

BHP

**Financial results
for the year ended
30 June 2024**

**Investor and
analyst briefing
Q&A transcript –
Session 2**

27 August 2024

Introduction

MIKE HENRY, BHP

Welcome, everybody. Thank you for joining us today. I am joined in the room here by Vandita Pant, our Chief Financial Officer, and Tristan Lovegrove, our Group Investor Relations Officer. I am going to keep my opening remarks pretty short, given the presentation that I am hoping you have seen, but there are a few key points that I would like to leave you with today.

The first of those is consistency. We have had another year of solid performance both operational and financially. We delivered reliable underlying operational performance with a number of records. I think you can see coming through in the cost position that we continue to manage inflation well. The actions that we have taken over the year are very consistent with the strategy that you have heard us speak about over a number of years. We have 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 in the world around us.

The second point that I would like to focus on is cash flow. Ours is a business that consistently delivers a high baseline of cash flow through the cycle. This year we generated more than \$20 billion of net operating cash flow and we have now generated net operating cash flow above \$15 billion for all but one of the past 15 years. This healthy and consistent cash flow, combined with our strong balance sheet, gives us the ability to fund growth and deliver attractive returns to shareholders consistently.

On that theme, growth is the third point that I wanted to leave everyone with. We do have a strong and expanding set of growth options. Jansen Stage 1 is ahead of schedule, with first production forecast for late 2026, and Stage 2 is now in execution. At Copper South Australia, we have already unlocked more synergies faster than anticipated at the time of the OZ Minerals acquisition. We are increasingly excited by and confident about 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. Of course, we also recently announced an agreement to form a significant joint venture with Lundin Mining related to a future copper growth opportunity in Argentina.

Overall, the company is in great shape. It is performing well with plenty of growth in the pipeline. We are well positioned both for the year ahead and for decades to come. With that, I will open it up to questions.

Questions and answers

LIAM FITZPATRICK, DEUTSCHE BANK

Good evening, Mike. I have two questions. My first is on M&A and strategy. An observation from your copper growth plans that you have outlined today is that you have plenty of options, but they are long dated, with approvals still two plus years away. Does M&A, both big and small deals, still form part of your strategy going forward, or is your focus now resolutely on organic growth?

The second question, linked to that, is on future capex levels. Is there some sort of cap that you and the management team place on group capex levels over the medium term to ensure you have good execution on projects and that you do not take on too much development and cash flow risk at once?

MIKE HENRY, BHP

Vandita, you can answer the question on capex. I'll speak about M&A and strategy, I will start by saying that we see ourselves as being in a pretty good position in copper to start with. We are one of the world's biggest copper producers; we have the largest copper resources in the sector; and we have grown by 9% for two years running with 4% growth in the year ahead. We have already added a lot of valuable copper growth to the portfolio.

We have a healthy pipeline of medium-to-long-term options that we are starting to commit to at the end of this decade, but we are a long-term company. Even at the time of some of our recent M&A efforts, we have been clear throughout that we are not driven by M&A at all. Plan A for us is to grow organically. Our plan is first to generate the best possible returns out of the capital that we already have deployed in the business and then to look at incremental growth out of the resources that we have. Given our strong and resilient cash flows and our underlying operational performance, to the extent that the right opportunities arise in M&A in high-quality assets in the right commodities where we believe we can create value for BHP shareholders – we have a willingness to pursue those opportunities, while at all times being super disciplined in how we go about doing that.

Nothing has changed on that front. I am hoping that the meat we are putting on the bones of our copper growth prospects through today's presentation and things like the coming site visit to Escondida will give everybody greater confidence that, when we talk about Plan A, we actually mean Plan A, and that plan is pretty attractive in its own right.

Vandita, do you want to talk about the capex plan?

VANDITA PANT, BHP

Yes, I would be happy to. On the medium-term capex, you would have seen that our guidance is \$11 billion. Of course, that guidance includes more copper growth projects. It includes the creep-up to 305 in WAIO. It includes all the things we are doing on Jansen, which is a big one. At the end of that medium-term guidance, that starts to taper off as we start to produce in Jansen. If we look at it from my perspective, we have a great set of attractive return growth options. We have the ability to phase these and sequence this if needed. More importantly, we have the financial resilience through the strong balance sheet. As it exists today, it has just \$9.1 billion of net debt to be able to support value-adding growth.

In terms of our ability to execute, we look at both the cash flow resilience and our technical ability to execute a portfolio of projects. We will be very mindful, as we do that. Of course, the projects being in different jurisdictions and sometimes in different commodities also helps with our ability to execute those in a thoughtful way. From a balance sheet and capital allocation perspective, we are very comfortable with the way that the phasing of these projects can work.

MIKE HENRY, BHP

To add to that as somebody who has been around the team for quite a while and has seen us reach levels of capex spend that were clearly difficult for us to get our arms around – I am thinking back here to when we were attempting to spend \$22 billion plus in capex. We really recognise the value of having tension in the system. That is provided through the capital allocation framework, which drives a minimum 50% payout ratio because we recognise the importance of cash returns to shareholders. That creates better competition for capital internally.

Because we put the boundary conditions in place around the minimum payout ratio and the net debt range, that creates a degree of constraint on how many projects one can execute in tandem. There is no absolute figure, but you can see some of the checks and balances that we have put in place to ensure that we do not find ourselves in a position where we become ill disciplined when it comes to the projects that we progress and the amount of capital we are spending.

JASON FAIRCLOUGH, BANK OF AMERICA

Good evening, both. First, I want to thank you for making yourselves available at the end of what has been a long and busy day for both. I really appreciate it.

I have two questions, one on Escondida and the other one on coking coal. First, Escondida is the world's biggest copper mine by far. You are taking people to the site later this year. It has generated a lot of cash for decades, but it feels like it now needs to go through a period of recapitalisation. The estimates on the street for this programme seem to be somewhere between \$5 billion and \$15 billion. Word has it that you are hoping to keep it below \$10 billion. Is that a fair way to think about things or is this still a moving target in terms of Escondida?

Secondly, on Queensland, it is quite interesting to see Nippon buying into some of your former assets at what looks like a fairly full valuation. What is it going to take for you to start thinking about investing in new coking coal mines?

MIKE HENRY, BHP

Just on Escondida, I have not heard the figures you quote as being out there. What I can say – and we flagged this in the presentation – is that we have a site visit in November where we will be revealing more detail around the project options that we have there and how we are thinking about that growth path.

To the point that you make around the recapitalisation of the business, I think every copper operation in the world over time needs to reinvest to offset grade decline. That is really what you see us demonstrating here. Not only is it an intent, but there is actually some detail behind that now in terms of how we are seeing capital intensity and returns, which we think stack up pretty well. So again, expect more detail will be revealed in November.

On met coal, the acquisition by the Japanese of a stake in part of our prior assets, on a multiples basis, stacks up pretty much in line with our divestment of those assets in the first place. We have been clear that at a macro level preferred areas or commodities for capital deployment for us are copper and potash, but there are growth opportunities in metallurgical coal that, if not for the recent policy changes that have impacted on both economics and risk, we could be looking to progress. Given those changes and the way that they were gone about, we will focus on tending to or sustaining the existing business, which is a higher-quality business thanks to some of the recent divestments. We will not be looking to deploy growth capital into the Queensland met coal business.

JASON FAIRCLOUGH, BANK OF AMERICA

If I could just follow up on Escondida to make sure I understand, without the recapitalisation, how do we think about the downside risk on production at Escondida?

VANDITA PANT, BHP

You will have seen our guidance on Escondida for the next two years, for this year it is between 1,180 to 1,300kt and across FY25 and FY26 it is still expected to average 1,200 to 1,300kt. After that, as you know, the grade does decline. And so our medium-term guidance is 900 to 1,000 kt for a period. Post that, we look to bring in the growth projects through the FIDs from FY26 to FY29. And that is the ramp-up in volume that is shown in the presentation.

So the way to think about this is that we have a decline in FY27 onwards for a period, but then we start to ramp back up volumes through the projects that we are talking about including: the replacement of Los Colorados, the new concentrator, the Laguna Seca expansion and the leaching technologies.

AMOS FLETCHER, BARCLAYS

Thanks for the opportunity to ask a question. My first question was on Jansen. There is no mention in the release of the project being on budget. I was just wondering if you could talk about progress there. Is there any risk to capex overrunning?

The second question was on Copper South Australia. You have given some useful numbers to frame the ranges of capital intensity on the Escondida projects. I was just wondering roughly where within that range you would expect the Copper SA expansion to 500,000 tonnes to fall, including obviously the SMA expansion and to some extent the natural front-loading of capex in the first phase of the smelter expansion.

MIKE HENRY, BHP

On Copper SA, we have deliberately not revealed those figures yet because it is still a little bit earlier in planning and its study phase than Escondida. In due course, just like we are doing with Escondida, we will bring forward anticipated returns to consensus pricing and capital intensities. We are just not quite there yet.

In respect of Jansen, one of the great things I love about this is that things that are done with no intention on our side get picked up and potentially given meaning by others. The fact that we have not referred to it being on budget should not be seen as us being concerned about budget. Jansen does remain on budget and ahead of schedule. Obviously, we are in a market where there is a lot of capex inflation out there, and it is a pretty intense environment. The team has been doing a great job on the project side of things, just like on the operational side of things, in terms of managing that inflation.

MYLES ALLSOP, UBS

I have a couple of questions, maybe just following up on the Jansen discussion. On potash prices, I think the FOB Vancouver price is closer to \$250 or \$260 a tonne. It is a long way away from those medium-term expectations from the consultants that we use to justify Stage 1 and 2. Is your view unchanged on the medium-term outlook for potash, and is there any way to slow down phase 2 if the market is softer than you are expecting?

Then the second question is just on Queensland Coal. Going into elections in October in Queensland, do you see any potential for the royalty structure to change, or do you think it is locked in and any growth capex is unlikely for another four or five years or however long the election cycle is?

MIKE HENRY, BHP

On the Jansen question, let me start by saying that we do not plan or pursue any investment internally on the basis of a consultant's outlook for potash. In talking to the market about anticipated returns, oftentimes we will use consensus pricing or consultant pricing just because we do not want to reveal our own proprietary view of prices, but our investment decision-making comes back to our own inhouse view of pricing.

The second point I would make is that we do not make investment decisions on the basis of a point forecast. We are constantly looking at ranges for prices, and we choose investments that have the greatest possible resilience for different price outcomes. One of the things that we look at is the probability of being NPV positive.

Prefacing my comments with that, yes, there is pressure in the near term on potash pricing. The long-term fundamentals that supported our decisions around Jansen Stage 1 and Jansen Stage 2 remain intact, and that is the world population continuing to grow, standards of living rising, including changing diets, and the world needing to get more efficient about agricultural production on a constrained arable land footprint, all of which supports pretty steady and continued potash demand growth.

On the supply side of the equation, we had the temporary disruption as a result of the Russia-Ukraine conflict. We have said from last year that we did expect those tonnes to fully come back to the market. In fact, most of them have come back to the market. There is an open question about the extent to which they will be able to expand production on a go-forward basis, but that sits within the range of price outlooks that we had in electing to proceed with Jansen.

On your question about Queensland Coal and the elections, I do not know. In essence, we have said two things. The first is that the levels of royalties right now for coal in Queensland are well in excess of anything else that you see around the world in coal, or at least amongst major coal producers, and at those levels it has a consequential negative impact on coal investment returns.

Secondly, the way that those changes were enacted create an even greater degree of risk for anybody investing in Queensland because you do not know whether the rules that you have invested upon are going to be there and they could be changed ad hoc with zero engagement with industry. That is a risky proposition, and so, for us to change our view on growth opportunities in coal, we would have to get more comfortable or more confident about policy stability, and policy settings would need to be at a level that allowed those projects to compete for capital against the other opportunities in the Group. As you have seen in today's presentation, we have more and more attractive opportunities coming forward in commodities that we see as being long-term attractive.

MYLES ALLSOP, UBS

On Jansen and the ability to slow Stage 2, is there much flexibility in the way it is being pushed forward now if the market goes super soft in a couple of years' time?

MIKE HENRY, BHP

It is a pretty technical question, and what I mean by that is that it is a hypothetical question. Vandita has been clear that we have the ability to flex capex in the portfolio, and we look at that on a rolling basis. Depending on the phase a project is at, at the time that you elect to pull that trigger, it can be more or less costly, but I come back to the point that we are not investing because of the market that we see over the next couple of years. We are investing for how we see long-term market fundamentals, and we look at a range of price outcomes, so it would require a change in how we see the market fundamentally for us to look at shifting project schedules. Yes, all things are possible, but I do not want, in answering in that way, for anybody to be building an expectation that that is the base intent, because it is certainly not. The intent is for us to proceed both projects on schedule, as originally announced.

VANDITA PANT, BHP

Of course, both projects come with a very low end of the cost curve, which means the resilience to whatever is happening in the market for Jansen will be the highest of almost all the players. From that perspective, that is the beauty of having new modern technology and the mining equipment that will come at a really low end of the cost curve as well.

MATT GREENE, GOLDMAN SACHS

I have two questions. The first one is on Jansen. At your results presentation in February, you provided a spend profile across Stage 1 and 2. The FY25 capex at Jansen was circa 2.5 billion, but the guidance you provided today is 1.8 billion, and this circa 700 million reduction seems to all come from Stage 1, which is a big chunk. Mike, as you say, you are ahead of schedule. Is this just a phasing of capex potentially pushed into next year, or is it some sort of accounting treatment in terms of how you define investments versus guided capex at Jansen?

VANDITA PANT, BHP

It is the latter. This is about Westshore equipment, which technically does not come through one line on capex but through the investing line. That is the difference. Dollar for dollar, nothing else changes.

TRISTAN LOVEGROVE, BHP

I would just guide you to slide 23 that we had at the half-year results. In there, we talked about how it was expected investment spend profile, so to your point, it is capex as well as investment, but there is also the pie chart where it talks about capital cost breakdown, where 22% of the overall spend is in logistics. That is where we are talking about within that.

MATT GREENE, GOLDMAN SACHS

My follow-on is just on South Australia Stage 1 and the range of 1.1 to 1.4 million tonnes of concentrate. To me, it looks like that is dependent on the increased volumes from the Southern Mine Area expansion of the Olympic Dam. Looking back at 2017, you have spoken about expanding the SMA and starting this expansion for what seems a very long time, so what is the scope of the SMA expansion this time around to warrant another four years of studies before potential FID?

MIKE HENRY, BHP

It is a very different prospect. If you recall, back when we were looking at the BFX project. I would characterise it as a 'pick the eyes out of the resource' strategy, which was to try to pursue the highest possible pockets of grade, even while recognising that that was going to require more by way of investment in development. We are moving away from that and looking at more efficient mining, and that will be partly unlocked through the move to a two-stage smelter earlier than was originally anticipated. We also have the Carrapateena Block Cave coming in towards the end of this decade, so it is through both of those. You are right that the expansion would entail us developing further the Southern Mine Area at Olympic Dam, but we also have Carrapateena at increased volumes in there.

ALEXANDER PEARCE, BMO

Keeping to the Jansen theme, you flagged a few times already in the conference call so far that Stage 1 is ahead of schedule, and you flagged in the note that you had early completion of the mill foundation over the summer. Is there a chance that this late calendar year 2026 completion target could come forward again, because I know that it is an already accelerated plan, or are you just more confident that you will meet that target at this point? Maybe you can just quantify for us how far ahead of the schedule you actually are?

MIKE HENRY, BHP

It is more the latter. We are just more confident. I do not want to predict that we will advance the schedule further, because we all know that there are so many variables at play and still a fair amount of time to play out between now and first production. I would say that we just have growing confidence around late 2026. As to how far ahead of schedule that we are, it is under a year, so it is not like we were planning for late 2027. It is months rather than years ahead of schedule.

SHILAN MODI, HSBC

Good morning, everyone. Thanks for taking my questions. You guys mentioned that there is an uncertain outlook and more volatility coming, especially in the iron ore markets. Given that it generates most of your cash flows, how are you thinking about your balance sheets and your capex profile? How much flexibility do you have in that profile to reduce in case we have a severe downturn, and how are you thinking about dividends?

MIKE HENRY, BHP

Vandita, I know you are going to want to add something on this, but I will just make some initial comments. The comments that we made around uncertainty and volatility were not constrained to iron ore. In fact, we are pretty clear about the downside cushion that we see in iron ore, because there is such a large bench of high-cost supply in that market, with 170 million tonnes at between \$80 and \$100 a tonne. 80% of that would be between \$90 and \$100, so, yes, we are seeing some uncertainty when it comes to iron ore and the very near-term demand outlook. But, as we have seen, prices drop away as a result of that, they very quickly hit that cushion and come back again.

The point that we were making was that, in a world of geopolitical tensions, with a little bit of an uncertain near-term growth outlook in China, and momentum still building in other economies, if you combine that with some more supportive supply-side dynamics across commodities, there could be a little bit of excess supply, and certainly some trade and price volatility over the near term.

Your question then comes back to how well BHP is set up to deal with this. I will start by saying that we have more resilient cash flows than others in the sector. We have a strong balance sheet. We have over \$15 billion NOCF for 15 years running now, bar one year. We have a low-cost position in iron ore, if we focus specifically on that commodity. To the extent that we see price volatility, we are better set up to deal with that than anybody else out there, and certainly than most others out there. We do have some ability to flex capex, and we have a range that we work within from a net debt perspective. Vandita, maybe you just want to elaborate on that and how we think about that under the capital allocation framework.

VANDITA PANT, BHP

One point is that the projects all complete, which makes it a better returning portfolio of options. The second thing is that we look at what is on the critical path. What has the flex? When do you stop a particular part of the project without destroying value? There is an expiry date by which you do not want to stop a very well-progressed project. We look at these flexibility things, not just at the major project level, but at each limb of spend. That is what we are focused on.

Having said that, as Mike already said, our net-debt level and our position within the net-debt range is such that it already provides relatively strong financial flexibility to look at growth, but also at the dividends, as you mentioned. Our capital allocation framework allows for not only performance from a cash flow perspective, but also the outlook to be taken into account as we look to maximise these value-adding growth projects and our cash returns.

BRIAN MORGAN, MORGAN STANLEY

I have two questions. You are talking about the Los Colorados move or building a new concentrator there. I assume that there are no reserves currently in the reserves and resources below Los Colorados. Could you just give us an idea of what is underneath there in terms of grades or quality? Then the second question is small, but it is just to help us round it off. For Nickel West, what is in the \$300 million spend and how are you going to reposition that to restart towards the end of the decade?

MIKE HENRY, BHP

I did not quite hear the question about the Los Colorados concentrator or some of the detail around it. The premise and what we know is that some of the higher-grade remaining resource sits under the Los Colorados concentrator, and so, to access that resource, we are going to need to move the concentrator. That is what is built into the forward plans there. Have I answered the question, or was there something else in that?

BRIAN MORGAN, MORGAN STANLEY

I assume there is nothing sitting in reserves at the moment.

MIKE HENRY, BHP

It will be sitting in reserves for Escondida. If you want more detail on that, perhaps I can have Tristan follow up with you.

In terms of the \$300 million on Nickel West, I know it sounds like a high headline number, and to some extent it is. A combination of things sits in there, including ongoing efforts on the exploration front to prove up for the resource in order to enable a bringing back of that business to full operations. We have certain obligations around maintaining the local towns and infrastructure that support that business. Of course we need to maintain asset integrity on an ongoing basis.

VANDITA PANT, BHP

You are right, Mike. Preservation cost is a very big part, given the downstream and integrated nature of Nickel West. There are regulatory obligations in terms of that cost, so unlike just a mine closure, if we were only upstream. This does sound like a bigger number, but for a reason.

MIKE HENRY, BHP

Yes, and it preserves a potentially valuable option.

Thanks, everybody, for joining. I hope you can see a business that is running well in terms of its underlying operations and financials, with an even more exciting growth story building up in copper in parallel with the potash growth that we have ahead of us. We have a great ability to fund and execute that growth going forward given our balance sheet, resilient cash flows and track record in major projects. Thanks again for joining us.