Financial results for the half year ended 31 December 2021

Investor and analyst briefing speech

15 February 2022

Mike Henry

Slide 1: Record first half earnings

Hello and thank you for joining us to hear about BHP's results for the December 2021 half year.

I'm joined today by David Lamont.

Slide 2: Disclaimer

Slide 3: CEO title slide

Slide 4: Continued strong performance

I am pleased to be able to announce today another strong set of results.

We safely delivered record first half earnings and shareholder returns. And we continued to execute on our strategy.

- We had solid underlying operational performance in the majority of our assets.
- We maintained cost discipline amid escalating inflationary pressures.
- We made good progress on our portfolio related actions in coal, petroleum and potash.
- And we unified our corporate structure, further simplifying the business and creating a stronger platform for growth.

We are doing what we said we would do. We're creating significant long-term value for shareholders – and we're benefiting society through sustainably meeting the world's growing need for resources.

Slide 5: H1 FY22 operational highlights

This half year has produced a number of highlights.

Most importantly, we achieved our third consecutive year without a fatality.

Our High Potential Injury frequency – one of our key safety indicators – decreased by a further 10 per cent during the half. This measure has improved by over a third over the past three years.

Continuing with safety, I deeply regret that, in spite of all of our efforts of recent years, people continue to experience instances of sexual harassment and assault in our workplaces and accommodation villages. This conduct is completely unacceptable. I am absolutely committed to eliminating it from BHP, and we continue to take strong action.

On the production front, our Western Australia Iron Ore business ran at very close to record levels, and Escondida saw record material mined during the half.

We faced a number of continuing external challenges across the business. And these include ongoing COVID measures, constraints on labour mobility and availability, supply chain issues, twice as much rainfall at our Queensland Coal operations as last year and, of course, inflation in the cost of key inputs.

However, we retained a sharp focus and solid control over costs right across the business.

We're also making good progress on reshaping our portfolio in line with our stated intent.

- We took the decision to proceed with the Jansen Stage 1 potash project.

- We announced the merger of our Petroleum business with Woodside.
- And we further consolidated our coal portfolio into the highest-quality coals for steel-making.

We continued to develop more internal options for growth in copper and nickel, and secured a number of further options through exploration and early stage entry.

Having completed the Spence Growth project on time and on budget, production ramped up during the half, albeit recoveries are trending lower than expected and some plant modifications are being planned in order to achieve full intended production levels.

Slide 6: H1 FY22 financial highlights

This operational performance, combined with high prices for a number of our products is reflected in our strong financial results.

- Underlying earnings per share were up 77 per cent[1].
- And return on capital employed increased to 43 per cent[2].

Strong cash flow generation means our balance sheet remains in excellent shape.

And today, we announce an interim dividend of 150 US cents per share, representing a strong flow-through of our underlying financial performance for the benefit of shareholders.

Slide 7: H1 FY22 social value and sustainability highlights

Our success is measured not only by how well we create value and returns for shareholders, but also by the way in which we benefit society and our other stakeholders. Shareholder value creation is not sustainable without a focus on social value creation.

We are delivering on our climate commitments.

During the half, our Climate Transition Action Plan, via our ‘Say on Climate’ vote, received strong support from our shareholders.

We are on track to meet our operational emissions reduction target[3]. In fact, compared with the same period last year, we’ve reduced absolute emissions by 16 per cent as renewable power contracts at a number of our operations commenced.

And we’re continuing to build on our partnerships along our value chain to support pursuit of our net zero by 2050 Scope 3 goal[4].

We’re also building a more capable workforce that better reflects the communities in which we operate, and where people feel safe and are able to contribute to their full capacity. More inclusive and diverse teams deliver safer, better business performance as we’ve demonstrated over recent years.

We are making good progress towards our aspirational goal of a gender balanced workforce by 2025. Just shy of half of our external hires over the past six months were female, and women now comprise 30.6 per cent of the workforce. The Executive Leadership Team at BHP is already fully gender balanced.

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[1] Total operations basis.
[2] Continuing operations basis.
[3] Refers to our 2030 target.
[4] Described in full on page 8 of BHP’s Climate Transition Action Plan 2021.

We've also raised the proportion of our employees, including those in leadership positions, from First Nations backgrounds in Australia, Chile and at our Jansen potash project in Canada.

We look forward to updating you on our approach to social value in more detail in the coming months.

I'd like to now hand over to David to take you through our results in more detail. David, over to you.

David Lamont

Slide 8: Financial results

Thanks, Mike.

Despite the challenging conditions, the quality of our assets and people, together with robust demand for our commodities, enabled us to deliver a solid set of financial results in the first half.

Slide 9: Financial performance

Our resilient operating performance and strong cost control, combined with higher prices, drove underlying EBITDA to US$18.5 billion, up 33 per cent – at a very healthy margin of 64 per cent. This excludes Petroleum, which is treated as a discontinued operation, as we progress the merger with Woodside.

The adjusted effective tax rate was just over 30 per cent, slightly below our guidance range due to the reclassification of Petroleum. This increases to just over 37 per cent with the inclusion of royalties.

Underlying attributable profit of US$9.7 billion increased 57 per cent. Including Petroleum, this increases to US$10.7 billion.

We recorded a net exceptional charge of US$1.2 billion after tax comprising:

- US$800 million for the Samarco dam failure, largely due to updated cost estimates for Renova's programs; and
- a US$400 million impairment of US deferred tax assets no longer expected to be recovered.

Slide 10: Group EBITDA waterfall

The EBITDA waterfall shows the significant benefit of higher prices for our core commodities – with metallurgical and thermal coal prices both close to triple that of the December 2020 half; copper and nickel each up 30 per cent; and iron ore nine per cent higher.

The favourable impacts of the weakening Australian dollar and Chilean peso against the US dollar were offset by inflationary and commodity input cost pressures – in particular, for diesel and acid.

However, we maintained a tight lid on controllable cash costs. Contributing to the increase was the South Flank ramp-up and higher demurrage costs due to quarantine requirements in Western Australia, as well as around US$150 million in COVID-related costs, which were treated as exceptional in prior years. This was partially offset by lower operational activity at Olympic Dam due to the major smelter rebuild.

Our strong operating performance at Western Australia Iron Ore and higher concentrate sales at Spence were more than offset by: lower volumes at Escondida due to lower feed grade; at Olympic Dam due to the maintenance program; and the impacts of significant wet weather and labour constraints at Queensland Coal.

Slide 11: Segment performance

Across the portfolio our underlying operations performed well, despite these headwinds. We continue to apply BHP's Operating System – BOS – principles to unlock even greater performance and, for the first time since FY17, all of our major assets delivered EBITDA margins in excess of 50 per cent in the half.

Western Australia Iron Ore delivered record lump sales driven by the ramp up of South Flank, contributing to strong price realisation above the benchmark. Full year unit costs are trending towards the lower end of the US$17.5 to US$18.5 per tonne guidance range, at our 78 cents guidance FX rate. Of course, if the current Australian dollar rate continues, we'd do better.

In Copper, EBITDA increased 14 per cent to US$4.3 billion driven by higher realised prices. Escondida's unit costs are tracking in line with full year guidance and concentrator feed grade is expected to improve in the second half as we mine higher grade areas.

Despite Queensland Coal experiencing double the amount of rainfall versus last year, it achieved a US$2.2 billion increase in EBITDA, with average realised prices almost three times the prior period. The increase in unit cost guidance reflects the lowered production guidance.

Nickel West's Sulphate plant delivered first crystals, an essential ingredient for batteries used in electric vehicles. Ramp up will continue throughout the remainder of the year. We now sell more than 90 per cent of our nickel metal to the battery market, up from no sales only six years ago. And this comes at a time of increasing demand, with average realised prices for nickel metal just under US$20 thousand per tonne in the first half.

And for Potash, our projects continue to track well. The shafts are now 98 per cent complete and the Jansen Stage 1 project is underway with approximately US$1.2 billion in contracts, out of the US$5.7 billion investment, already awarded.

While treated as a discontinued operation, the Petroleum business also continues to perform well. During the half, production increased by five per cent and cost control remained strong, and we expect production and unit costs to be consistent with original guidance until merger completion. Our major projects proceeded on time and on budget.

So, we continue to perform well, capitalising on the strong demand for the commodities we produce, with guidance largely unchanged. While we are well positioned, we're acutely aware that the lag effects of inflation, weather and labour availability are challenges we will continue to contend with in the second half and into FY23.

Slide 12: Continued capital allocation discipline

Turning now to capital. Our commitment to our Capital Allocation Framework, or CAF, is stronger than ever. It has served us well since it was put in place back in 2016.

Our first priority remains to invest in maintenance capital to sustain and improve asset integrity, in order to deliver stable and reliable performance. Over the past six months this amounts to US$1.1 billion.

Our balance sheet is in good shape, with US$6 billion of net debt, compared to US$26 billion at the end of FY16.

And we have consistently exceeded our minimum 50 per cent dividend payout ratio we implemented with the policy.

Beyond this, we continue to reinvest back into our business, spending US$1.8 billion this half, excluding maintenance and Petroleum. This ongoing discipline has supported an increase in return on capital employed, from continuing operations, to approximately 43 per cent.

In FY22, we expect to spend a total of US$6.5 billion on capital and exploration expenditure (excluding Petroleum), marginally below prior guidance due to favourable FX movements. While spend may be higher in future years – both due to Jansen and as attractive opportunities to reinvest in our business present themselves – we remain disciplined.

Today, we announced a dividend of US$7.6 billion, taking our total returns to shareholders to over US$22 billion over the past 18 months.

In light of our strategic announcements in August last year, we have revised our net debt target range from US$12 to US$17 billion, to between US$5 and US$15 billion.

This revised target range will enable BHP to maintain a strong balance sheet throughout the cycle, including during periods of portfolio change, liabilities associated with the Samarco dam failure and external uncertainties. It also provides flexibility to allocate capital towards shareholder returns and future investment opportunities, be they internal or external.

Slide 13: Framework promotes discipline in all capital decisions

Before I wrap up, I wanted to take this opportunity to run through how we apply the Capital Allocation Framework to investment decisions. While the CAF was a major step forward, as we do around the business, we continue to learn from the past and refine our processes.

We have a broad range of investment opportunities in front of us and under the framework, all options, small and large, internal and external, compete for capital. All go through the same process.

We consider a range of metrics – including net present value, internal rates of return and payback periods – and incorporate risk, both upside and downside, to come to a decision. There is no single hurdle rate we apply to investment decisions. And we factor in how individual opportunities impact the portfolio, our decarbonisation metrics, social value commitments and ultimately shareholder value and returns. Importantly, we consider all metrics in ranges, rather than point estimates or mid-cases.

As a demonstration of both the power of the CAF, and our discipline in applying it, during the half, we made the decision not to increase or extend our offer to acquire Noront. While a promising nickel resource, we ultimately did not see adequate long term value for shareholders at the final offer price and believe this capital can be better utilised elsewhere.

On that note, I will close by saying that we have reported a strong set of financial results for the half; we are maintaining tight control over cash costs despite headwinds; the portfolio is performing well in a high price environment; and we remain committed to our Capital Allocation Framework to ensure we continue to generate long-term shareholder value.

Thank you. Back to you, Mike.

Mike Henry

Slide 14: Business update

Thanks, David. I'd like to talk now about what lies ahead.

Slide 15: Opportunity amid complex environment

We have been clear about our commitment to social value and to delivering shareholder value through operational excellence and growth in future facing commodities. And we've made great progress, in spite of a near term operating environment that remains complex and challenging with the pandemic, inflation, disrupted trade patterns and dynamic stakeholder expectations.

Our strategy, high-quality assets, strong balance sheet and capabilities position BHP exceptionally well for circumstances like these. And this is reflected in our continued strong results and the progress on our portfolio over the past six months.

In terms of the near term outlook for commodity demand, while growth slowed in China more than we anticipated in the second half of calendar year 2021, we see the headwinds easing over the course of 2022.

- Real estate policies are easing, including in the critical area of developer financing.
- The beginning of China's new 5 Year Plan will bring greater infrastructure spending.
- Exports are likely to remain a support for growth.
- And direct constraints on heavy industry are expected to ease.

For the fourth year in a row, our mid-case is for Chinese steelmaking to exceed one billion tonnes in 2022, supporting demand and pricing for our iron ore.

While we're seeing stark inflationary pressures globally – with major value chains in food, construction materials, autos, energy and logistics all moving higher – it is important to differentiate between the drivers of this. Supply chain bottlenecks – which, as David indicated, we expect to contend with for another year or two – versus inflation that is demand led, which we expect to be more enduring.

This latter driver is positive for commodities demand and pricing.

Slide 16: Longer term: power of scale and compound growth[5]

The longer term fundamentals for the commodities BHP produces remain very positive.

The resource sector is essential to the meeting of global aspirations for sustainable long-term growth. Demand for energy, metals and fertilisers will be underpinned by population growth, urbanisation, decarbonisation, and rising living standards for decades to come. BHP's portfolio, capabilities, and distinctive approach to operational excellence and the creation of social value, place us in an advantaged position when it comes to being able to meet this demand.

Slide 17: Delivering on our objectives

Our strategy is aligned to these global aspirations. It provides clarity on the commodities and assets we want – and the capabilities we need to excel at, in order to maximise value and returns from these assets.

We've made significant progress already:

- by increasing our exposure to future facing commodities through sanctioning the Jansen potash project and adding exploration and early stage options;
- by progressing our divestments of BMC and Cerrejon, as well as the merger of our Petroleum business with Woodside; and
- by simplifying our corporate structure to make us more efficient and agile.

[5] Further information on BHP's economic and commodity outlook can be found at: bhp.com/prospects.

Of course, plenty remains to be done. We'll continue to reposition our portfolio for greater leverage towards the key mega-trends playing out around us. And we'll continue to improve operational performance to deliver our products even more reliably and sustainably.

Slide 18: Social value embedded in our approach

BHP's fierce commitment to sustainability and social value is evident in our approach to areas such as health and safety, community engagement, climate, water and cultural heritage.

We also scored our best ever results in our most recent global customer satisfaction surveys, and these were particularly strong in China and India. Our customer relationships have never been better.

This includes deeper collaboration on sustainability initiatives. For example, we recently partnered with both Southwire and Tesla on block chain pilots to trace greenhouse gas emissions associated with our copper and nickel products, contributing to collaborative efforts to reduce emissions across value chains.

We've also progressed our partnerships with steelmakers, representing around 12 per cent of reported global production, to help advance the green transition of the steel industry. This includes a new collaboration with China Baowu and three top Chinese universities on the development of low-carbon steelmaking technologies, and their future application at plant scale.

BHP is also a proud contributor to the regions where we operate. We've continued to support COVID-19 efforts, including vaccine awareness and accessibility for local and Indigenous communities. And we're supporting small, local and Indigenous businesses through reduced payment terms and the US$1.2 billion spent with over 4,000 local suppliers across the globe over the past six months.

Slide 19: Sector leading assets across our commodities

We have sector-leading assets and we aim to operate them exceptionally well.

These assets generate strong margins through the cycle and create a baseline of stable cash flows that our shareholders consistently benefit from. In fact, in all bar one of the last 15 years, we've delivered net operating cash flows of more than US$15 billion.

In iron ore, our assets constitute the best combination of scale, quality and cost competitiveness in the Pilbara, and we have room to grow should market conditions warrant. Our reliable delivery is valued by customers and our higher-quality iron ores will remain attractive as steel makers strive to reduce emissions through improved productivity.

The need to reduce steel making emissions will also drive a growing market preference for higher quality metallurgical coals. We produce some of the world's best quality coals for steel-making, and over the past 12 months we've seen increasing premiums for these.

In copper, we have some of the most sustainable operations within one of the largest resource bases globally. This provides significant optionality. We are well-positioned to take advantage of growing demand for copper required for urbanisation and electrification.

At Nickel West, we're studying ways to unlock growth from what is the world's second largest nickel sulphide resource.

And of course, with the approval of Jansen Stage 1, we've entered into another commodity with attractive fundamentals, in the world's best potash basin. This opens a new future growth front for the company with significant expansion potential which is expected to support up to a century of production.

Slide 20: Woodside and Petroleum merger on track

As David mentioned, our Petroleum business continues to perform well operationally and we have enjoyed healthy oil and gas markets and strong prices during the half. All to the benefit of our shareholders.

The merger with Woodside remains on track to be completed in the June 2022 quarter.

It will combine two great businesses that will be even better together, will unlock synergies and will create a global top 10 independent energy company[6].

The combined business will have a high margin oil portfolio, long life LNG assets, significant growth optionality and the financial resilience to help supply the energy needed for global growth and development over the energy transition.

Importantly, it will offer value and choice for BHP shareholders.

Slide 21: Levers to deliver value growth

As I've flagged on previous occasions, we are creating and capturing more opportunities to deliver value growth.

Our first priority, of course, is protecting and growing value through delivering safe, reliable operational performance, with a strong focus on continuous improvement – every day.

In terms of high returning production growth, our current portfolio of large, long-life resources offers plenty of opportunity for organic growth: through further de-bottlenecking, and by larger brownfield expansions, including bringing innovation to bear in ways that enable us to unlock more of our resources, more quickly and at attractive returns.

At Escondida, where we expect production to average 1.2 million tonnes per year over the next five years, we are assessing brownfield options to unlock more of this world-class resource. This will enable us to mitigate the effects of future grade decline.

At Spence we are currently bedding down the Spence growth project but will look to future optionality here as well.

Over the next five years, across all our copper assets, we expect production of around 300 thousand tonnes per annum more than 2021 levels.

At Nickel West, as well as looking at opportunities to grow production, we are increasing the value of our product. We've now produced first crystals from our nickel sulphate plant and will ramp up to around 20 thousand nickel-equivalent tonnes per year, supplying the electric vehicle battery market.

And at Western Australia Iron Ore, we've increased our export licence to 330 million tonnes per year out of Port Hedland, providing headroom to pursue low cost initiatives across our mines, railways and port facilities.

We are being more agile and commercial, and building our capability to add to our options, through exploration, innovation, early stage entry or mergers and acquisitions.

Technology and innovation are areas of particular focus. As well as working internally, we are collaborating externally to solve big challenges.

We're looking at how to improve productivity and deliver better value from installed capacity at our assets, including with autonomous haulage and primary sulphide leaching.

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[6] Based on FY21 production.

We're also investing in emerging technologies to give us a more competitive edge and to drive sustainable growth across our current operations, our resource base and our value chain.

We've cast the net wide. For example, working with: start-ups and academia to investigate a number of innovative iron ore beneficiation concepts; with Jetti Resources, who are developing a novel catalyst to more economically recover copper from low-grade chalcopyrite; and with KoBold Metals, who are looking to apply machine learning to revolutionise the way we discover new deposits.

We're also adding to our suite of early stage entry options. Last year, we invested in Kabanga Nickel in Tanzania, gaining access to what might be the world's largest development-ready nickel sulphide deposit. This adds to our existing suite of early stage entry options in Ecuador, Australia, Canada and Mexico.

As always, one of the most important pathways to volume and value growth is investing in our people. Year on year, we continue to embed the BHP Operating System, which we put in place in 2017. BOS is our way of leading and working that is delivering results. By increasing the capability of our workforce in this way, we are improving our decision making, our efficiency and our productivity.

BHP is well positioned to create and grow value.

Slide 22: Investment proposition

We have demonstrated our ability to execute well through all of the challenges the world and industry have faced over the past six months, and continue to face.

In addition to maintaining safe, reliable operations, we have progressed a number of strategic decisions and actions in parallel.

We are improving our growth outlook and our leverage to commodities that stand to be positively impacted by the big trends underway, not least of which is action on climate and decarbonisation.

After the divestments we currently have underway, we'll be left with a portfolio that is all, or almost all, comprised of commodities with decarbonisation upside – copper, nickel, potash, and higher quality iron ore and coals for steel-making.

We're delivering more reliable operational outcomes, enabled by our efforts on workforce, the BHP Operating System and technology.

This powerful combination of operational excellence, a stronger portfolio and social value will underpin continued attractive returns and long-term value growth.

Thank you.