHS)
Okay, thanks David. And then, on cost inflation, you mentioned 12% in Chile. I presume most of that is labour? But just turning to South Australia and inflation, David, what capex inflation, just roughly, did you see or have you seen across the OZ Minerals assets since taking ownership, namely the Carrapateena Block Cave and Prominent Hill and West Musgrave?

DAVID LAMONT (CFO, BHP)
Yes. Paul, different categories in each one of those. So let me start by saying, on West Musgrave, we're continuing to study that project and it's obviously in execution and we continue to look at that.

We are very positive on how that will feed into the overall Nickel West operations, our overall nickel portfolio, but it is one that certainly does play into the overall capital numbers that we forecasted forward. Just for a little bit of clarity – I know it wasn't directly in your question, but what we have factored into our forecast is around about $1 billion of capital for the OZ assets coming into the Group. So, versus what we previously guided, there's about $1 billion sitting in there that does certainly factor in West Musgrave and also Carrapateena and Prominent Hill.

On the copper side of things really no difference on the OZ side there versus what we were seeing at Olympic Dam in South Australia, so we're very much – and I should say also the West Musgrave – very much in line with what we had anticipated coming into the acquisition. And you should take from that, that might be different from what OZ had said.

RAHUL ANAND (MORGAN STANLEY)
Hi Mike, David and team. Thanks for the opportunity. Just one callout before the question, for the IR team, for the new format – really good, very easy to follow. Thanks for that.

First question, look, I think Paul was touching a bit upon that in terms of your capex guidance, but if we look at the medium-term guidance, obviously there's been an increase there of $1 billion. I wanted to understand, are you making some allowances there, considering that decarb capex is unchanged with relation to perhaps two stage smelting, Spence tailings, Escondida concentrator expansion, or are none of those part of your medium-term allowances in terms of guidance for capex. Thanks. That's the first one.

DAVID LAMONT (CFO, BHP)
So, in relation to that capex and the $10bn, a number of things are factored into there. So, Spence tailings I think you referenced, yes that is actually in those forward forecasts. Clearly, we've also made some estimations around Escondida and the leaching opportunities that actually sit there, as well as the concentrator and how we're progressing on that front.

What I would just call out is, you will have seen that the maintenance spend is about flat year on year, so we'll call that around about $3bn, but then we start to move into the growth side of things. I'd also reference that we see at Jansen Stage 1 an increase in spend in FY24 over FY23. There is no change to the overall capital estimate for Jansen Stage 1 at $5.7bn, but as we have indicated, we have pulled that project forward around about nine months, so therefore the capital spend is over a shorter period of time, and that has some impact into the guidance that we've given.

MIKE HENRY (CEO, BHP)
Maybe I could add to this, David. Rahul, kind of a higher order point that I think is worth noting here, is that there is a larger proportion of the capex that's going into improvement, so unlocking lower costs, more production and so on, as well as growth spend in future facing commodities and then David mentioned Jansen, but also looking at that in copper as well.

So, fully aligned with the strategy that we have around becoming the pre-eminent operator, the best operator. We've done that over recent years, you see that coming through in the reliability of results that have an asset like WAIO, low-cost position, production records of other assets as well. That's the foundation then from which – as we've been developing these growth options in parallel or conceptualising the growth options in parallel, where we can now start deploying more capital into growth with a real focus on future facing commodities.

RAHUL ANAND (MORGAN STANLEY)
Understood. Just one follow up there for David. Just one clarification really for that first question. David, you talked about leaching being part of the capex estimates. I got that, thanks for that.

But in terms of the additional concentrator, just confirming you've made allowances potentially for the concentrator itself, or just the studies at this point in time?

DAVID LAMONT (CFO, BHP)
No, in that period of time, the studies – FY24/25.

RAHUL ANAND (MORGAN STANLEY)
Understood. Thank you. Just for my second question then, perhaps one for Mike, in terms of Escondida. We've talked about the three year guidance, 1.2 million tonnes per annum. Obviously a bit of a change from the five year average run rate of 1.2 million tonnes per annum – you were expecting that production grade to now start to come off after those three years. Mike, just trying to understand, you know, there was an understanding by us I guess in terms of materials movements lagging and issues related to pit development and the plant location et cetera, but in terms of the changes themselves, I mean is this purely a deferment of that, you know, average production being cut by two years? Or is there a level of sterilisation here as well for the asset? Thanks.

MIKE HENRY (CEO, BHP)
No. Rahul, it's exactly as you call it, which is deferment, so it's not lost copper production here, it's simply a change in the forward profile. In short, the tail off as a result of grade decline will occur maybe a little bit less steeply than otherwise would have been the case.

But the other thing I'd point to, as David mentioned, there's a lot of effort underway right now at Escondida around other projects that will help – because our objective at the end of the day is to at least offset grade decline longer term, so even if there's a small dip around FY27, all the work is underway right now with leaching projects, the concentrator project at Escondida and so on to figure out how we go about offsetting that into the 2030s and beyond.

LACHLAN SHAW (UBS)
Many thanks Mike and David, for the update this morning. Well done on a good set of results.

Just first question, just around capex. Just looking at the uplift FY24/FY25 of $10 billion and then medium term to $11 billion, when you step back, how much of that is scope versus underlying inflation?

DAVID LAMONT (CFO, BHP)
The majority of that is not a change in scope. So, consistent with where we have been, we have included in there – as I say, when you get out to the period beyond the next two years, we have got scope change in the sense of OZ Minerals coming in. But outside of OZ Minerals, the projects that we actually have there are the projects as originally scoped.

Certainly, what we do think about, is capital efficiency in the overall mix of things, but mindful of the fact that we are operating in a current inflationary environment, but we have seen some of that tailing off as well.

MIKE HENRY (CEO, BHP)
But just to be clear, the increase David from $7 billion to $10 billion, there are more projects that are underpinning that increase.

DAVID LAMONT (CFO, BHP)
Yes. Previously we were at $9 billion, so OZ Minerals has gone to the $10 billion, so there's no change in that underlying scope as such.

But yes, we're very mindful. And again, I'll just come back and reference Jansen Stage 1. We have not seen any cost escalation above the $5.7 billion that we've said previously.

LACHLAN SHAW (UBS)
Great, okay. Thank you. And then just a second question. South Australia copper, you know, the aspiration to more than 500,000 tonnes of cathode. How's the thought piece coming together in terms of feeding that enlarged facility? Is that going to feature a larger underground at Olympic Dam, or is it more the case of feeding, you know, feed more from three mines, maybe four when Oak Dam comes into production and the fact that we're leaving the Olympic Dam underground as it is today. Thank you.

MIKE HENRY (CEO, BHP)
So, Lachlan, caveated with its still very early stage, so conceptual at this point and much more work to take place, the rough concept that we have there that sits behind potentially being able to achieve more than 500,000 tonnes per annum or more of cathode is some expansion at Olympic Dam, but also bringing in ore from Carrapateena and Prominent Hill and development of Oak Dam over time.

Now, as we study all these prospects, it could be that we end up dialling one up or dialling one down a little bit, but right now – which goes to the optionality inherent in having multiple operations feeding shared infrastructure and we've seen that play out in WAIO, we've seen it play out in BMA, but our starting premise is what I just outlined, which is a bit more out of Olympic Dam, development of Oak Dam, bringing in ores from the other mines, feeding common infrastructure at Olympic Dam.

KAAN PEKER (RBC)
Good morning Mike and Dave. Two questions. Just the first one to expand further on Lachlan's question, if you look at slide 17 – the potential looks more like 600,000 tonnes per annum, if you look at what you've suggested with Oak Dam, around 500,000 to 1.7 billion in terms of exploration target, given that there is 11 rigs expected on site, is that upper realm or that range really dependent on Oak Dam?

And, given that that's a FY23 target, is it then the two stage smelting studies that we're waiting on to get a bit more clarity around this?

MIKE HENRY (CEO, BHP)
That's a good premise, Kaan, around Oak Dam. Of course, as I said in response to the earlier question, there are a number of variables at play here. Specifically in respect to your question around two stage smelting, yes. The premise here is that we would move to two stage smelting. That would be the opportunity for scale up of the smelter and ancillary infrastructure, as well as refining it at Olympic Dam.

And that happens in kind of the 2027/2028 window. And not only does two stage smelting allow us to scale up, it enables more efficient underground operations as well at Olympic Dam in particular because of the ability then to really optimise for grade, rather than needing to optimise for both grade and copper sulphur ratio, like is currently the case with single stage smelt.

KAAN PEKER (RBC)
Thank you. And just the second one, on West Musgrave. Prior to the acquisition, OZ was studying MHP production. Is this something Nickel West is looking at and I suppose how does that fit or benefit current operations? Thanks.

DAVID LAMONT (CFO, BHP)
Let me start by saying that clearly as part of the acquisition and getting West Musgrave into the mix, that gives us the opportunity to have a look at our overall output that we actually have for nickel in Western Australia. So, the short answer to your question is, it's still under study and review. We also have a decision that we need to make around the smelter that we actually have in Nickel West and that's something that we continue to look at and would expect to have an output in, in FY24. We'll be mindful of that in relation to what the production is and output coming out of West Musgrave into the mix. So put it in the category of studies still to look at what the opportunities are.

GLYN LAWCOCK (BARRENJOEY)
Morning, Mike. Mike, just firstly on the dividends and your net debt. You said in the near-term you expect to remain towards the upper end of the net debt range. I mean clearly with the dividend you declared today you push yourself just above. I mean you're obviously going to generate free cashflow - hopefully, if prices stay where they are. Does that mean you're willing to continue to pay out a dividend that holds you towards the top end of your net debt range? I mean because - is that sort of how we interpret what you're saying today?

MIKE HENRY (CEO, BHP)
Look, I wouldn't attribute it quite that clearly, Glyn. What I would say is, we got the 50% minimum payout ratio, that's solid. We're investing more in growth and obviously there's been a slight re-weighting towards investing in growth which unlocks future value for shareholders. As to where the quantum of dividend that we then wish to payout and where that places us in the net debt range is going to depend a little bit on cashflow coming into the year but also our outlook and our confidence about the outlook ahead both for commodity prices but also the growth that we see coming on.

So if you look at the increase in capital a good portion of that is related to improvement capital. Of course, improvement capital is intended to give us lower costs, better production, in the nearish term, and then as we push out towards 2026, we then start to see cash coming in from Jansen. In the nearer term, cash coming in from OZ.

So, the broad point that we were trying to make is simply that we're moving towards the upper end of the net debt range, versus the growth opportunities or the opportunities that we see to deploy capital into value accretive growth coupled with the way that we're seeing the external market, we simply forecast that we'll be at the upper end of that range for a period of time. David, anything you wanted to add on that?

GLYN LAWCOCK (BARRENJOEY)
Yes, but I guess if you pay the minimum 50%, you would probably de-gear. So, it sounds like you're happy to remain at the top because the only way you'd stay at the top would be if you continue to pay above your minimum. Otherwise, you would de-gear or your operating cashflow or your capex I would imagine.

MIKE HENRY (CEO, BHP)
No but then of course it depends on how we see the price environment and so on and so forth. Obviously, each time the Board considers - the management and the Board consider the dividend, we do take into account shareholder expectations as well as all the other factors that I mentioned. So, there's part of this that's science, part of it that's art. It gets considered every six months.

GLYN LAWCOCK (BARRENJOEY)
Yes. Then just my second question, obviously you copped a bit of flack in the press today from the Queensland Treasurer. I'm just curious, I mean you haven't got approval for 2030 at New South Wales Energy Coal. We're probably staring down the barrel of potentially a raise in royalty rates in New South Wales. How do you think about the life extension of New South Wales Energy Coal in the context of what could happen on the royalty front? Any thoughts you could share? Thanks.

MIKE HENRY (CEO, BHP)
Well so of course we'd have to see where the policy lands, Glyn. In respect of Queensland, I don't think we're saying anything particularly controversial as we all understand business. Lower returns, higher risk means that other investments become more attractive. If I then think about New South Wales, we have an asset that's proceeding towards closure. We announced that we want to extend that out to 2030 because we thought that provided opportunity for workforce transition, community transition. And frankly, that was the optimal timing from an overall economics perspective as well. Now, if the underlying economic drivers change, and policy is one of those drivers, then that could change that equation, but it's still a little bit too early to tell. It's something that we actively consider as we see new policy being promulgated.

JAMES REDFERN (BANK OF AMERICA)
Good morning, Mike, and Dave. I hope you're well. Just a couple of questions, please. Maybe if we can return to the two-stage smelter at Olympic Dam. Just maybe if you could please provide some indicative capex guidance for that project and then also potential size of the Oak Dam project as well, please?

MIKE HENRY (CEO, BHP)
So still being scoped out, James. We don't have - or we're not providing numbers for two-stage smelting at Olympic Dam yet. Timing-wise, 2027/2028, and the scale of that two-stage smelter really depends upon how the rest of the potential growth opportunity plays out. So, in parallel with looking at two-stage smelting, we have to understand whether the economics around Oak Dam, around bringing ore in from Carrapateena, from Prominent Hill and so on, are going to be attractive enough for us to move to an upscale two-stage smelter.

If the answer to that question were no and we were going to stick with what's there currently, obviously that means a smaller smelter, but that's not our aspiration at this point. Our aspiration at this point is to be able to scale up and unlock growth in the basin. Same thing applies to Oak Dam. You know, we have provided updated information in respect of Oak Dam, but there's further drilling that needs to occur for us then to determine what the optimal scale for that development would be.

JAMES REDFERN (BANK OF AMERICA)
Thank you. Maybe just a bit of an update on the sale of Blackwater and Daunia. Just maybe if you could talk about the level of interest and when we could expect an announcement of that divestment, please?

MIKE HENRY (CEO, BHP)
So, what I would say at this point, James, is proceeding to plan. There has been, you know, you've seen press reports about levels of interest and so on. So there has been interest there but still working through the process.

LYNDON FAGAN (JP MORGAN)
Good morning, thanks very much. Look, the first question I had was just on the West Musgrave review. Is that everything from capex, scope, timing? Just wondering what the latest capex number is for that project as well.

MIKE HENRY (CEO, BHP)
So, Lyndon, it is a full-scope review but as David mentioned earlier, there's nothing that we're seeing - and this applies to the whole of the OZ Minerals portfolio – nothing that we're seeing across there that is a material surprise for BHP in terms of the assumptions that we had going into the acquisition. Not to say that the numbers are exactly the same as OZ had been talking about. That certainly applies to West Musgrave as well. Of course, the added factors here that we're considering around West Musgrave are the downstream routing towards Nickel West infrastructure.

LYNDON FAGAN (JP MORGAN)
Okay and just another one on iron ore. With the medium-term cost target of sub-$17 a tonne, are you able to talk about what will be done to achieve that? Obviously, there's a bit of fixed cost dilution with slightly higher volume, but I mean it is fairly impressive to get cost down in this environment in WA and the Pilbara. Yes, be good to sort of unravel that. Thanks.

MIKE HENRY (CEO, BHP)
So, I mean the fixed cost dilution is obviously one of them, Lyndon, but you've seen the BHP operating system at work here and that we've been able to contain costs better than the competition. Extend our lead as the low-cost supplier in WAIO and we are relying upon that to unlock further productivity in the business. There will be some study cost as well that dissipate over time. Right now, we have a number of studies underway to get us to the 305Mt and potentially beyond. Of course, right now, a lot of those costs are washing through OpEx.

PAUL MCTAGGART (CITIGROUP)
Morning. So, I just want to circle back to Nickel West. I know it's a smaller asset in the scheme of BHP now, but will West Musgrave, on the assumption that ultimately it gets processed through Nickel West assets, will that give you enough own feed so that it no longer looks like a toll-smelting business and today, I mean obviously you're paying out for that ore you buy in at a high proportion of the contained nickel. Are you able to give us a sense of what you're paying, in terms of that contained nickel, to others?

MIKE HENRY (CEO, BHP)
So probably the best way of answering it, Paul, is- what we're paying to others is it's not like the tolling of third-party ore into Nickel West is a high margin business, right? And therefore we want to be able to displace that with equity production. Will West Musgrave allow us to totally do that? Answer is probably not. But the team has done a good job of proving up further resource in Nickel West as well. Certainly relative to where we were a few years ago.

So, if we look kind of the overall Nickel West story, we've gone through a major mines transition. So, moving from old, depleting mines to new mines, bigger resource. We've proved up more resource. We now have West Musgrave. All of that combined, the expectation, or the intent is, that that allows us to begin to replace some of that 30-ish per cent of production that comes from third party ore. More equity ore, more valuable to us, and then we look at opportunities for capturing a little bit further margin through things like nickel sulphate and potentially expanding that operation over time.

TRISTAN LOVEGROVE (GROUP INVESTOR RELATIONS OFFICER, BHP)
I mean, Paul, it's worth saying that with the addition of West Musgrave but also with a lot of drilling, so the team have drilled 100 kilometres of drilling, 40km of which is test exploration targets and 60km is resource definition, they've increased the resource base by 36% year-on-year. So that's sort of the other lever Mike was alluding to.

PAUL MCTAGGART (CITIGROUP)
Thank you.

ROBERT STEIN (CLSA)
Hi, guys. Thanks for the opportunity. Just a quick one on the South Australian copper business. I make it around 400kt in your blurred bar there as your FY30 target. Is that coming from Oak Dam being tolled through - or being pushed through Carrapateena infrastructure? Is the best way to think about the synergy there as capital costs savings from having to develop Oak Dam or is it additional? I'm just trying to get a better handle on the synergy value from the transaction in terms of trying to recoup the premium. Thanks.

DAVID LAMONT (CFO, BHP)
So let me start by saying you will have seen in the presentation that we have outlined $50 million of synergy and to date have delivered $20 million. Now, that doesn't include what we're looking at from an overall infrastructure play – how do we play into the two-stage smelt, how do we actually think about Oak Dam going through Carrapateena? So that's all work ahead of us that we've obviously got some internal views around, but we haven't at this stage come out and described that because we see that as being pretty key into how we develop the two-stage smelting option at Olympic Dam. So, you're heading in the right direction. In relation to the overall numbers though, at this stage we're still waiting to see how that plays through.

ROBERT STEIN (CLSA)
Just a follow-up on nickel. You know, nickel at $20,000, potentially has come off quite a bit as have other commodities, but just sort of challenging the attractiveness of nickel with the increase of lithium-ion phosphate battery production in China but then that's also penetrating out to other regions. Are you still firm in your view that nickel is a commodity of the future and you have the options to fully utilise that or is - have your views tempered over time? Thank you.

DAVID LAMONT (CFO, BHP)
Yes, so still come back to the fact that we have the second largest nickel sulphide resource in the world and therefore it's a matter of how do we ultimately harness that and bring that to the market? So no, we still see nickel as a future-facing commodity. We certainly still believe in the underlying demand picture for nickel and obviously that's on the back of the decarbonisation that's happening. So, no change in that regard. You will have also seen that we've obviously got also the Kabanga nickel asset so we're not just looking at Western Australian nickel, we are looking for nickel more globally and we continue to look at exploration activities in that regard as well.

LACHLAN SHAW (UBS)
So just two quick questions hopefully, following up. So just stage 1. Just chasing up on commentary that the capex there is on budget. Just interested, given the elevated steel, fabricated concrete, and fabricated steel structure inflation we've seen in the US. So, is the take-away there that Jansen is doing a great job insulating themselves from inflationary pressure across the border?

MIKE HENRY (CEO, BHP)
So in short, you know, broadly speaking, yes, Lachlan, with a lot of the contracts already in place. I would note that the individual that we have leading the Jansen project was also the person who led the development of South Flank. It was different context but we were also heading into quite an inflationary environment with a number of iron ore projects being triggered at the same time there which led us to adopt certain approaches to how we manage the project in a more integrated way with our key service providers and the commercial strategies that we adopted. We're applying those same approaches in the case of Jansen.

Now, of course we're now looking at Jansen stage 2 as well. Predominant driver for that is because of the market window or the market opportunity that may open up. But of course, if that market opportunity is there and that project looks attractive there may be a further opportunity for us to navigate an inflationary environment by being able to roll the skilled labour and contractors from one project into another, but that's a subject of a further sanction decision in the year ahead.

LACHLAN SHAW (UBS)
Great, that's helpful.

TRISTAN LOVEGROVE (GROUP INVESTOR RELATIONS OFFICER, BHP)
Sorry, Lachlan, the other thing I would add is that a lot of the steel went into shafts and so we were ahead of that.

MIKE HENRY (CEO, BHP)
Good point.

LACHLAN SHAW (UBS)
Great, thank you and then just a second one. So just to guidance on the effective tax rate, 30% to 35% for FY24 versus 30.9%. Can you just talk to what's shifted there and I guess temporary or permanent shifts that we should be thinking about going forward? Thank you.

DAVID LAMONT (CFO, BHP)
Yes, so I mean a fair bit of that depends on where we're making obviously the underlying profits. I would just reference that factored into that is copper and Chile and just how that plays through given some of the changes that have been earmarked there. Certainly, well within the range of what we've had in the past.

KAAN PEKER (RBC)
Hi again, Mike and David. Thanks for the additional questions. Maybe just sticking with the view on growth. Just maybe a bit more around the new concentrator at Los Colorados at Escondida. Is that expected to tie in - or the potential expected to tie in with the grade decline in FY27, FY28? I'll circle back with a second one.

MIKE HENRY (CEO, BHP)
So, it could be a little bit later than that, Kaan, the - obviously still subject to studies – but you shouldn't view it as us rolling directly through and there being no potential for a dip. As I said earlier, all of these projects that we have underway, be it the concentrator, leaching and so on, what's our objective? Our objective is to be able to offset grade decline at Escondida. That's a medium to long-term statement but could very well involve an initial small dip then for recovery thereafter through the late 2020s and into the 2030s.

KAAN PEKER (RBC)
I mean, if the study would go ahead - if the study suggests, I would assume that would be larger capacity to obviously offset grade decline.

MIKE HENRY (CEO, BHP)
Well, yes and I wouldn't - I don't think the way to think about this would be just a new concentrator. It would likely be in combination - because the leaching efforts that we have underway, are actually showing some pretty promising results. So, the more likely outcome here would be concentrator plus leaching. Would the concentrator be a large-ish scale concentrator? Yes, for a whole host of reasons. I think there's economies of scale as well, but we're not thinking about this as a one-shot option. It would be a concentrator and leaching options.

ROBERT STEIN (CLSA)
Hi. Just a bit of a follow up on the OZ assets. If I reconcile back to the independent experts' report a little while ago, in terms of the grades and the production mix that was coming out of those OZ assets that was forecasted at that point in time, if I stack that onto a notional OD run rate of about 220ktpa, it doesn't look like there's much upside on synergy potentially adding to that FY30 timeframe, noting that you do have a large synergy occurring thereafter.

So, I'm just trying to understand when we can expect the bulk of those synergies to occur. How quickly do we expect those to occur past FY30, given that you've got a longer-term timeframe there, but no date, just for modelling purposes. Thank you.

MIKE HENRY (CEO, BHP)
Well, important point actually because we've always said that any acquisitions that we pursue have to be value accretive for BHP shareholders. Here, I think we've spoken this time about the target of at least US$50 million run rate on synergies by the end of FY24. We've already unlocked US$20 million in annualised run rate as we stand today.

Then we've got the broader synergy opportunity that arises around the growth unlock towards the end of this decade and into the 2030s. We haven't provided any numbers around that in part because they're still subject to all the studies and they're very long dated. I know what you will all be interested in and our shareholders will be interested in most is what are we doing today to unlock further value. That's that US$20 million growing to US$50 million annualised run rate in the year ahead.

Some of that's operational. A good part of it is related to non-operational synergies as well, like procurement for example, and leveraging the BHP platform. You see that procurement discipline and the ability to drive better outcomes there prevalent in all of our other businesses as well. It's one of the things that allows us to contain costs at WAIO better than others. We're now applying that same thing to the OZ Minerals assets as well. Then finally, there's some consolidation of functions and overheads related synergies too.

TRISTAN LOVEGROVE (GROUP INVESTOR RELATIONS OFFICER, BHP)
I guess I'd add Mike, it is a combination. I think, as you all allude to, Rob, which is both production synergies, but really the value synergies, which is increased copper recoveries, higher metal payables, low freight costs, and removal of the uranium penalties. That creates a huge amount of upside for us but that's captured from the TSS.

MIKE HENRY (CEO, BHP)
Exactly.

ROBERT STEIN (CLSA)
Sorry, just on the uranium penalties, can you just walk through that just in a little bit more detail? Are we talking blending a product to reduce uranium penalties going forward for OZ assets?

MIKE HENRY (CEO, BHP)
So indeed, and we're actually capturing a little bit of that now. So, you'll see reference in the results to us moving some of the Prominent Hill ore through Olympic Dam. That's higher uranium content, Prominent Hill material, which is above that level where it can be sensibly exported or used at the domestic seller most of - they sell that concentrate too.

Now if you think about the current operations or the two operations at OZ Minerals, they're either shipping ore to domestic concentrator, but where they lose the TCRCs or they're shipping it into the export market where it takes a penalty because of the uranium content. If we proceed with two stage smelting at Olympic Dam and this concept that we have around being able to integrate the mines into that shared infrastructure, that allows us then to capture the TCRCs, the treatment and refining charges, and will allow for the avoidance of the export penalties that currently get incurred due to shipping an ore or a concentrate with uranium in it. So, it's one of the synergies that would get built into the valuation of a scaled up two stage smelter.

PAUL YOUNG (GOLDMAN SACHS)
Yes, hi again, Mike and David. David, maybe a question for you on Samarco, just on the movements in cashflow and guidance. I know that the outlays aren't included in the capex guidance because it's an equity accounted unit. I just note that provision has gone up a little bit, but more so there's actually been a decrease to the tune of about US$900 million in cash outlays this year. It's called out - timing's called out just timing of spend. So, I presume that that's simply just pushed into calendar year 2024.

DAVID LAMONT (CFO, BHP)
So Paul, correct and the movement in the provision is largely FX related. So there hasn't been a change in underlying scope to be clear, risk factors and the assessment of that. It is more a currency movement as such but yes, the cash side of things is more a timing aspect. Noting of course that Samarco is also contributing cash itself now that it's got Concentrator 1 up and running. Equally, I'll just note that we have indicated that as we've been progressing Samarco's business plan, we are looking to bring the second concentrator on as well.

PAUL YOUNG (GOLDMAN SACHS)
Okay, thanks David. Then Mike, just on Samarco and those legal proceedings are concerned, any high-level comments you can provide on an update on legal proceedings in both the UK and also Brazil?

MIKE HENRY (CEO, BHP)
No Paul, other than what's out there right now, which is obviously legal case underway in the UK, which we don't believe has merit and we're defending against that case vigorously.

If we then look at Brazil, what I'll focus on rather on legal, we've made marked progress on resettlement, what, 75%, 80% now, David, of people in new homes or cases settled; in compensation to parties; and clearly on environment remediation; as well as getting Samarco back up and running. Running at eight million tonnes per annum currently. Second concentrator, getting that back up and running has just been sanctioned. That will contribute further to Samarco cash flows and their ability to contribute then to remediation.

Agreement reached on the debt restructuring. And the big thing that's left then is the negotiation on the TTAC agreement for the big overarching agreement – that's still a work in process. But you can see that there's very strong progress being made on the ground and that's what's most important because if we can get all of that resolved, then the case for legal proceedings falls away or is diminished. So that’s our first focus.

TRISTAN LOVEGROVE (BHP)
Thank you very much everyone, really appreciate you taking the time and I’ll hand over to Mike for any comments.

MIKE HENRY (CEO, BHP)
Look, I know everybody wants to get on their way. I would just point to the strong underlying operational performance. We’re in a cyclical industry. So, what a company like BHP needs to do, and which I think we're demonstrating well, is really focus on reliable underlying operations where we're driving productivity, controlling costs well even as we then develop a more or a stronger pipeline of growth options.

You see that coming through in these results. So bang in line with the strategy we outlined a few years ago, continuing to execute well against that, and that's supporting some continued healthy returns to shareholders.

Thank you all for joining.