Financial results for the year ended 30 June 2024

Investor and analyst briefing Q&A transcript – Session 1

27 August 2024

Introduction

MIKE HENRY, BHP
Welcome everybody. Thank you for joining us today. In the room here with me today are Vandita Pant, our Chief Financial Officer, and Tristan Lovegrove, our Group Investor Relations Officer.

I'm going to keep my opening remarks short, given the presentation. But there are a few key points that I'll like to leave you with, the first being consistency. BHP performed well again this year, both operationally and financially. We delivered reliable operational performance with a number of records, and we continue to manage inflation well.

The actions we've taken in 2024 are consistent with the strategy that you've heard us speak about over the years – a portfolio of the best assets that we operate very well, in the most attractive commodities that are set to benefit from the megatrends playing out around us.

Second point I'd like to leave you with is cash flow. Ours is the business that consistently delivers a high baseline of cash flows through the cycle. This year we generated more than US$20 billion of net operating cash flow. We've now generated net operating cash flow above US$15 billion for all bar one of the past 15 years.

With healthy and consistent cash flows, and our strong balance sheet, we have the ability to fund growth and deliver attractive returns to shareholders.

Thirdly, growth. We have a strong and expanding set of growth options. Jansen Stage 1 is ahead of its initial schedule, with first production forecast for late 2026, and Stage 2 is in execution.

At Copper South Australia, we've already unlocked more synergies faster than anticipated at the time of the OZ Minerals acquisition. We're increasingly excited by the growth pathway both there in South Australia and in South America, with our work on a pipeline of projects in Chile indicating attractive returns.

We've also recently announced an agreement to form a significant joint venture with Lundin Mining, related to a future copper growth opportunity in Argentina.

All up, BHP is in great shape, performing well with plenty of growth in the pipeline. We are well positioned for the year and decades ahead. With that, Operator, I will open it up to questions.

Questions and answers

PAUL YOUNG, GOLDMAN SACHS
Thank you. Morning Mike, morning Vandita. Hope you're well. Mike, a lot of focus in the presentation on copper growth and the balance sheet's very strong at the moment. I just want to dive into a couple of items, particularly starting with South Australia Copper.

Some really good extra details on project timelines, also the synergies. Talking now 650,000 tonnes of copper potential and we've got a maiden resource at Oak Dam. I'm curious around how you balance free cash on returns in South Australia, considering you've spent a bit over a billion dollars in FY24 and, overall, how we think about returns overall on the investment in South Australia?

MIKE HENRY, BHP
Returns numbers. We obviously haven't included those in this presentation, Paul, unlike Escondida. That's simply by virtue of the fact that there's further work progressing there. But in due course, as we usually do, we'll come out with our view on capex and returns.

On your main question around how we balance between free cash flow generation and investment. Let me take you back to what we said at a time when Olympic Dam was operating less reliably. We made a few points then. One, we said we recognised that for us to invest in growth, we have to be able to do so from a stable platform. Therefore, we went about investing in both technical capability and asset integrity at Olympic Dam.

We've seen the benefit of that in recent years. That then underpinned our confidence in pursuing OZ Minerals. You can see both the effectiveness with which we've integrated those assets and the quite material synergy opportunity that lies ahead.

But it's not just all future. We've already captured circa $600 million NPV and synergies, which is larger and quicker than we had originally anticipated.

The other point that we made at the time was that returns for – at that time it was just Olympic Dam, but the same thing would apply to the broader resource base at Copper South Australia – the returns escalate quick quickly as scale grows.

So, as we go forward, assuming that we continue on with a stable underlying operational base and the economics of investments stack up, we'll back ourselves in terms of project execution capability to invest in the asset to unlock long-term returns.

All of that is predicated upon that investment stacking up well under the capital allocation framework with the other opportunities we have within BHP. I hope that you can see in this presentation that, not only do we have an expanding set of options in copper, we also, of course, have Jansen - both in execution, but also potential future growth stages at Jansen as well.

PAUL YOUNG, GOLDMAN SACHS
Thanks Mike. Then maybe sticking on copper, and switching over to Filo and Josemaria in particular. Huge project potentially, maybe a $15 billion project. Lots of flag fall spend potentially. It does look like that will fall in, potentially, the same timeframe as some of your other major projects in that 2028 to 2035 timeframe.

I'm just curious about showing the returns on Escondida there, 14% to 19%, how do you think about returns on Filo considering that it's a major project that's potentially multi decade? How do you think about the returns or hurdle rate for a project of this scale?

MIKE HENRY, BHP
So I'm going to ask Vandita to talk a little bit about the capital allocation framework and how projects come together under that. But let me just start by saying what a great opportunity we have ahead of us with this quite rich portfolio of copper growth options that we have now.

Now specifically in respect of the Filo opportunity, it is not that often that one comes across the opportunity to access what could be a very significant, in global terms, new copper basin, and that's what Argentina and the Vicuna district represent for us, so certainly exciting future prospect.

The other point that I would note is that it's not just Filo. Of course we'd also acquire 50% of Lundin Mining's Josemaria deposit, which is about 10 kilometres away from Filo and it's a more advanced project in terms of project planning and approvals. So together with Lundin we'll be sitting down in the period ahead and working through what the optimal development pathway is for those two deposits in tandem.

But Vandita, did you want to provide any further comments on the capital allocation framework and how we think about competing projects and returns?

VANDITA PANT, BHP
Yes, sure. So from a capital allocation framework perspective, as you know Paul, we look at how the projects compete across returns, across stages of development and make sure that we have a resilient balance sheet to support this growth. So if I look at medium term 2027 to 2029, of course there are projects which taper off during that time, off $11 billion of our guidance. In that, Jansen, given the timing, will come off. Jansen 1 would be done by that time, which means we can accommodate more copper growth projects both for Copper SA and Chile.

We have of course 305 Mtpa of WAIO creep up to production during that time, so that is included, but Nickel of course, given our recent decision, has come out of our numbers and some of the up to 330 Mtpa kind of studies are in, but projects are not. But overall you can see that we have quite a resilient balance sheet with the $9.1 billion of net debt right now. Range allows us that flexibility to phase the projects, sequence the projects, look at optionality and look at what we can do in terms of the growth.

Filo currently is not in these numbers because of course the transaction is yet to close. But we feel quite comfortable to have a good balance sheet, financial discipline, a lens for value on growth, which I think is really critical to have good returning projects and let those projects compete. A good problem to have, as Mike said.

LYNDON FAGAN, J.P. MORGAN
Good morning, thanks for the call. Look my question is back on the FY26 capex, with the step up to $11 billion. I can see consensus is about $9 billion, the market's got a couple of billion to solve for and then Vandita I note your comments about Nickel West dropping out – been some pretty significant spend there in recent years that has dropped out. So what have we actually missed to solve for that $11 billion? It would be good to get a bit more detail there and is that the new buckets going forward now considering medium term is also $11 billion? I've got a follow up as well, thanks.

VANDITA PANT, BHP
Sure, Lyndon. So from that $11 billion, you know usual our bucket on maintenance stays the same, it's around $3 billion-odd which also includes some of the stripping numbers. We are increasing our spend of course on potash. Potash last year was $1.1 billion, this year FY25 will be $1.8 billion and 2026 we'll have Jansen 2 kicking in even higher and then it tapers off. Our projects on copper start to also take a higher spend in 2026. I should remind you that there is quite a bit of fleet replacement in many of our assets. WAIO has some fleet replacement, Escondida has all haul trucks and shovel replacement also in there and Western Ridge is being executed over next two years as well.

So overall, in the mix, the $11 billion for 2026 includes higher growth projects for copper, includes higher spend over next two years in potash, maintenance remains roughly the same number and some improvement projects which are mainly fleet replacement related.

LYNDON FAGAN, J.P. MORGAN
Okay, thanks. Look my follow up is just on iron ore. A lot of focus on today's pack is on copper and there's really very little on iron ore, which is still your main earnings driver. The question I had really is about the project of 330 Mtpa. I can't help feel as though that's been put on the backburner a little bit. Obviously the studies are continuing, but there's not a lot of detail at all in terms of really wanting to execute that. Mike, I notice in the past you've talked about maybe it's not 330 Mtpa, it's something in between 305 Mtpa and 330 Mtpa, so maybe just a refresh on the way the business is thinking about that would be great. Thanks.

MIKE HENRY, BHP
Okay, so first point, Lyndon, please don't read anything into the fact that we made more of copper growth in this presentation in terms of what that says about iron ore. Position absolutely unchanged when it comes to iron ore and the optionality to expand to 330 Mtpa and that position is that it's exactly that. So as we've said in the past, all we're doing is creating the option for us to go from 305 Mtpa to 330 Mtpa should market circumstances and the economic and the risk returns profile for that tranche of growth be attractive for us, but we wouldn't know that until a couple of years' time.

Now in terms of the half-year question, Lyndon, was around how do we get from 305 Mtpa to 330 Mtpa. What I may have said previously is, simply, that it's not a single decision. There would obviously be a number of enabling projects that would need to occur to take us from 305 Mtpa to 330 Mtpa – that's part of the study work and each project would be considered on its own merits, or each capital investment would be considered on its own merits in terms of returns. So it's conceivable that we could end up with a series of projects where some of those are attractive, some of them less attractive and so we may elect not to go all the way. But the point is that we haven't made a decision about any of that growth beyond 305 Mtpa and that all we're doing at this point is the underpinning study work to give us the option to be able to trigger that if we think it's the right thing to do under the capital allocation framework.

RAHUL ANAND, MORGAN STANLEY
Hi, good morning, thanks for the call. Look you've talked a bit about the capex side, I just wanted to touch a bit on the copper expansion opportunities on slide 19. So perhaps if you can help me understand, Mike, firstly in terms of Spence, obviously we had a slower start in terms of recovery and throughput, but you've talked about expansion further there. Can you give me a bit of colour around what you're thinking? Obviously the current capacity is around 35 Mtpa, your initial targets for recovery were 88% and we're running a bit below that, where do you see the scope for this project and is that recovery target then going to be a different number, as in I'm trying to understand whether the initial targets for the asset applies still or not?

MIKE HENRY, BHP
So there are a number of numbers you're using there, Rahul. Obviously the first focus at Spence has been to stabilise operations post the Spence growth option and we were clear previously that we had two issues that we were grappling with – one was recoveries, the other one was the tailings facility. We've been investing incremental capital in securing the recoveries or getting us closer to the recoveries that we originally anticipated, as well as in dealing with some of the early challenges that we had around the tailings facility. Now what we're talking about here, so in the presentation, and specifically the slide that you're referring to, that's something different from that.

So this is saying that as we look at expansion options in copper across the portfolio, we've been clear about the opportunities that lie at Escondida and we've provided capital intensities and returns numbers there. But we don't want it to be lost on the market that we also have further potential expansion opportunities at Spence, we have the potential to bring Cerro Colorado back in due course and so on. Now those things are still works in process, but broad brush they would involve us moving to application of further leaching at Spence to sustain production over time.

Vandita, is there anything you wanted to add to that?

VANDITA PANT, BHP
Yes, sure. As you know, our cathode production there is coming down as the feed grade reduces and hence the CPY leaching option is something that we're looking at for Spence. In fact, we have applied for approvals for that, and that is something which can extend the volumes in Spence for 14-odd years. So, what you see on slide 19 is talking about that, into the 2030s as well there.

RAHUL ANAND, MORGAN STANLEY
Got it, okay. Look second one, perhaps for you Vandita. I just wanted to touch upon the capital allocation framework a bit as well in terms of the payouts. Obviously you have a minimum payout figure of circa 50% which you've paid over for this year and we finished the position in a strong net debt position. However, if we look forward in some of the commentary on this call, as well as talked about, a bit higher capex than where consensus was for both 2025 and 2026. You've potentially got $2 billion and a bit coming out for the Filo acquisition and then you've also got provisions and also contingent liabilities looking into the future.

So I guess my question then is around how do you look at that net debt range and where do you really need to be within that range, bottom half, above or at the top half, to be able to start thinking about any sort of payments above that 50% level in terms of a special? Or should we just be thinking about 50% going forward for the foreseeable future?

VANDITA PANT, BHP
Yes, Rahul. So our capital allocation framework, the beauty of that framework is that we do look at its rigorous application every six months from a dividend perspective that you mention. Of course 50% is something which is important to our shareholders, we're very cognisant of that, but in terms of performance, outlook, how the value accretive projects are going, where the balance sheet is, all of that gets into the mix for decisions on the top up around dividends.

But if were to step back and say, as you rightly said, really resilient balance sheet, we are very comfortable with the balance sheet where it is today and in fact can swing anywhere in that range and for the right projects, as we have always said, you have seen us say this for years, that if we had a pathway back into the range, we will be happy to even go higher than that if needed. But right now, given the range of capex that we've talked about, $11 billion, it excludes a few of the things that you mention, given the flexibility available in our net debt range and where our balance sheet is, we feel they are comfortable in terms of allocation of really maximising value for growth projects, but also looking at cash returns. But this is a good problem to have and we are feeling quite focused on making sure that the growth projects can be triggered and returns can be managed as well, given where the balance sheet is.

MIKE HENRY, BHP
Vandita, I'm just going to add, Rahul, a couple of points. One is that it's a difficult question to answer in the sense that one of the variables in the decision-making process is how we see the outlook over the coming six, 12, 24 months, so how we're seeing markets and so on. So that's part of the Board consideration. We sit down at each reporting period to determine the go-forward dividend. But the other point I would make is that we've been – and you see this embedded in the foundation of the capital allocation framework, we really get the importance of cash dividends to shareholders and we see the value that gets created through holding cash dividends and returns to shareholders, and reinvestment in the business, in tension because of the competition that creates internally for capital, which gives us overall better projects and better returns. So we make the determination every six months. As Vandita said, there's some flex around the things that we can control. But there is a real appreciation of the importance of shareholder returns.

JAMES REDFERN, BANK OF AMERICA
Hi Mike and Vandita, hope you're well. Maybe first question on iron ore please. So you talked about the study to 330 Mtpa at WAIO being completed in calendar year 2025, and that being approved subject to market conditions. So I guess I'm wondering, BHP's the lowest cost producer globally, which is great, but if we assume iron ore prices are below $90 a tonne in 2026, 2027, are you able to comment on whether that justifies the WAIO expansion to 330 Mtpa going ahead? Thank you.

MIKE HENRY, BHP
So really it will compete with other projects under the CAF. So part of the answer lies in what the returns and risks look like for the other projects in the portfolio and the better job that we're doing there, the more likely it is that other projects will outcompete for capital. To be clear, what we've said is the studies will be coming to a head in 2025 – that's different from saying that we're intending to pull the trigger or otherwise in 2025. All we're saying is we get the option, when the studies are completed, we can then elect as to when we decide to pull the trigger and we would be looking at both the natural things around capex, cost of production and so on, but also the market outlook.

But we've been clear that we see the iron ore market being under increasing competition on a go-forward basis, but we're very well positioned for that competition given where we sit on the cost curve. But at the end of the day, all these things will come back into the mix, compete under the capital allocation framework for capital and as Vandita said earlier, we've got a growing good challenge in that we've got more attractive growth projects and opportunities for that capital coming through as we've made clear in this presentation.

JAMES REDFERN, BANK OF AMERICA
Okay, thanks Mike. My second question just relates to South Australia Copper. So you did provide indicative IRRs at 14% to 19% and the capex intensity for the Chile and copper growth options, which is great and we'll find out more details at the site visit in November, but just returning to South Australia Copper, the smelter and refinery expansion at Olympic Dam is probably the largest or one of the largest items I should say, in addition to the potential development of Oak Dam. Potential FID for the smelter expansion is FY27, when do you think we'll get some more details on the capex for that OD expansion please?

MIKE HENRY, BHP
So I don't want to give an exact timing James, other than to say that we've got a track record of we don't come out and surprise people with an outcome. There's a process through which we give an internal deliberation, once we've got sufficient level of confidence, then we'll come out and provide early indicative numbers to the market both on capex and returns and you saw us do that with Jansen as well. We'll follow exactly the same path here on Copper South Australia.

KAAN PEKER, RBC
Good morning Mike and Vandita, two questions from me. First just wanted to build on Paul's question on Filo. I know the transaction is live, but maybe if you can give an understanding of the conceptual development of Josemaria and Filo, not really around timing, more around staging. It seems like Josemaria will be progressed first and then Filo oxides and sulphides and what existing infrastructure you can use around the region. Thanks, I'll follow up with a second one.

MIKE HENRY, BHP
Okay, so broad brush, Kaan, it's exactly as you said. Given that Josemaria is further advanced in terms of studies and the approvals path – and all of this is subject to further work between Lundin Mining and ourselves, but at a high level, some of the initial thinking is around developing Josemaria first and then backing Filo into that over time. Still no definitive timelines, but we have said that we'll be working that up with Lundin. Just remind me, Tristan, we said that we'd be coming forward in…

TRISTAN LOVEGROVE, BHP
First half of calendar year.

MIKE HENRY, BHP
…first half calendar year with some more detail on that.

KAAN PEKER, RBC
Any sort of view on existing infrastructure?

VANDITA PANT, BHP
The thing that is changing of course is the exciting opportunity to bring two projects and look at the integrated development plan, which also means where infrastructure can be put in given, as you know, the difference in altitude between the two and the ability to share infrastructure, et cetera. So, all that will be considered in the integrated development plan, which we'll work through with the Lundin Mining

MIKE HENRY, BHP
Kaan, just to make sure I understand the question, you are talking about infrastructure for the development okay. Obviously power and water and so on is yet to be determined. We do understand that over the long term there would be further infrastructure needing to be developed for both water and power, but that would form part of the development plan.

ROBERT STEIN, MACQUARIE GROUP
Thanks for the opportunity. Just regarding WAIO and the capital intensity increase there, from a sustaining point of view, how much of that capital underpins growth above 305 Mtpa? So, to put it another way, can we expect to see capital intensity discounts to go from 305 to 330 by virtue of what you're spending to sustain the business currently? I've got a follow up. Thanks.

MIKE HENRY, BHP
No. So, I think big picture, the way to see this Rob, is that the tranche of expansion to 305 Mtpa will be better capital intensities than any potential expansion from 305 to 330, albeit that latter expansion could also be attractive just solely looking at capital intensities relative to greenfield developments or the brownfield expansions of some others.

Now you are seeing in the near term, due to fleet replacement and so on, a bit of an increase in the sustaining capital draw of the WAIO business, but the numbers are still quite low relative to the competition because we've got these big mines, and we don't have to turn over that capital quite as frequently as others.

VANDITA PANT, BHP
The 305 Mtpa related capex really relates to then PDP1 or the debottlenecking project, which has been coming into fruition, and RTP1, which is the Rail Technology Project.

ROBERT STEIN, MACQUARIE
Okay and then switching gears a bit just on the copper build projects to support the growth, you speak to a new concentrator. Just to be specific, is that the replacement for Los Colorados or is that concentrator in addition to Los Colorados?

MIKE HENRY, BHP
No, this would be a replacement for Los Colorados, Rob, because of course, in order to access the high grade that sits below Los Colorados, we'll need to de-mobilise it in due course.

LACHLAN SHAW, UBS
Yeah. Morning, Mike and Vandita. Thanks for the time. My first question is just on WAIO and I guess the expansion. So, when you're looking at the returns to investment to go to 305 Mtpa or 330 Mtpa, does the analysis factor in any expected impact on broader price from bringing more tonnes into the market? I'll come back with my second.

MIKE HENRY, BHP
Short answer, yes, absolutely. Lachlan. That's one of the key things that we look at is the market consequences of any expansion decision that we may take, and that then gets factored into the economics. You had a second question?

LACHLAN SHAW, UBS
Okay, guys, that's helpful. Thank you. Yeah, I do. So I just wanted to focus on the capex outlook again, and just a small one of clarification, hopefully. So, I'm just noticing that in the medium-term maintenance and decarb capital eases a little bit lower. Can you just talk to what's going on there please? Thank you.

VANDITA PANT, BHP
Not really Lachlan. In fact, the decarb capex will go up at the end of the decade.

TRISTAN LOVEGROVE, BHP
I think he's referring to maintenance capital as well as decarbonisation.

MIKE HENRY, BHP
We do have a wave of fleet replacement that's coming in in the near term, as well as a bump in deferred stripping. So of course, fleet replacement can be a bit lumpy and we're seeing one of those lumps come through now, and we've seen this increased spending, just remind me, it was from $800 million to $1.2 million in deferred stripping in the period ahead.

TRISTAN LOVEGROVE, BHP
Just a quick clarification. The fleet replacement is actually in improvement capital rather than maintenance.

VANDITA PANT, BHP
So maintenance stays around $3 billion. Last year it was $3 billion. Guidance for this year is also $3 billion, but as Mike said, it includes deferred stripping, which is increasing a little bit.

PAUL MCTAGGART, CITI
Morning, all. Thanks for the additional colour around the Chilean copper growth options, but I did want to ask at the end of that FY40 timeframe, can you give us a sense of where we are in terms of grade for sulphide versus reserve grade because it would give us a sense of then beyond that what might have to happen, because you've got a relatively modest uplift in output from the Escondida concentrate. I'm just wondering what that grade decline up to that end of FY40 is?

MIKE HENRY, BHP
So, if I understand the question correctly, you're asking what the long-term grade at Escondida is going to be in the post 2040 period. Tristan, maybe if you can follow up with what the exact number is but we see the decline down from memory it's 0.7-ish but let me follow up, just because of the timeframes involved being so far out, we'll try to give you a sense for where it retreats to by that point in time.

TRISTAN LOVEGROVE, BHP
So Paul, it goes below 0.8 obviously in the end of this decade. We don't actually give the clarification where the grade goes next decade, but let's see if we can help you in any way we can.

MIKE HENRY, BHP
I think the broader point I would draw out here is really two things. One is grade decline isn't exactly a feature that's specific to Escondida. We all face it. What you can see coming through in these results is our efforts that are looking quite positive at this point, to offset grade decline at Escondida with the projects that we've provided some detail around and what we're doing across the broader portfolio to not only offset grade decline, but to grow underlying copper production in the face of the significant opportunity that we see ahead of us.

That's off of the base of us being one of the largest copper producers, already the most significant resources of any company out there in terms of copper and expanding further through things like the opportunity that we've announced with Lundin and through the integration of the OZ Minerals assets.

So, we're pretty confident and excited about our position on copper currently and what lies ahead for us, not just on the 2040 timeframe, but even near-dated than that as we unlock some of these opportunities towards the back end of this decade.

GLYN LAWCOCK, BARRENJOEY
Morning Mike and Vandita. Just firstly on copper, I mean you've got a lot on your plate now with three districts that you're going to focus on. Obviously, you can solve for the funding, but what about the physical ability to deliver the three districts and do you think the company has the ability to execute on a fourth if you were to add a fourth district as well? I've got a second thanks.

MIKE HENRY, BHP
Yes, so great question, Glyn and one where we always have to be humble and recognise that in times past, when we've tried to take on too much, it's created challenges. I think in this case, a couple of things to say. One is we do have a growing track record of solid execution when it comes to major capital projects, including in inflationary environments.

We've put in place better disciplines when it comes to project planning and execution. In fact, we refer to how our outcomes stack up relative to the competition in that regard. The fact that you end up with projects across different jurisdictions can actually be helpful because you don't have projects bunching up on one another, but there will be limits to that.

Now I predict that the limits are going to be less related to the ability to execute, albeit we have to be very cognisant of that. The limits will be rather related to us wanting to continue to drive fierce competition for capital under the CAF and as Vandita highlighted earlier, we'll be thinking about project sequencing to give us the best returns under the CAF, but also to allow us to manage within the envelope that we have around things like net debt, cash returns to shareholders and so on.

GLYN LAWCOCK, BARRENJOEY
Yes, sure. I get that, Mike. Before I ask my second, I mean it's going to be hard to sequence though. You've got a partner in Vicuna district who will want to move that forward. You've got to move and you've got to deal with the grade decline at Escondida. To get the synergies out of Copper SA, you've got to do what you've got to do. So, you don't have a lot of flex really, do you physically?

MIKE HENRY, BHP
So, keep in mind that some of these are still early-ish on in their planning phases. We have to see how timelines on an unconstrained basis firm up before we even get to the point of needing to sequence. Having said that, within any of these projects, there's always opportunity to flex within a certain time range. More often than not, our interests will be aligned with our partners because part of the flex will come back to how we go about optimising returns, not just across the BHP portfolio, but for the project in question.

Now of all the companies out there, if you look at the stability of our cashflows, our track record when it comes to project execution, I think we've got greater ability to deal with this growing opportunity than some others would. We are going to have to be thoughtful and deliberate about it, which I think is your point, Glyn.

GLYN LAWCOCK, BARRENJOEY
Yes, sure. Thanks. Then just switching gears to iron ore, just your thoughts at the moment. I mean, is this just a cyclical downturn or do you think it's now the start of a structural downturn. And in answering that, we've seen a 30 million tonne increase in port stocks in China. Vale admitted they increased intentionally their port stocks by 10 million tonnes this year to enable blending. Has BHP done similar to enable blending like you've taken a permanent change in your port stocks? Thanks.

MIKE HENRY, BHP
We've taken a step in recent years of increasing trading along the coast. So iron ore stocks and trading along the coast in China. Not of the same order of magnitude as some others, but it's certainly an activity that we have underway.

Your main question is, well, what are we seeing, or the main part of your question was what are we seeing play out in the iron ore markets currently? I come back to what we've predicted is the broad trajectory for iron ore for a number of years now, which is that we see steel plateauing in China. It's plateaued at a high level above a billion tonnes per annum. In due course it will begin to contract.

We will see pig iron contracting more rapidly as more scrap comes into the cycle and therefore iron ore demand or the iron ore market contracting as well. It's what's driven our strategy to be at the very low end of the cost curve and to improve the quality of the product suite.

You see the benefits of that strategy playing out in real time where we've got significantly higher cash margins than the next - well in the competition in the Pilbara to at least the tune of at least US$8 per tonne. We continue that focus.

Now, I would remind everyone that there is a bench Vandita, of probably about 170 million tonnes or thereabouts of high-cost production in the market of between US$80 and US$100 per tonne production costs. So, it takes a lot for prices to move sustainably below that level. I think you're seeing that play out in terms of market pricing, even in the face of increasing port stocks.

VANDITA PANT, BHP
If I may add Mike, out of that 170, 90% of that bench is above US$90.

MIKE HENRY, BHP
So, US$90 to US$100.

LYNDON FAGAN, J.P. MORGAN
Thanks very much for the follow up. Can I ask about the Anglo deal? So now that you've got Filo, Josemaria, potentially $10 billion of deployment there in the medium term, does this extinguish the Anglo deal?

MIKE HENRY, BHP
So they're off pursuing their own plan Lyndon. So disappointing outcome, obviously because we thought there was value to be created for both sets of shareholders, but I was at pains at the time to say that that wasn't plan A. Plan A is everything that you see, because of course all the work that we're talking about now in this results presentation, was already underway at the time.

So we had a pretty high degree of confidence about what we could do within our existing portfolio to unlock more of our copper resources more quickly. Of course, in the subsequent period we've undertaken the Filo transaction and partnership with Lundin. So, they're executing their plan. We're executing our plan and it's a plan that we have growing confidence around and you see that being reflected in the results this time.

LYNDON FAGAN, J.P. MORGAN
Slide 19, the FY31 to FY40 period, I'm just wondering if you can tell us where copper production troughs in that block.

MIKE HENRY, BHP
FY31 to FY40, yes, I think where we expect to see the trough is actually prior to that Lyndon. So, we'll see Escondida grade coming off 2027 and beyond. As we've been clear about in previous results presentations, all of this great work that's underway at Escondida around projects won't come in quite on time to offset that trough. So, there'll be a brief period of production dipping, but then it grows from there. If that's what you were focused on, we should actually expect it to happen pre the end of this decade and then by the end of the decade, more production to be coming on both from Escondida and Chilean assets as well as Copper South Australia.

ROBERT STEIN, MACQUARIE
Hi, thanks for the follow up. Just a question on BMA. We've seen obviously some cost guidance that's moving in the right direction. Is there a future for that asset where it's a bit more of a value over volume approach given that lower production may lead to lower costs and also supports the market a little bit better?

MIKE HENRY, BHP
So for us, it's always about value, Rob. Now that's not what's led to some of the lower production numbers that we've had in recent periods. That's more been around some of the operational challenges that we've encountered.

Just like we do with other businesses, because of where we sit on the cost curve, the likely outcome for us is to focus on productivity, and within the capital that we have deployed the highest returning opportunity is likely to be for us to continue doing as good as job as we can on reliably operating day in and day out.

A couple of other things to keep in mind. It's a fundamentally different portfolio today than it was say three or four years ago. We've gone from circa 50% of the premium quality products to 90% now in the portfolio. So, we're targeting the coals that are likely to be most valued by customers as they seek to decarbonise their operations.

As we've been clear with our medium-term guidance, we think the focus on productivity, because that's not growth capital, that's a productivity outcome, is likely to see production inching upwards, but against the backdrop of strong demand as well as India probably triples their steel production by 2050, and of course they're reliant upon imported coking coal.

We think there's still a case to be made as well for some of the Chinese coastal mills to be importing higher quality coals. So we see the opportunity as significant. We're very well positioned for that opportunity, but the focus is really on making the most of the capital that we already have deployed in the business.

LACHLAN SHAW, UBS
Thanks very much for the follow-up question. Mike, this was really one I guess on the portfolio. You've got a fair bit coming up in Australia, obviously plenty to do in South Australia Copper, WAIO, but also plenty outside of Australia.

I just wondered if you had any observations about how relative returns of projects in Australia are stacking up versus projects offshore, given we're seeing a fair bit of movement now in industrial relations and labour, same job, same pay, but also changes in tax rates elsewhere, for example in Chile. So, can you give us any insight into the patterns you're seeing there, please? Thank you.

MIKE HENRY, BHP
Sure. It's going to be a little bit dependent upon projects, the specific projects to state the obvious. So, you'll see something like the lift from where we are today in WAIO to 305 likely to be very high returning because the brownfield, very straightforward brownfield expansion, low capital intensities… through to more significant capital investment, like what is being contemplated for Copper South Australia.

We've been strong advocates not just for BHP and our sector, but for the nation as a whole, to have policies in place that support global competitiveness. Those include related to industrial relations and labour productivity, tax policies, energy polices and so on. Certainly, with some of what's been enacted recently, we fear that there's drag being created in terms of underlying competitiveness, but that is but one factor that then goes into determining project returns.

And the world's not static. Of course, in some other jurisdictions, you also have changes to tax policy, albeit if I use the Chilean example, done in collaboration with the industry with an eye on what's required to maintain investment attractiveness and competitiveness versus – in the case of Queensland Coal where it was done with disregard for the industry and without consultation. That's one of the things that weighs up into our view of risk. And it impacts on the underlying outcomes as well in terms of how damaging they are to the sector.

At the end of the day, we have a capital allocation framework in place. On an ongoing rolling basis, we bring projects in from all around the world, be they in iron or copper, or Australia versus Chile versus Canada versus Argentina – and we weigh up the relative risk returns profile. That's what then drives what sequence we adopt around the projects and which ones make it past the gate and into execution. Vandita, is there anything you wanted to add?

VANDITA PANT, BHP
No. I think that's well covered. Thanks.

PAUL YOUNG, GOLDMAN SACHS
Yes. Thanks again Mike and Vandita. Mike, a question around in-organic opportunities and copper and the comments you made about going above the top of the net debt target range, if there's a pathway back in – that makes sense. A lot of companies say the same thing. But just specifically on the Anglo transaction, actually, and when you were assessing Anglo, there was a lot of discussion in the market around implied capital intensity on the copper assets once you strip out the other divisions. I know you've shown capital intensity as an example on slide 19 on the Escondida expansions but that's just a rule of thumb to sort of just measure things.

I guess the question I have is, how much weight do you put on that when people were talking about that, or for you, when you assess this transaction, are you looking more around replacement value in dollar billion and also just future growth options in DCF?

MIKE HENRY, BHP

Look, we don't start from the perspective of, it's cheaper to buy than build and therefore, we have to pursue acquisitions. We've been clear from the get-go that we're not going to be driven to pursue acquisitions. We'll be opportunistic about them, and we'll only pursue them where we can see value being unlocked for BHP shareholders in absolute terms. Now, the reality is you're going to see some instances where build is cheaper on a capital intensity term and higher returning than acquiring anything, even when the acquisition looks attractive. In other instances, a build might look less attractive in terms of headline capital intensity, but it provides you with longer runway and so on.

So, it's hard to adopt a rule of thumb around these things. The reality with the Anglo transaction was that we certainly saw an opportunity for BHP shareholders, and we believed Anglo shareholders, to create more value, but at the end of the day, they elected to pursue to their own plan. We've continued on with our plan A. You see that reflected in the results presentation today.

MIKE HENRY, BHP

Okay. Well, everyone, I just wanted to thank you for joining. I hope you can see that the underlying performance of the company continues to be strong and consistent. Very simple strategy. We continue to execute on it, including building up the growth pipeline in commodities that we believe are going to be most attractive and stand to benefit the greatest from the big megatrends playing out around us. So, lots to come, and BHP is set up quite well to continue to deliver great value for not just the year ahead, but for decades to come. Thank you.