

BHP

**Financial results
for the half
year ended
31 December 2020**

**Investor and
analyst Q&A
teleconference
transcript -
Session 2**

16 February 2021

Questions and answers

ALAIN GABRIEL (MORGAN STANLEY):

Most of the questions have been answered in the overnight session – my question here is on climate change. You have laid out a comprehensive strategy to tackle climate change and have set targets for Scopes 1 and 2. I am curious to hear your thoughts about Scope 3, how do you plan to approach this topic? Should we expect any change in how you set your targets, to include Scope 3 in the near future?

MIKE HENRY (CEO, BHP):

I am very focused on committing to things that we believe are going to make a tangible difference to the world's ability to meet the climate change challenge. Therefore, what we focus on are actions where we can bring BHP's capability and funding to bear on technological solutions and policy advocacy that will help reduce emissions in the supply chain. We have targeted two specific areas.

One is ocean freight. As one of the world's biggest bulk-freight charterers, we believe that any effort we invest there can have disproportionate impact, we can magnify the impact of our effort. You have seen us launch the world's first tender for liquefied natural gas (LNG) fuelled bulk carriers.

The second area we are targeting is steelmaking, because we believe that the position that we occupy in that industry enables us to work in partnership with steelmakers on the technological advancements that are going to be required to reduce the emissions footprint of steelmaking. We have announced two partnerships in the past few months: one with China Baowu and the other with JFE. This focus on tangible action that will lead to reductions in carbon emissions is certainly our focus. It is what sits behind the goals that we have set and we will continue to get the runs on the board against the backdrop of that intent.

AMOS FLETCHER (BARCLAYS):

Firstly, on the thermal coal disposal, I wanted to ask a question around structure on that, given that there is probably no real market price for the assets. You can argue that they might struggle to fund themselves as a separately listed entity. Does that mean that responsible rundown and rehab is the most likely outcome now?

MIKE HENRY (CEO, BHP):

As I announced last year, when we first spoke to the market about the intent to divest, that was very early in the process for us. We recognised that the environment is quite dynamic, and so we did give ourselves a range of options, but the focus is really on a demerger into a newly listed vehicle or a series of trade sales and various variants therein – that continues to be the focus. We said it was going to take up to two years. We are six months into that period and still progressing a range of options.

AMOS FLETCHER (BARCLAYS):

Secondly, on Jansen, I guess the market is pretty cautious about the project. Can you let us know what the current internal rate of return (IRR) is on it and what long-term potash price we would need to see to generate a 15% IRR?

MIKE HENRY (CEO, BHP):

In due course, and certainly before we ever came forward for a sanction, we would have further engagement on the latest fundamentals as we see them for the marketplace and the project. I do not want to front-run that by giving new numbers now. What I can say is two things: one, we continue to see potash as a commodity as attractive and we believe that, towards the latter part of this decade and early next decade, we will see more price support as the market moves back into balance. The megatrends that we see playing out around us, including the world's renewed, or further, commitment to addressing climate change, all bode well for potash fundamentals. Of course, against the backdrop of those positive fundamentals, we also need to have a project that competes well under our Capital Allocation Framework (CAF).

To that end, I spoke last year about my intent to really unpack the project and make sure I understood it and was across the detail. I have also, in reviewing the project, brought in some fresh third-party eyes to review the various assumptions. As a result of that, we have applied a bit more conservatism to some of the assumptions, but we have also found other opportunities to take some of the things that were intended to be part of the initial project and move them out in time. In the round, we are still expecting capital to be within the range that we have spoken to the market about previously. As to how we see the price outlook, beyond the fact that we do see there being better price support in time, and how we see IRR, I would ask that you just leave that for a bit later in the process.

One of the other things I would note is that, in addition to the ongoing work that we have underway on the on-the-ground project, we are also still working on our port solution, and so that is one of the unresolved items, but we are quite optimistic that we will get that chased to ground in the coming months as well.

AMOS FLETCHER (BARCLAYS):

Are any of your Gulf of Mexico oil assets and the growth plans in the Gulf impacted by the Biden administration ban on new permits in federal waters?

MIKE HENRY (CEO, BHP):

The broad plans are not. Certainly, the operating assets are continuing to run well and we remain confident in them. Clearly, it is still very early days in interpreting what the Biden administration's ultimate policy will be, as well as the recent decisions. The whole of the industry is still working through that, but at this point in time, I still expect that we will be able to progress our plans as intended.

JASON FAIRCLOUGH (BANK OF AMERICA):

You touched on this a little bit overnight but I just wanted to revisit it. You have written down the tax loss carry-forwards in thermal coal, which looks like a prelude to an exit. Ultimately, without putting words in your mouth, you are, essentially getting rid of the tax losses that were previously cited as an obstacle to collapsing the dual listed company (DLC). I guess the point is, does taking this write-down set up a discussion about reconsidering the future of the DLC?

MIKE HENRY (CEO, BHP):

David, you might want to comment, particularly the comments around the tax losses, but in terms of the broad DLC, that has been under review over time. It remains under review. You are right that the divestment of energy coal does address one of the costs that we had spoken about for a collapse, but there is a range of things that we need to consider in terms of risk, cost and the ultimate value. We will continue to assess that case, but of all the things that I and the management team need to deal with currently, it is not at the top of the priority list. I do not want to say that we are not cognisant of it and giving it attention. It will remain under review but the first, second and third priorities are continuing to manage the risks of COVID, driving performance in the business, securing the portfolio of options in future-facing commodities, and continued ESG leadership.

David, Jason did reference the tax situation at New South Wales Energy Coal. Would you like to provide some comments on that?

DAVID LAMONT (CFO, BHP):

Just to be absolutely clear, we have not lost the tax losses that are attributable to that part of the corporate structure. What we have done is derecognised the asset that was attached to those losses. That really is on the back of the fact that we have announced that we are looking to exit the energy-coal assets, which clearly includes the New South Wales Energy Coal portion. Therefore, the likelihood of us using those losses has diminished and we derecognised them. They are not lost to the organisation; it is just unlikely that we will be able to generate enough profit in that part of the corporate structure to utilise the losses.

Just picking up on Mike's other point, I would also reference that one of the costs that would still exist is the stamp duty that we would have to pay on any unification, which is linked back to the Plc side of things. As Mike said, we need to look at the business case as it is presented and understand the benefits and risks across the structure.

MIKE HENRY (CEO, BHP):

It would be fair to say that we like simple, so we do start from the premise of, all other things being equal, we like simple. It is just a matter of prioritisation and then the ultimate overall assessment of the business case.

JASON FAIRCLOUGH (BANK OF AMERICA):

In terms of oil, depending on the year, it is somewhere between 7% and 10% of revenue and EBITDA. On our numbers, it is getting down towards 5% of Group net asset value (NAV). Is it really worth continuing to reinvest in this business? I know that BHP has a lot of history but it is really getting down now to the point of close to insignificance.

MIKE HENRY (CEO, BHP):

First of all, we will not make any decisions on the basis of oil and gas having been part of the portfolio historically, so that does not inform the thinking at all, other than that it has given us a certain capability set and set of relationships that we can derive value from. We are very clear-eyed about our decisions around oil and gas. The reason it remains in the portfolio is because we see the investment fundamentals as being attractive in oil and gas for a period of time. We are very aware of the long-term trends that are playing out, but we think that the fundamentals around oil demand in the near-to-medium term, the supply side fundamentals in terms of natural field decline, the need for more investment in new production, compounded then by the recent pullback in investment across the industry, particularly over the course of the past year, provide some attractive opportunities to generate shareholder value and returns for a period of time. We see the industry as being attractive for at least a decade and likely beyond.

MYLES ALLSOP (UBS):

My first question is a follow-up on the coal demerger or sale. Are you considering creating a combined thermal/met-coal-type entity or are you looking at thermal and met coal as two separate entities that have to be dealt with individually?

MIKE HENRY (CEO, BHP):

If we were to go down the demerger route, it would be together, partly for efficiency reasons. We also think that that portfolio would be more attractive for scale reasons and for product-mix reasons than standalone entities. That is the working hypothesis or planning basis at this point. Again, that is not the only option and we will also be looking at a competitive trade sale process.

MYLES ALLSOP (UBS):

Is the Cerrejón thermal coal and not just the Australian coal included in the thinking?

MIKE HENRY (CEO, BHP):

Yes. It is New South Wales Energy Coal, BMC, which is part of the met-coal assets in Queensland, and our stake in Cerrejón.

MYLES ALLSOP (UBS):

Going back to the DLC, a little bit of interest has been stirred over the last month or so. Given that you have this bumper dividend coming through, do you expect to use the dividend-share mechanism to pay the dividend to the Plc? If not, how much distributable reserves are still left in the DLC?

DAVID LAMONT (CFO, BHP):

We will, in short, Myles. That maintains past practice.

MYLES ALLSOP (UBS):

So you will use the dividend-share mechanism to pay the Plc dividend or do you have enough distributable reserves?

DAVID LAMONT (CFO, BHP):

We will be using it. It [the Plc reserves balance] is shrinking over time but we will still continue to use it.

DOMINIC O'KANE (JP MORGAN):

Continuing from the previous question, your Capital Allocation Framework is very clear with the net debt target range. Is it right to be thinking about a share buyback for the company through calendar year 2021, or is the dividend distribution that you have just announced how we should be thinking about this in terms of a preference for dividends?

Secondly, given the material change in the commodity-price environment, what are the longer-term brownfield options that we can start to think about in some of your base metal product lines, and specifically copper?

MIKE HENRY (CEO, BHP):

I might take the question on brownfield options and I will pass across to David for the question on buybacks versus dividends.

Let me start by saying that we have been quite constructive in our view of long-term supply and demand fundamentals for a range of commodities, but certainly nickel, copper and potash. That is what sits behind the intent that we have announced previously to secure and create more options in those commodities over time. That will afford choice to future generations of management and shareholders as to how to shape the portfolio and the extent to which to increase our portfolio exposure to some of the megatrends playing out around us.

In terms of the brownfield options available to us, I would call out the fact that SGO has seen its first production in December, so we already have some growth coming on in the near-term. Over the medium-term, I will cover copper first and then move to nickel. I acknowledge that we have had a couple of false starts on this. At Olympic Dam, priority number one is securing operational reliability. That will allow us to consistently produce at higher levels than we have historically. Having just stood down the Brownfield Expansion (BFX) project, which was an underground high-grading project, we will go back and look at what other options are available to us in the fullness of time to extract more of that resource. This may come back to how we go about applying innovation to allow for greater recoveries of the resource, different smelting processes and so on. We have the Resolution project, which is not brownfield - it is a greenfield project in the US, together with Rio. We have another semi-brownfield project in Oak Dam, South Australia, which is a recent discovery. The drilling work there continues to be positive and we will look at how we can develop that resource over time in conjunction with the decisions that we take around Olympic Dam. That is in terms of what we have currently. We then have a further effort underway around exploration, early-stage entry and various partnerships.

In the case of nickel, we have the ability to expand production at Nickel West. Perhaps a little-known fact is that we hold the world's second largest resource base of sulphide resources. The challenge for us is how we go about extracting more of those economically, sooner. That is where we will be looking at different processing options at Nickel West and debottlenecking of existing infrastructure. Then, of course, like in copper, we also have exploration efforts underway.

David, on the question around buybacks?

DAVID LAMONT (CFO, BHP):

The first thing I would say is that you pegged it right in the context of how that fits within the Capital Allocation Framework. We have been pretty clear in how we want to utilise the cash that we have. It does sit with that minimum dividend, firstly, of the 50% and how that plays out. Specifically, when we then come to the excess and what we do with that, we do look at a range. A buyback is something that is certainly considered, but we felt that, this time around, it was appropriate to reward shareholders through a cash dividend. We will continue to look at things on a half-on-half basis, looking forward to, as I said, what other uses we potentially have for that capital. The first priority is to ensure that we maintain our capital in relation to sustaining and looking after the operations, but we want to maintain that strong balance sheet. As you said, rightly, US\$12 billion to US\$17 billion is where we are looking for the net debt. In short, every time we come to look at how we will distribute the excess cash that we have, a buyback is something that we consider along with an excess cash dividend. This time around, we felt it was appropriate to reward shareholders directly with a cash dividend.

LIAM FITZPATRICK (DEUTSCHE BANK):

Firstly, on the timing of Jansen, the approval point has been delayed several times, most recently because of COVID. Is this summer really crunch time where you will make a final decision or is there a possibility that it could still be delayed beyond this summer?

Secondly, coming back to petroleum and the strategy there, it was back in November 2019, which seems a long time ago, when you outlined a potential scenario or strategy where you could grow volumes aggressively. Is that still a part of the strategy and something that could still happen if the market is there, or should we forget about that as a potential volume outlook for that business?

MIKE HENRY (CEO, BHP):

In terms of Jansen, you will have to correct me if I am wrong here but I think we said the middle of the year. I appreciate that that is roughly the summer but I just want to point out that we have said the middle of the year, so maybe it is a slightly wider range. What I would say is that the project remains on track to be able to take a final investment decision on it in the middle of the year. As to your question of whether it could still be delayed, I do not foresee any delays at this point in time, so we certainly still intend middle of the year. If that were to change, we would be clear about that.

In terms of petroleum, what we said back in 2019 was that we have options available to us to be able to grow petroleum. It is part of the portfolio that is option-rich, albeit those options are at various stages of maturity and some still at a pretty early stage. Our intent at the time was to continue to mature those options and then selectively progress the best of those options both in the context of petroleum and also the rest of the Group when we put everything through the CAF (Capital Allocation Framework). Where do we sit today? We are continuing to progress these options, be it Trion, be it the things that we are progressing down in Trinidad and Tobago and the further opportunities that we have in the Gulf of Mexico, or be it Scarborough here in Australia. We continue to have a rich set of options with relatively low breakevens, sub-US\$40 and high IRRs, but as we bring these projects through the development curve, assuming that they still stack up, we then have to decide what order to sequence them in, not just within a petroleum context but within the overall BHP portfolio context.

The final point that I will make on this is that I was clear last year that we would invest in a very balanced way in petroleum; as we seek to grow shareholder returns and value through investing in new or brownfield production in petroleum, we would also look to divest more mature assets.

LIAM FITZPATRICK (DEUTSCH BANK):

On the FY22 capex of US\$8.5 billion, how much allowance is there within that number for unsanctioned projects?

DAVID LAMONT (CFO, BHP):

I must admit that I do not know that off the top of my head.

TRISTAN LOVEGROVE (GROUP IR OFFICER, BHP):

We will come back to you, Liam.

DAVID LAMONT (CFO, BHP):

Tristan will dig that out. As part of this result, and you picked it up, we did flag that there will be some further FX headwinds in relation to the capital, so that is why we are calling out US\$8.8 billion at this stage (at 31 December 2020 exchange rates).

CARSTEN RIEK (CREDIT SUISSE):

You mentioned the cost overrun in the met coal business, which seems to be above the FX-related headwinds. How do you want to fix that, or do you expect further cost increases in Queensland? Second, copper surprised positively, did you take advantage of some of the measures provided by the Chilean government to cushion the cost impact due to COVID-19 and, if so, do you expect there to be a reverse in the second half of 2021?

MIKE HENRY (CEO, BHP):

Let me be clear on the met coal costs. We have said that we are maintaining guidance for the year on met coal. What you are picking up on is that costs are higher in the first half than they will be in the second half. What is that due to? That is due to some costs associated with planned maintenance in the first half. That planned maintenance then results in less volume, so there is a bit of a compounding effect there in terms of unit costs. Then there has been some heavier weather in December, which has flowed on into the next half as well. Overall, costs are still within guidance.

In the case of copper, what you are seeing come through is, in the way that we budget, we were budgeting for certain COVID impacts in terms of reduced manning on our operating sites. That has been a little bit better than we were expecting in the first half of the year, so production has been relatively strong but it is continuing on longer in the year. We expect the COVID impacts for the remainder of the year to be a little bit more protracted than people were expecting. In addition to that, we have seen some heavy weather off the coast of Chile, which is quite unseasonal or unusual. That has impacted the ability for shipments to move out in the early part of this half. So we have said that overall guidance will be maintained for this year, albeit that we have brought up the bottom end. We have tightened the range, but we have elected not to change guidance for the full year.

CARSTEN RIEK (CREDIT SUISSE):

Okay, perfect. That is helpful. Thank you very much.

TYLER BRODA (RBC):

Thank you for the call, Mike and David. I guess this is a bit more of a philosophical question. The industry is awash with cash; we are going to see cycles for sure but it looks as though cash payouts are going to stay robust. Underlying this are low growth rates and low investment and what looks like cyclical increases in demand in many commodities. From your standpoint as the head of the industry's largest company, how do you think about the current industry setup on a medium-term view? Are you worrying at all that there will be a 2010 to 2013 esque growth boom and its associated problems? As an extension, are there any arising opportunities to pursue acquisitions, in your view? Thank you.

MIKE HENRY (CEO, BHP):

Having been through the previous headiness of some of the times you are referring to and then the pain of cleaning up from those times, within BHP there is a tonne of focus on maintaining cost discipline i.e. not letting costs run away from us and certainly on maintaining capital discipline. Hence the reiteration of our commitment to the Capital Allocation Framework and the continued provision of a pretty tight set of numbers on forward capex, because we do not want to end up where we ended up previously. Having said that, the other thing I would note is that we believe that this approach of very disciplined decision making and a sharp focus on productivity will still allow us to grow in line with the opportunities that the market will present. However, we do need, in our view, to secure more options for that growth to be in future facing commodities, so things like copper and nickel.

In terms of your question around how much of that comes through acquisitions, given where asset values have gone over the past six months, the big focus is on exploration and early stage entry, which of course has a longer time horizon on it but which I see as being more attractive than potentially losing our way with an ill timed acquisition. That does not mean we will not consider acquisitions, of course we will; we have to. But we have to ensure that any acquisitions we pursue are for good assets, that we are doing so at the right price and that we are not getting carried away by the market.

TYLER BRODA (RBC):

Thank you very much.

RICHARD HATCH (BERENBERG):

Thank you very much. Good morning and congratulations on a good set of numbers. I have two questions. The first one is just on costs: what kind of cost inflation are you seeing run through the business at the moment? Is that a worry for you? Off the back of that, if you look at the forecast exchange rates you are using for your cost guidance, we have seen stronger Chilean pesos and Australian dollars. How much of a headwind is that as we move into the second half and thereafter?

The second question is just on that working capital build, would you be able to give some kind of clarity as to how that unwinds and over what period?

MIKE HENRY (CEO, BHP):

I had better ask you to take both of those, David.

DAVID LAMONT (CFO, BHP):

Yes, not a problem. Richard, on the cost inflation side of things, it is important firstly to note what we are comparing to. In the prior corresponding period, one reference point would be acid, whereby we were actually effectively getting that for free in relation to how the market had reacted initially to the COVID impacts etc. Off that base, we are seeing some cost inflation coming through. We have flagged that in the numbers in relation to the second half versus the first half as well. Impacting that also is obviously the FX that you called out.

As a reference point for you, in Western Australia Iron Ore, we saw a 2% reduction in costs in local currency. When you roll in the FX side of things and the fact the underlying business is about 90% AUD, we certainly saw the US dollar costs increase though. So we have not updated the cost guidance from the FX side of things. It is as we originally said at US70 cents. Clearly you can see, though, that if you apply 90%, effectively, to iron ore – it is the same in the coal side of the business here in Australia – that gives you a good ready reckoner of just what that impact is looking like.

On the working capital build that you saw, a bit over half of it is actually price related, so it is sitting in receivables. What we did see is an increase, especially in December, for a number of the commodities from a pricing perspective. Therefore that is sitting in our receivables. Yes, you would expect that it would unwind over the remaining period of this year. On top of that, we did see some inventory build. Again, that is largely timing related, but we did have some record production, as you know, in both Western Australia Iron Ore and also in Escondida that is flowing through. A fair chunk of that is timing related and should look to unwind.

MIKE HENRY (CEO, BHP):

It should look to unwind over the course of this year.

DAVID LAMONT (CFO, BHP):

Yes, over the course of this year.

DANIELLE CHIGUMIRA (BERNSTEIN):

Thank you. I have one follow up on petroleum. We saw the acquisition of Shenzi. I wanted to get some colour around potential further acquisitions of US offshore assets. Would that be incompatible with your longer term climate goals?

MIKE HENRY (CEO, BHP):

Thank you for the question, Danielle. I will take this one, David. We do not see it as being incompatible at all. Opportunistic acquisitions that are timed well and countercyclical will remain in scope for us. Coming back to the underlying question of why that is not compatible, it really has to do with time horizons. We have been quite clear that we see oil and gas becoming less attractive over time, but, because we believe demand is going to be resilient for a period of time – in the end oil underpins so many of the processes and products that support life as we know it today and will for some time – we think there is going to be some support for demand. Even if demand is declining, we believe that natural field decline is going to be quicker, and therefore fresh investment in the industry is going to be required to meet that demand, and that will support price fundamentals.

Against that backdrop, then, over the course of the next decade we believe the industry will remain attractive for investment. Having said that, BHP has been very focused on and has been a strong advocate for action to address climate change, but we believe that action has to be focused on advancing the technological solutions that will allow for decarbonisation of supply chains, the policies that will support those technological advancements to occur and changes in consumer behaviour. It is very hard for BHP to impact on consumer behaviour, but we can impact on technological advancements and policy, so you see a lot of efforts on our part in those areas to reduce global emissions.

DANIELLE CHIGUMIRA (BERNSTEIN):

Thank you.

TIM CLARK (SBG SECURITIES):

Thank you very much. I just have two quick questions on copper, please. These are more medium term questions. If I look at Escondida in my model, they are mining significantly above long term reserve grade. I wonder whether you could just speak to the profile around when and how we move down towards that reserve grade and potentially any thoughts you have on how to mitigate that decline.

The second question is just on Olympic Dam. I was a little bit surprised – looking at the net book value of US\$8.9 billion and the BFX project falling away – that we did not see an impairment to Olympic Dam. I am concerned that perhaps I am underestimating the profit.

MIKE HENRY (CEO, BHP):

Thank you for that question, David. I am sorry. You cut out there for one brief period of time. Would you mind just repeating the last part of your Olympic Dam question? I heard you say up until, 'I am concerned that perhaps I am underestimating the profit', but then you cut out for a brief period.

TIM CLARK (SBG SECURITIES):

Apologies, I am just concerned that I might be underestimating future profitability, if the US\$8.9 billion net book value is held.

MIKE HENRY (CEO, BHP):

David, I will ask you to take the Olympic Dam question. Perhaps you can start with that one and then I will come back to the first question.

DAVID LAMONT (CFO, BHP):

Yes, let me say, quite openly, that when I joined the organisation back in December on the back of the impairments we did take in the energy coal side of things, Olympic Dam was a focus for me as well. I would reference the performance that we saw in the half for Olympic Dam: it was the best we have had in five years. With the ability to maintain that asset around 200,000 tonnes, it certainly becomes a contributor to the organisation as opposed to where it is at the moment. If you look at the return on capital employed slide in our pack, you will see it clearly is not covering its cost of capital today. That should give you some indication of how we see that moving forward in the context of the operation.

I would also just point out that it is a long life asset. There is a very large resource and reserve that sits underneath Olympic Dam, and the challenge we have now is around how we ultimately look to utilise that position that we have. We certainly did and, as I said, coming in new, with a new set of eyes, we certainly did test the impairment of that asset. We feel very comfortable that the future will deliver above that net book value.

MIKE HENRY (CEO, BHP):

I will come back to the first question around the Escondida grades. You are right: Escondida grade will decline over time, but we will continue to see strong performance over the next five years, and certainly it will be higher at the back end of that period.

The real question, then, is, 'What are we going to do to try to mitigate the decline in grade?' You have seen some of those actions already underway over recent years. We have called out for a few periods now the fact we are getting record throughput through the concentrators. That is one of the things we have been doing to offset the more recent declines we have had in grade, and that effort will continue. The combination of that focus and our three concentrator strategy has allowed us to maintain production at an average of 1.1 million tonnes per year. There is a lot of effort going into uplifting productivity, and we will continue to look at other productivity measures and other innovations that we may bring to bear at Escondida over the medium to long term – albeit acknowledging that, with the grade decline that is occurring, we will see a decline in production.

SYLVAIN BRUNET (EXANE BNP PARIBAS):

Good morning, gentleman. My first question is on the dividend payouts. You have consistently paid above the minimum 50%. It is a good problem to have, but is there a case that you could consider raising this minimum level as a way for income funds to bake that into their assumptions?

Second, Vale basically secured some framework agreements with authorities around Brumadinho. Do you think that could accelerate the resolution of the Samarco situation? Is there any sign of the dialogue making some progress on the back of that or not really?

MIKE HENRY (CEO, BHP):

I will take the question on Samarco and then I will pass to you, David, to answer on dividends. The first focus around Samarco, which we have to keep in mind, is actually progressing the underlying work of remediation, resettlement, compensation and of course restarting Samarco itself. We have had success in the past six months in terms of getting Samarco back up and running. That provides benefit into communities, local businesses and so on. We have been making some much stronger progress in terms of compensation. Environmental remediation has continued, and water turbidity levels in the river are back to pre dam failure levels or better. The resettlements themselves have progressed more slowly than we would like, because they have been most disrupted through COVID, but we are making some progress there, I just wanted to get that out there.

Your question is around the Brumadinho settlement and Vale. I do not want to comment on the terms of that. Of course there is always an openness to sitting down and discussing the situation at Samarco, but the primary focus is on getting the work completed, that has to happen in all circumstances.

DAVID LAMONT (CFO, BHP):

On the dividend side of things, we have been pretty standard in saying that 50% is the minimum level, you should think about that through the cycle. If you look at what we have actually done, we have clearly paid out above that, but I would still say that the 50% is a robust number alongside the cycles that we potentially have ahead of us. I do not see that we would be looking to raise the minimum up.

MYLES ALLSOP (UBS):

Following up on Samarco to start with, do you still see that as a core part of the portfolio? Are we getting close to a point where you may consider exiting it? Do you need to see all the remediation work done before thinking about exiting it? I was surprised that there was no write up of the impairment on the balance sheet, now it is starting to pay for the environmental costs.

MIKE HENRY (CEO, BHP):

We have a provision, obviously, but the asset itself is valued on the books at zero. David, did you want to elaborate on that? I will then take the portfolio question.

DAVID LAMONT (CFO, BHP):

Yes, you will certainly have seen that we did take a further charge to the provision in the half. Yes, it is pleasing that Samarco is up and running, but that did occur in December. That at least enables, in the future, the cash that has been generated in the asset to go towards some of the costs etc. We did actually take an incremental roughly US\$300 million into the provision, which is largely linked to delays and costs that we saw alongside COVID impacts and the housing we need to do. To that end, it is certainly pleasing that Samarco is up and running – that will help – but we are certainly not in the position to write back anything at this point.

MIKE HENRY (CEO, BHP):

In terms of the question around whether it is core to the portfolio, the answer is no. Of course, as a commodity, iron ore is core to the portfolio, but not that particular asset. The focus at this point is all on completing the remediation, resettlement and compensation work there.

MYLES ALLSOP (UBS):

Okay, I have another quick question on iron ore. When do you expect to hear back on the dust licence for Port Hedland?

MIKE HENRY (CEO, BHP):

It is a work in progress. I do not have a timing to give you, unfortunately. What I will say is that these processes are always quite extensive and technical. There is a lot of work that occurs around information exchange and assessment of things, but we have a long track record of going through these processes and being able to demonstrate that we can meet the conditions set out by the regulators. My expectation is that this will be like previous processes: we will need to work through any concerns the regulator has on any of the environmental fronts but I am confident we will be able to demonstrate our ability to run at those higher rates safely in a way that meets community expectations.

MYLES ALLSOP (UBS):

I have one very last question for David. As a fresh pair of eyes into the business, where do you see the biggest opportunities? Where can you make the biggest impact with BHP over the next couple of years?

DAVID LAMONT (CFO, BHP):

Let me say up front that one of the reasons I came back to BHP and joined BHP is that fundamentally it is not broken; it is a matter of how we can continue to evolve and move things forward. Joining a strong leadership team and a business with strong operational performance is a great foundation, I will couch the next comment in that light.

One of the things I would say is that we need to be pretty agile in terms of how we go about making decisions going forward. One of the experiences from COVID is that we have actually pushed down where decisions need to be made across the organisation. The operations are probably thankful that corporate were not able to get out there and visit them, because they could get on and focus on what they need to do. We need to leverage that and maintain that into business as usual once a vaccine is there and we are out and able to travel more. We need to ensure we push accountability down and we are agile in our decision making. Clearly, the world is moving at a rapid pace; we need to be able to keep step.

DOMINIC O'KANE (JP MORGAN):

Just as a follow up question, as the fallout and the policy become clearer in Australia with the Aboriginal Cultural Heritage Bill, is it now fair to say there will be no discernible impact on your short to medium term production guidance? Are there still unknowns within the legislation?

MIKE HENRY (CEO, BHP):

I have a few things to say on this. First, we have been strong advocates historically of modernisation of legislation. That advocacy was pre Juukan Gorge. Second, we have a long history of establishing and maintaining strong and trusting relationships with traditional owners. In light of what occurred last year, we are redoubling those efforts. Specifically in respect of South Flank, we have now established the South Flank Heritage Advisory Council, which provides us a further platform to have dialogue with the Banjima people, the traditional owners of the land that South Flank is based in. Third, South Flank remains on track to deliver in the middle of this year, it definitely continues on track. Finally, all of the business' near term and medium term production and cost targets also remain intact.

JASON FAIRCLOUGH (BANK OF AMERICA):

I am back. Thank you for being so patient with us. I just have a question for you on green steel. You have made some early stage investments in a new green steelmaking technology along with Vale, I think. You have also signed this MOU on decarbonising steel with JFE. If the question gets to the right place, might it make sense for BHP to try making iron in the Pilbara again?

MIKE HENRY (CEO, BHP):

The operative word there, Jason, is 'again'. You are right: we have invested a very small amount of capital in a green steel start up. We have also been clear that we do believe, over the long term, that some of these technologies – such as hydrogen based steelmaking and so on – will see penetration into the steel industry. We just do not think the economics are there for that to happen in the near to medium term.

From my perspective, that is certainly not a focus for BHP. We will work downstream with customers to help them further some of these technologies. You see us making that investment in the start up, which is partly around understanding these things better. We have to allocate our capital where we have particular capabilities and where we believe there are the appropriate fundamentals to allow us to drive high returns on that capital. We do not believe we have the capabilities to build and operate a green steel facility, and we do not see the returns as being there certainly in the foreseeable future.

JASON FAIRCLOUGH (BANK OF AMERICA):

On a related topic, Mike, we are seeing some of the mining companies go out and build their own solar plants. Again, is that something that makes sense for BHP? Is your cost of capital too high? Is that something you just underwrite through a power contract?

MIKE HENRY (CEO, BHP):

You have seen us either directly or indirectly underwriting some of these facilities through the renewable power contracts we have put in place in Chile and here in Australia. I would say, though, that these things are always a little bit location specific. Even if you look at our current business, we buy most of our power off the grid. For specific circumstances, like the constrained network in the Pilbara for example, we do have some of our own power capacity. I would not say 'never', but it is certainly not going to be a new standalone business for BHP. Where possible, we will look to leverage the capability of others who are focused in that space to do that and then we will purchase the electricity, but that may not be possible in all instances.

RICHARD HATCH (BERENBERG):

Thank you very much. I just have a follow up. On the Climate Investment Program. Given the fact you are generating such meaningful free cash flow at the moment, does it make sense to increase that and try to progress the efforts to reduce scope 3 emissions? I appreciate that you are selling to the steelmakers; to an extent it is their problem, but to another extent it is included within your scope 3. Given the fact you have so much free cash flow being generated, do you think it make sense to recycle some of that into an up-scaled Climate Investment Program?

MIKE HENRY (CEO, BHP):

Richard, this problem is so big and so complex. I genuinely do not think it is a matter of throwing money at it. It is about ensuring that the dollars and the technical know how that we lean into this effort with are applied in the most impactful way possible. For that to happen, it is a matter of us going out and finding the opportunities and generating the partnerships. That has been somewhat of a rate limiting step at this point. We are finding good projects and partnerships within the Climate Investment Program, but I do not think that us allocating more into that space is actually going to make a difference to the world. The big difference we can make is around the strong commitment we have made, our continuing advocacy and the leadership we are able to show in some of our supply chains like maritime and steel that then rallies others to the cause as well.

I think we are on time here. I want to thank everybody here for joining. I know it is a very busy period for you all. I appreciate the time you have freed up for us, as David does. We look forward to catching up again in due course.

Thank you.