

BHP

FT Mining Summit

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Opening Keynote

LESLIE HOOK, NATURAL RESOURCES EDITOR, *FINANCIAL TIMES*: You have been CEO for nearly three years and you have made a lot of changes already: disposing of oil and gas assets, boosting investment in potash production and, recently, making a bid to acquire OZ Minerals. I wanted to begin by asking a bit about the macro environment. We are seeing high inflation and confusing signs from China. Is this the most difficult macro environment that you have faced in your time as CEO?

MIKE HENRY, CHIEF EXECUTIVE OFFICER, BHP: Obviously there was a lot of uncertainty at the beginning of Covid, Leslie, as to exactly what was going to happen with the macro. If you look at where we are at currently, it is very uncertain. Obviously there are some challenges in Europe, the likelihood of a recession in the US growing, if you look at some of the polls, and there is uncertainty in China – albeit, our view is that China is still going to provide a bit of stability or underpinning to global economic growth over the next 12 months. We are seeing some green shoots in China by way of property sectors, so increased sales and increased completions. We are not yet seeing that pull through to an increase in housing starts but we are seeing some more supportive policy, with encouragement being given to the banks to relax some of their lending practices for the property sector.

Overall, we remain cautiously optimistic about the outlook for China. How does that then translate through to the portfolio or BHP's business? We see steel production in China probably seeing another billion tonne-plus year, a slight decline from last year by 1-2%, and then rebounding next year by circa 1%, for what would then be the fifth year running of over a billion tonnes of steel production. We have seen the challenges of inflation which you referenced. That has impacted the sector, but I am happy to say that the team has done a pretty good job of controlling for that inflation and continuing to run a safe, reliable business, and that has shown through in our recent results.

LESLIE HOOK: You have also been focused on growth and your recent bid to acquire OZ Minerals in August, which was rejected by them. What will happen next with OZ Minerals? Is there another bid in the works? What is your strategy beyond that?

MIKE HENRY: Leslie, really all I can say about that is we did put to OZ what we thought, or I am convinced, was a quite attractive and full non-binding indicative offer. They have chosen to come out and reject it and, disappointingly, have not engaged us. We think that it was a compelling offer for their shareholders and it was something that, from a BHP perspective, we thought would be a nice addition to the portfolio but, at the end of the day, we will be disciplined about it. We showed that last year, when we put an offer out there for Noront Resources in Canada but, ultimately, when we did not see value we stepped away from that. I hope that would give shareholders confidence that we will be disciplined about this process. OZ is a 'nice to have'. It is not a 'must have' for BHP.

LESLIE HOOK: OZ is not a 'must have', as you have said, and, looking even beyond that, I wonder if you could outline your strategy for growth and what is next.

MIKE HENRY: Sure. We have a super simple, very clear strategy. The portfolio changes that you mentioned, that we have made over the past 12 months, mean that now pretty much all of BHP's portfolio has upside leverage to the big themes of decarbonisation, electrification and the need for more sustainable agricultural production. We have got upside leverage to that. What we have said is that the iron ore business and the coal business are not businesses for major growth, albeit we see opportunities to increase value through productivity. Specifically in the case of iron ore, we have studies underway to see whether we could go beyond the productivity creep to 300 million tonnes, and possibly expand the 300 million tonnes per annum, but that is still the subject of some further study work.

It is premised upon the very advantageous position we have created for our iron ore business as the world's lowest cost major iron ore supplier, achieving very good outturn prices. We have improved the underlying quality of our product suite and so we think there may be a case for further expansion there, but where we are really putting our growth emphasis is in potash, copper and nickel. The Jansen Stage 1 investment opens up a whole new exciting front for growth for the company because, following on from Jansen Stage 1, we have Jansen Stage 2, Stage 3, Stage 4 and, in the fullness of time, that is going to be a very material, very attractive business for BHP.

It then comes to copper and nickel, and we are adopting a multifaceted approach to growth in those commodities. We start from a very strong base. We are one of the world's largest producers of copper, one of the world's largest producers of Class 1 nickel, and we have amongst the world's largest resources in copper. We have the largest copper resources globally, bar none, of any company out there, and we have a very large endowment of nickel sulphides, as well. We believe that there will be opportunities for us to extract more of those copper units more quickly for attractive returns, and we have some accelerated study work underway in that regard. I am not yet able to point to the specifics, but with those very large resources and the advantage that we have in terms of existing infrastructure, we are pretty confident that there are going to be more opportunities that we can unlock there.

Of course, we are also seeking to grow value, so there is strong continuing focus on productivity and continuous improvement. Then, we have three other levers that we are pulling. One is exploration. We have probably doubled or tripled our effort in terms of both copper and nickel exploration in the past year or two globally. We have also become more commercially nimble and that has seen us secure toehold positions in some resources that could prove to be tier one, quite attractive resources, in time. We started with a small position in SolGold in Ecuador. We have recently taken up a position in Filo. They have a large copper resource in Argentina, and we have a position in the Kabanga Nickel resource in Tanzania, which is the world's best undeveloped sulphide deposit.

Then, finally, mergers and acquisitions (M&A). M&A is also a lever that we have available to us but, as I said earlier, it is one that we want to be quite disciplined about and I am confident that, given we have these other levers of productivity, organic growth, exploration and early stage entry, that gives us the freedom to be quite selective about the M&A opportunities that we pursue.

LESLIE HOOK: It is not only about M&A. That is not the only option on the table, but also the other levers that you mentioned. I would also like to ask about your shareholders. What is your shareholders' appetite for growth? You are famous for the cash returns; record cash return to shareholders, I think, in the last season. Do your shareholders have the appetite to pursue ambitious growth?

MIKE HENRY: First of all, I will start by saying they are not mutually exclusive. One of the things that we have been able to demonstrate in recent years is that we do have shareholders' interests at heart. You saw in the dividend that we declared at our last results that we slightly exceeded market consensus. Of course, the shareholder expectations and shareholder preferences are one of the things that the Board ultimately takes into account in determining shareholder returns, and how much we reinvest in the business. We have built up, over recent years, a strong track record of disciplined allocation of capital, and that is both the returns to shareholders but also the capital we are reinvesting in the business. We have coupled that with a very strong track record of operational excellence and of project execution excellence, and that was important to us. It was a very deliberate strategy to build the foundations required for growth, both to ensure that we are able to unlock valuable growth for shareholders, but also to ensure that we had secured the trust and license from shareholders to be able to invest in growth.

Whilst, of course, in a company as big as BHP, you will have a range of shareholder views, the feedback that we have from shareholders is that that we have to maintain that capital allocation discipline, but there is growing recognition of the operational performance of the company and our project's execution performance. As long as we keep doing that, and we are disciplined about the growth opportunities that we pursue, I am confident that there will be support from shareholders because, ultimately, that will drive longer-term shareholder value-add and returns.

LESLIE HOOK: You believe that you can return value to shareholders and pursue growth at the same time. It is not an either/or.

MIKE HENRY: It is not an either/or. We have a very clear dividend policy, with a minimum pay-out ratio of 50%. We do want to ensure that there is a balance between the money that is being reinvested in the business for valuable growth for shareholders and the cash returns that are being provided to shareholders. We do always have that need for balance at the forefront of our minds.

LESLIE HOOK: You have had a very profitable couple of periods and right now, globally, is a moment when governments have windfall profits in their sights. Here in the UK, the government is talking to energy companies about windfall taxes. I know in Queensland they were recently talking about raising royalties. Do you think this environment is becoming more difficult, politically, as various governments start to look for ways to raise royalties or raise taxes?

MIKE HENRY: I think it is a statement of fact that we have seen those moves on the part of various governments around the world. Having said that, I think there is also a growing recognition on the part of many governments that

uncertain fiscal terms are an investment killer. Against a backdrop of the demand outlook for certain commodities being very positive, the supply of those commodities being critical to the energy transition and, frankly, to ongoing global economic growth, more and more governments are understanding that changes in fiscal terms that disincentivise investment because they either increase risk or they increase the cost to a point where investments become uneconomic ultimately are not going to be good for the country, for the voting public and for the economy. Certainly, they will not be good for the world, because you will see a slowing up of the world's ability to meet the need for more copper, more nickel, more potash and so on, to address the critical need to tackle the challenge of climate change.

LESLIE HOOK: The certainty in investment environment is what is needed for the types of investments that a company like BHP is making.

MIKE HENRY: Competitive fiscal terms and stability in those fiscal terms because, as a company – and, frankly, shareholders would demand this – if we are investing, we have to have a reasonable degree of certainty about the terms upon which those investments are being made. Of course, supply and demand and so on is something that both we and others need to do our own analysis around and forecast, but having sudden changes in fiscal terms really increases risk, and it makes both companies and broader capital markets reassess the wisdom of investing in certain jurisdictions. From a BHP perspective, we have been quite clear that, given the recent changes in Queensland, we cannot invest any more major growth capital in that state. The risk is simply too high and so, in a world where we have choices to invest capital elsewhere in the portfolio or return more cash to shareholders, that is what we would be prefacing.

LESLIE HOOK: That means no expansion for your coking coal mine in Queensland.

MIKE HENRY: Not given current conditions and the uncertainty that has been created. That is right.

LESLIE HOOK: There has been a lot of focus during the last couple of years, since you became Chief Executive, on the environmental impact of all the large corporations, in mining and other sectors, as well. BHP has set quite clear targets for its operations, its scope 1 and 2 emissions, but what about scope 3? I think you have said you want to be net zero emissions in scope 3 in shipping and in your suppliers, but you have not included steelmaking and the entire value chain of the products that you produce in your scope 3 targets. Why not?

MIKE HENRY: To be clear, we have said that our ambition, our goal, is to be net zero scope 3 by 2050, but we put more specificity to the goals we put in place around shipping, for example, and our procurement. Basically what it comes back to is two things. One is technological readiness, the line of sight that we would have to the technological solutions for eliminating greenhouse gas emissions in different parts of the value chain, and second is our ability to control those outcomes. If you look at both shipping and procurement, we have a more significant degree of leverage to drive those outcomes than we would with customers, for example. That would be point number one.

Point number two is that steelmaking, in particular, is a difficult to decarbonise sector. There are not currently the technological solutions for zero emission steelmaking that are economic at scale. That is then compounded by the fact that, for all this capital that has been invested in blast furnaces, the world's blast furnace fleet is still relatively young. Whereas in a jurisdiction like Europe with older blast furnaces, we could see the shift away from blast furnaced steel, making towards a greener approach to steel, may occur more early, because there will be a natural break point. That is going to take longer to play out in Asia.

LESLIE HOOK: If you pass more electric arc, for instance.

MIKE HENRY: Yes, so possibly more green DRI, EAF and so on in Europe earlier, whereas in Asia, because the blast furnace fleet is so young, the economics will take longer to play out there. Having said that, we are not sitting back and saying, 'There is nothing we can do about that.' We have really leaned in to working with customers. We are working with shipping companies in decarbonising shipping. We were the first to move to LNG-based shipping for a particular class of vessels. We have recently announced an effort with one of our customers and a ship owner in Japan to move to wind-assisted shipping. We are working with our suppliers to help them move towards zero emissions manufacturing and then, with our steelmaking customers, we now have partnerships in place with a number of the world's biggest steelmakers, accounting for 13% of global steel production, where we are leaning in both with technical support and with financial support, to help them in their efforts to decarbonise their businesses.

The underlying research and projects that they have underway range from things like hydrogen injection into the blast furnace, through to carbon capture and storage or CCUS, through to green or zero emission steelmaking and, in addition to the partnerships that we have with steelmakers, we also have, through our ventures fund, a number of

seed investments in breakthrough technology start-ups focused on zero emission steelmaking. It is something that we take incredibly seriously, but we have been leaning into and prioritising both with financial support and technical support. Coming back to your question about the difference between our targets and our goals, the reason that we stop one step short of targets in respect of scope 3, and specifically steelmaking, is for those reasons: no ready technological solution and, secondly, it is one that we need to influence the direction of, given that the ultimate decisions do not rest with BHP.

LESLIE HOOK: Even while you are making investments through your ventures fund in new steelmaking technologies, you are also very much planning to continue supplying the existing steelmaking industry, as it is today.

MIKE HENRY: Certainly, we are planning to supply the existing steel industry. We have made changes both to our iron ore portfolio and our coking coal portfolio, to upgrade the average quality of our products. In the case of iron ore, we have improved the iron content and lump content through the development of the South Flank mine. In the case of coking coal, we have sold our lower quality coking coal assets. This was a BMC divestment that we undertook last year, to concentrate the portfolio on those coking coals that have the lowest emissions footprint in steelmaking. We believe that if steelmakers seek to decarbonise, they will want to move to more efficient blast furnace steel production. That is going to require higher quality iron ore, and we have shifted our portfolio in that direction, and higher quality coking coal.

LESLIE HOOK: I also wanted to ask a bit about your diversity targets. I think you were one of the first big companies to come out with a gender balance 50/50 target by 2025, which is coming up very soon, although that has been redefined as being 40% female, I think. Why did you change or redefine what gender balance means, and how close are you to reaching the 40%?

MIKE HENRY: Yes, this is such a good news story, Leslie, and let me address that question that you ask about how we define gender balance first, but then I will come back to what it is that we are trying to achieve, why we are trying to achieve it and what we have achieved so far. The 50/50 versus 40/40/20 is not actually saying 40% female, it is saying anywhere between 40% and 60% female, anywhere between 40% and 60% male, or 20% other. It is an issue of precision in how we define it. If you look at the ILO, the International Labour Organisation, they define gender balance as 40/40/20. It is also defined that way by other pre-eminent bodies. What we have adopted is the formal definition that others have given to gender balance, rather than 50/50 which comes under challenge because if you end up at 53% female, that gets challenged. If you are at 47% female, that gets challenged.

We decided, rather than BHP try to define this on our own, we will adopt the definition that the other expert bodies have adopted, but where have we come from? I have been with BHP now since 2003, so coming up on 20 years. Ever since I joined the company, increasing diversity and improving gender balance has been a priority, literally from day one. We spent a lot of that time with leaders who took this very seriously but without making that much progress, and it was only when we upped the level of commitment around it, through my predecessor setting a very clear target of gender balance by 2025 – short timeframe, big target – that that drove the level of focus, energy and creativity that has allowed us to make progress since then. We have gone from just under 17% back in 2016 to circa 33% now. Sometimes percentages can be a little bit esoteric. If I translate that into numbers, BHP has added 13,000 women to the BHP workforce over the past five or six years. That is a huge number.

Why have we done that? It is because we believe that, first of all, diverse teams will support higher performance, both on safety and underlying productivity, and I do not think it is a coincidence that we have seen BHP become a more reliable, safer, lower cost organisation as we have been driving forward on a more inclusive culture and more diverse teams, including a gender balanced workforce. Those two things come hand in glove. The other thing I would call out is there has been some well-publicised pretty bad aspects that still exist today in BHP and other companies in the sector and, I would argue, other companies outside the sector. In addressing those, you have to do that hand in glove with creating a workforce that is more inclusive and more representative of society around us.

LESLIE HOOK: You are referring to the sexual harassment report from the Western Australian government.

MIKE HENRY: It was sexual assault, sexual harassment, racism and bullying. All of these things still exist today. In spite of all of the efforts, and we have been taking this quite seriously for a number of years now, these things still occur in the business, and we have to move towards a world where they do not occur. Part of moving towards that world is driving a more inclusive culture but, to create that inclusive culture, you have to have a workforce that is inclusive and representative of society around us, and gender balance is a big part of that. In driving forward on this, it is not just that we have hired people in from other industries. We have trained people up. We have needed to redesign work – where people work, how they work, right down to things like our maintenance workshops and how

they get tooled and so on -- to create that environment that is more inclusive and, lo and behold, a lot of the feedback from men, as well, is they like some of those changes, be it more flexible work or less strenuous work in some tasks.

I do not want to whitewash things. Of course early on in the process, in particular, there were some concerns and pushback in some quarters, but I think the more that people have seen of this, the more that they get it and the benefit that it brings to not only the company, but every single person who works in BHP.

LESLIE HOOK: You are confident that gender balance, meaning 40% women by 2025, will be met.

MIKE HENRY: I am confident. If there is one thing that BHP takes quite seriously it is, if we make a commitment, we are very focused on fulfilling it.

LESLIE HOOK: Only 24 months to go, there. I wanted to finish off by returning to the topics of the energy transition and the metals of the future. You have described your copper portfolio, of course, which has great endowments. Is there a risk that, globally, the world is underinvesting today in metals like copper and nickel that are, of course, so pivotal to the transition towards clean energy?

MIKE HENRY: Is there a risk that the world is underinvesting? I would put it slightly differently. I think there is a risk that the complexities of bringing new copper projects on and new nickel projects on can be underestimated and, therefore, there can be a mismatch between the timing of increase in demand and when supply meets that demand. We happen to hold a view that, in the coming few years, the market will be in a little bit oversupply but then, as we move towards the end of the decade, things will tighten back up and the market will move into deficit again.

LESLIE HOOK: For copper.

MIKE HENRY: For copper, specifically. Thank you for that. We have to keep in mind that deposits are becoming harder to find, oftentimes lower grade, deeper, there are more issues that need to be addressed in terms of water management, community engagement, broader environmental permitting. These things are taking longer. They are more complex. Oftentimes they require more by way of financial wherewithal to develop, and they are requiring more capability, be that technical capability around finding, developing, extracting and processing the resource, through to capability around engagement of communities and management of ESG more broadly.

I think, for the world, it is essential that companies that have the capability, have the balance sheet and are deeply committed to high ESG standards, and have a track record in that regard, are the ones who are developing this supply. For that to happen, there have to be clear standards out there. There have to be clear ways of measuring company performance against those standards and holding companies to account. I think that is an area that still requires more effort on the part of companies in the sector, standard setters, participants in capital markets, the big investment houses, and so on. I am confident, at the end of the day, all the copper units that the world needs, or all the nickel units the world needs, lithium and so on, will be there. There is not an issue of the units not being in the ground. They are definitely there. It is how do the markets operate in a way that incentivises development of those resources in a timely fashion and, in developing those resources, that it is done to the highest possible standards and creates the greatest possible benefit for the broadest number of stakeholders.

LESLIE HOOK: It is not only about getting the resources out of the ground, but doing it in the best possible way.

MIKE HENRY: In the most sustainable way possible because, if we do not do that, there is a risk that in, developing the metals needed for decarbonisation, there will be unintended consequences in terms of water, biodiversity and so on. It is only through understanding that risk and those tensions, and then ensuring that the right companies are developing those resources to the right standards, that we can ensure that we minimise the harm, get the metals that the world needs in a timely fashion, and create greatest possible benefit for local communities, governments, shareholders and so on.

LESLIE HOOK: That is all we have time for today. Mike, thank you so much for joining us.

MIKE HENRY: Thank you, and apologies again for not being there in person.