BHP

Financial results for the half year ended 31 December 2022

Investor and analyst briefing speech

21 February 2023

Mike Henry, CEO

Slide 1: December 2022 half year results

Hello and thank you for joining us to hear about BHP's results for the December 2022 half year. I'm joined by our Chief Financial Officer, David Lamont.

I want to start by acknowledging the tragic loss of life of one of our team members, Jody Byrne, in our rail operations at Port Hedland, the week before last.

My deepest sympathies go out to his family and friends, as well as his colleagues. We are supporting them in any way we can at this difficult time.

We have commenced our investigation, the findings of which will be implemented thoroughly.

Safety is our number one priority. Nothing matters more. We have been intensely focused on eliminating fatalities from BHP but, as this terrible incident so tragically reminds us, safety requires constant vigilance and we are redoubling our efforts. We will not rest in our efforts to ensure no-one gets harmed while at work at BHP.

Slide 2: Disclaimer

Slide 3: Financial results

Slide 4: H1 performance

We continued to execute our strategy during the half and maintained operational rigour in the face of challenging external circumstances.

We've again delivered steady and reliable operating performance, supporting our ability to consistently deliver attractive shareholder returns and to increase our investment in growth.

We're also continuing to optimise our portfolio.

We've added to and accelerated our exposure to future facing commodities – minerals critical to the energy transition – including through our offer for OZ Minerals.

And, with our joint venture partner, we've started to pursue options to divest the Daunia and Blackwater mines. This will further concentrate our coal portfolio on the highest-quality metallurgical coals for steelmaking[1]. These higher-quality coals support more efficient blast furnace operations and lower relative emissions intensity.

I'll ask David to speak about the financials in detail shortly, but first I'd like to share some highlights from the last six months.

Slide 5: H1 FY23 operational and financial performance

Our teams have delivered steady and reliable operational performance.

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[1] In June 2022, BHP announced its decision to retain NSWEC in our portfolio, seek the relevant approvals to continue mining beyond its current mining consent that expires in 2026 and proceed with a managed process to cease mining at the asset by the end of the 2030 financial year. BHP has historically marketed a small portion of BMA products against thermal coal indexes.

We achieved record half-year production at Western Australia Iron Ore, supported by strong performance right across the supply chain.

Copper production rose, as Escondida accessed higher grade ore; the Spence concentrator continued to ramp up; and Olympic Dam extended its recent track record of operational stability.

And BMA, while impacted by recent wet weather, demonstrated improvements in underlying productivity.

Our continued focus on operational excellence and cost control has helped us to contain the impacts of inflation on our cost base. But we're far from complacent, and are keeping a close eye on costs.

So, despite severe weather in Eastern Australia, commodity price and inflationary headwinds, and labour availability challenges, our continued resilient performance has delivered earnings[2] of more than US$13 billion, and enabled us to announce a dividend of 90 US cents per share for the half year.

That's US$4.6 billion that flows back to all of our investors.

Slide 6: H1 FY23 social value highlights

We've also continued to generate social value for and with those around us – governments, our workforce, our suppliers, our customers, and the communities where we operate.

The creation of social value is essential to better business outcomes and long-term shareholder value, because it supports stable operations and reduces risk to the business. It also opens the door to future opportunities, partnerships, capital and talent.

The value we create includes the taxes and royalties we've paid. This half, we paid US$7.5 billion in taxes and royalties, which support government budgets and pay for essential infrastructure and services. In fact, last year, in Australia, BHP paid close to 10 per cent of all the nation's corporate tax – a figure that reflects the importance of our success to the national economy.

We also made substantial contributions via wages, community contributions and local procurement – contributions that are supporting lives, livelihoods, and regional development.

Everything that BHP earns ultimately gets distributed – to governments, to local businesses and suppliers, to employees, and to our shareholders – including, around 70 per cent of all Australians who benefit through their direct BHP shareholdings or superannuation funds.

On operational greenhouse gas emissions, we're on track to meet our target of at least a 30 per cent reduction by the 2030 financial year[3], including through our recent signings of Power Purchase Agreements for renewable electricity at Olympic Dam and Port Hedland.

And we continue to focus on reducing our use of fresh water, through innovation and investment in desalination.

We've increased female representation across the Group to more than 33 per cent, a near doubling since we announced our aspirational goal to achieve a gender balanced workforce[4] back in 2016.

And, pleasingly, we also released our updated Indigenous Peoples Policy Statement during the half. This statement strengthens our commitment to working with Indigenous Peoples to support reconciliation and contribute to better social, economic and environmental outcomes.

[2] Refers to Underlying EBITDA.
[3] Refers to our target to reduce operational greenhouse gas emissions by at least 30 per cent from FY20 levels by FY30.
[4] Refers to our aspirational goal for gender balance by the end of FY25, which was set in 2016.

Over the last six months, we've more than doubled our spend with Indigenous suppliers from the previous December half, including through an agreement with a Banjima owned and operated business, to operate and maintain one of our semi-mobile crushers in the Pilbara. This agreement not only provides employment opportunities, but helps build long-term business capacity.

These efforts align with our Social Value Framework, which we announced in June last year. We're using the framework to hardwire social value into every level of decision making across our global operations.

David will now take you through the financial results from the half year.

David Lamont, CFO

Slide 7: David's section – title slide

Thanks, Mike.

We have delivered another strong set of results, despite a more challenging backdrop, with lower prices and other external pressures.

Slide 8: Financial performance

Underlying attributable profit was US$6.6 billion, or 130 US cents per share – one of our top half year results.

This incorporates an effective tax rate, including royalties, of 40 per cent.

Underlying EBITDA remained very healthy at US$13.2 billion.

And our margin, at 54 per cent, and return on capital employed, at 29 per cent, remained strong – reflecting the quality and resilience of our assets, and consistent operating performance.

Over the half, we spent US$3 billion on capital and exploration expenditure. Our full year guidance remains unchanged at US$7.6 billion.

As always, we remain disciplined and guided by our Capital Allocation Framework. Our shareholders continue to benefit from our consistent and reliable performance. As Mike mentioned, our interim dividend is 90 US cents per share, fully franked, which is the 5th highest ordinary dividend ever.

Slide 9: Group EBITDA waterfall

Digging into the details, the EBITDA waterfall highlights the significant impact of lower commodity prices – by far the biggest driver of the period-on-period decline in earnings. Iron ore and copper, our two largest segments, saw prices down 25 per cent, and 19 per cent, respectively, from the December 2021 half.

As expected, we continue to see the lagged effect of inflation. This had a negative US$1 billion impact this half – which equates to an effective rate of around 12 per cent. The most significant impact was in diesel, although we do see some relief in the second half as prices have recently come off their peak.

The favourable impacts of the weaker Australian dollar and Chilean peso against the US dollar were only a partial offset to inflation.

Beyond these external pressures, I am pleased that we have delivered well against the areas within our control.

Due to strong performance at our iron ore and copper assets, higher volumes delivered an increase of US$700 million.

And we managed controllable costs well – with inventory movements accounting for the majority of the US$500 million increase. These inventory movements were mainly driven by the planned draw down of stocks at Olympic Dam as we processed stocks built during the prior period ahead of the major smelter maintenance campaign. Inventory also reduced at Western Australia Iron Ore, Nickel West and BMA, largely as a consequence of wet weather and labour availability challenges.

The US$400 million sitting in the 'Other' category largely reflects lower recovery of freight costs caused by movements in the freight index, and the lower profit at Antamina mainly due to the lower copper price.

Slide 10: Segment performance

Over the past five years, we have consistently delivered EBITDA margins above 50 per cent – with iron ore above 60 per cent, and copper above 45 per cent.

Underpinned by record production, Western Australia Iron Ore delivered an EBITDA of US$7.6 billion at a 65 per cent margin. We delivered strong performance across the supply chain, and the ongoing ramp-up at South Flank is increasing the average quality of our product. With C1 costs[5] of US$15.50 per tonne, up only five per cent, we have extended our lead as the lowest cost major producer.[6]

In Copper, our EBITDA margin remains very healthy at 44 per cent. Escondida's production increased by five per cent, with concentrator feed grade up seven percentage points from the prior December half. While unit costs increased, reflecting the inflationary environment, these increases are below what others in the industry are experiencing.

Our other copper assets also performed well. Olympic Dam's ongoing strong performance saw near-record material processed and record gold production, while the Spence concentrator continued to ramp up.

At BMA, coal production was up five per cent. Despite significantly more rain, higher productivity on dry days allowed us to do almost the same amount of stripping as last year. The increase in unit costs largely reflects inflationary pressures and a significant draw down on mine inventories, partly in order to capture the high price environment in the period, rather than the traditional build in the half.

In Nickel, our EBITDA margin was lower, largely due to unfavourable inventory movements, inflationary pressures, and the downtime at the refinery following planned maintenance.

And at New South Wales Energy Coal, while benefitting from record prices, conditions remain very challenging. Volumes were down significantly due to the wettest half in six decades. And this, plus inflation, contributed to sharply higher unit costs – to just over US$100 (or around A$150) per tonne – in the half.

At Jansen, Stage 1 is now 16 per cent complete, and is progressing on time and on budget. We now expect capital expenditure this financial year of around US$860 million, up US$120 million, largely due to the accelerated production schedule.

So, stepping back, we continue to perform well, both operationally and on the cost front.

As expected, we are seeing the impact of inflation across our global supply chains, as well as labour availability challenges, particularly in the Australian operations. That said, with our ongoing focus on productivity and controllable costs, we are managing these external headwinds extremely well.

Thank you and I'll now hand back over to Mike

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[5] C1 costs exclude third party royalties, net inventory movements, depletion of production stripping, exploration expenses, marketing purchases, demurrage, exchange rate gains/losses, and other income.

[6] Based on published unit costs by major iron ore producers.

Mike Henry, CEO

Slide 11: Business update – title slide

Thank you, David.

I'd like now to take you through how we see the outlook for the commodities we produce, and what we're doing to position and grow our portfolio.

Over the course of this calendar year, we expect three key themes to play out.

We expect to see a slowing of growth in Europe and the US, as the lagged impacts of last year's anti-inflation policies and the energy crisis continue to flow through.

Conversely, China's reopening is progressing well, with positive social and economic signposts emerging. Bank lending, mobility data, new home prices and business surveys are all showing solid signs of improvement in early calendar 2023. The pent-up demand being released as China opens back up from the COVID lock-downs, coupled with growth-promoting policies such as the support for the housing market, are expected to drive stronger economic growth and increased demand for the commodities we produce. We said in August that we believe that China will be a stabilising force for global growth over the remainder of this year and we now have even greater conviction in this view.

Finally, while it varies by region, an easing of global inflation may allow central banks to end their rate tightening cycles in the coming quarters. As such, we expect world growth will strengthen in 2024.

As always, there are many moving parts in the near-term. However, it's fair to say that the economic picture is clearer now than it was six to 12 months ago.

Slide 12: Portfolio positively leveraged to megatrends

We remain very confident in the long-term demand for commodities, driven by the global trends playing out around us.

The fundamentals that underpin our strategy are unchanged – supplying metals and minerals the world will need for a growing population, increasing standards of living, and the energy transition.

We have world class assets in commodities we confidently expect to be in strong demand for decades to come.

By 2050, the world is projected to be home to around 10 billion people, that's 2 billion more than today.

Those 10 billion people will need more efficient food production from less arable land – supporting demand for potash for fertiliser.

On current estimates, more than 2 billion of them will drive electric cars – that's about 100 times current figures – so that means more copper and nickel.

7 billion of them will likely live in urban areas, 2.5 billion more than today, which means steel for construction and infrastructure – and that takes iron ore and higher-quality metallurgical coal.

And to power it all with lower carbon emissions, an enormous increase in global energy production from wind and solar will be needed – meaning more copper, more steel.

I've talked before about the magnitude of the increase in key commodities – copper, nickel and steel – that both traditional demand drivers, and decarbonisation, will require.

So, we believe the long-term demand outlook is clear and enduring. But there will be significant challenges in meeting it – the lack of new discoveries of attractive large-scale deposits, land and water scarcity, changing societal expectations, and difficulty in securing permits to operate or expand in some jurisdictions.

Our portfolio is built to compete in this complex, but opportunity-rich environment.

We have the largest copper endowment, and the second largest nickel sulphide resource, globally. We are a leading producer of both iron ore and higher-quality metallurgical coal for steelmaking. And we have plans to be a globally significant potash supplier.

So as demand for these essential commodities rises, BHP – as an incumbent, large-scale producer; and with the size and quality of our assets, balance sheet, and proven operational excellence – has an embedded advantage.

So we're ready to do our part to supply the world with the commodities it needs. And in turn we are seeing a growing understanding of these needs globally.

Indeed, over the past two years there has been a growing awareness of the essential nature of these minerals to the energy transition. And with that we've seen an increase in policies that will support responsible and sustainable mining to meet the growth in demand, and governments around the world are seeking to work with business to speed up approvals processes and ensure attractive investment settings.

We are a global company with numerous options to deploy our capital. Every project has to compete against other proposals from all of our global assets on a range of metrics – resource quality, technical risk, commodity outlook, capital expenditure, expected returns… as well as the fiscal competitiveness and stability, and sovereign risk of the regions in which we are looking to invest – and we continue to allocate our capital accordingly.

Slide 13: Near term growth

I'd like to mention two projects in regions where we are investing for growth – Western Australia Iron Ore, and the Jansen potash project in Canada.

WAIO is an incredible asset. Over many years, we've been removing bottlenecks so we can get more of our iron ore onto more ships at Port Hedland - and do it safely, reliably, and cost effectively.

We have plans in place to grow production to more than 300 million tonnes per year in the medium term. This is low capital intensity, highly efficient growth. And we're studying options to grow beyond this, to 330 million tonnes per annum. As always, we prioritise the pursuit of valuable growth.

At Jansen, the US$5.7 billion Stage 1 project is running to plan. We've awarded US$2.5 billion in contracts, engineering is now over 80 per cent complete, and 85 per cent of procurement orders have been placed, giving us confidence in our plans and schedule.

We now expect first production in late calendar year 2026 as progress to date has enabled us to accelerate procurement contracts and bring forward mobilisation of key contractors to site. We have also poured first concrete ahead of schedule, and advanced the foundations for our Stage 1 mill, thanks to an extended summer season last year.

We've also accelerated Jansen Stage 2 studies. We now expect to complete the feasibility study in the 2024 financial year, a year earlier than we've said previously, giving us additional optionality on when we bring these tonnes to market.

Slide 14: Accelerating our future facing options

We're always looking at how we can grow further value from our assets, and we've got a number of organic options across our portfolio – including in future facing commodities.

That's important, because we're aiming to have half of our portfolio made up of future facing commodities by 2030.

In the near term, we're accelerating studies across our copper assets.

At Escondida and Pampa Norte in Chile, we're looking at options to add to production, including through both our concentrator strategy, and leaching technologies which would help us extract more copper – either through reprocessing ore or unlocking ore that can't be recovered using conventional methods.

And in South Australia, we are studying the optimal growth pathway for Olympic Dam, including a two-stage smelter which would deconstrain mining operations.

Oak Dam is feeding into this thinking as well, and after a further 40 kilometres of drilling since May 2021 we have been able to better define the extent of the mineralisation and we continue to see encouraging results.

And, of course, the OZ Minerals assets would provide access to additional production, and growth options.

Slide 15: Innovative and agile in our approach

While organic growth will always be a clear focus, we have additional growth levers at our disposal.

Exploration, which is about finding new deposits; early-stage entry, where we get in on the ground floor with smaller miners, and bring our skills and scale to bear on a project to help it grow; as well as technology and innovation, which we use to get better and more efficient at what we do, and to unlock more of our incredible resources.

We are taking active steps to create and accelerate longer-term options. I'll highlight three of those today where we are taking innovative approaches – exploration, BHP Ventures, and BHP Xplor.

While in the context of BHP these are relatively small investments, they are highly strategic, and in time we hope that they will become meaningful contributors.

Firstly, exploration. We're increasing exploration efforts, building our team, and increasing our spend. This is a significant focus area for us. We're seeking new targets in mature terrains through applying new technologies; prioritising greenfield exploration for both copper and nickel; and we're actively growing and expanding into new jurisdictions – as we've shown with our recent agreement with Mundoro, covering three exploration projects in Serbia.

Secondly, BHP Ventures, our own venture capital arm, where we've screened more than 1,200 opportunities and built a high-quality global portfolio of over 20 holdings in just three years – five of those in the last half. Ventures is focused on emerging technologies that can help grow and improve our existing operations, our resource base, and our value chain. This includes via new sub-surface exploration techniques using artificial intelligence through KoBold Metals, or supporting the potential to reduce Scope 3 emissions from steel making, through electrolysis companies like Boston Metals and Electra.

And third, through BHP Xplor, which merges concepts from venture capital and early-stage accelerators. We announced Xplor in August 2022 and had hundreds of applications from all around the world, focused on exploration and discovery of copper, nickel and other critical minerals.

We've now selected seven companies, and we'll provide funding and support to accelerate their growth, and potentially partner with them.

Our approach is innovative, fast-paced and disruptive. We have to be.

The industry must be willing to take more risks, in deploying innovative technologies, to supply the needs of the energy transition.

Slide 16: OZ Minerals proposed acquisition progressing

Before I conclude, I'll touch just briefly on the progress of our proposed acquisition of OZ Minerals.

We only pursue acquisitions where we believe we can create value for our shareholders.

We believe the proposal we've put to OZ Minerals represents highly compelling value for shareholders on both sides.

The OZ Minerals Board has recommended it unanimously.

OZ Minerals will increase our exposure to copper, uranium and nickel – all of which are important for the energy transition. It has a compelling growth pipeline, and there are attractive potential synergies, including through the proximity to our existing assets.

This is a good company run by good management, and they've unlocked substantial value so far. We intend to retain the vast majority of OZ Minerals' workforce, and bring together the best from both companies in terms of culture and approach. While their recent results demonstrate that OZ is under the same inflationary pressures as everyone else, this is no surprise, and we believe BHP can, over time, unlock even greater value.

OZ Minerals expects to distribute more information to its shareholders in a scheme booklet in early March, to hold their scheme meeting for their shareholders to vote on the scheme in April, with implementation in either late April or early May.

We think the OZ Minerals assets are a good fit for BHP, and we look forward to reporting further on the transaction as it progresses.

Slide 17: Investment proposition

In summary, BHP continues to deliver the strong and consistent performance, and attractive returns, that our stakeholders have come to expect. And the future couldn't be more exciting.

Our strategy is simple. We have built a portfolio of world class assets – low cost, with options to expand – and we operate them very well. We are disciplined on cost and capital, and we have a long-standing commitment to social value.

As the global population grows, as urbanisation increases, and as the world pursues a low-emissions energy transition, our portfolio is set up for success.

Copper, nickel, potash, iron ore, and higher-quality metallurgical coal for steelmaking. All vital to the future.

While what we produce is essential, how we manage our business has never been more important – more sustainably, and in a way that creates enduring, mutual benefit for those that support and rely on us – our people, partners, the economy, the environment, Indigenous partners, local communities and shareholders.

To do this we remain focused on operational excellence, cost and capital discipline, and delivering value and returns.

BHP remains strongly positioned to create value now and into the future.

Thank you.

Disclaimer

The information in this presentation is current as at 21 February 2023. It is in summary form and is not necessarily complete. It should be read together with the BHP Results for the half year ended 31 December 2022.

Forward-looking statements

This presentation contains forward-looking statements, including statements regarding: trends in economic outlook; commodity prices and currency exchange rates; demand for commodities; medium-term guidance; reserves and resources and production forecasts; operational performance; expectations; plans, strategies and objectives of management; climate scenarios; approval of certain projects and consummation of certain transactions, including, but not limited to, our announced proposed acquisition of Oz Minerals; closure or divestment of certain assets, operations or facilities (including associated costs); anticipated production or construction commencement dates; capital expenditure or costs and scheduling; operating costs, including unit cost guidance, and shortages of materials and skilled employees; anticipated productive lives of projects, mines and facilities; provisions and contingent liabilities; and tax and regulatory developments.

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The forward-looking statements are based on management's current expectations and reflect judgements, assumptions, estimates and other the information available as at the date of this presentation and/or the date of the Group's planning processes or scenario analysis processes. There are inherent limitations with scenario analysis and it is difficult to predict which, if any, of the scenarios might eventuate. Scenarios do not constitute definitive outcomes for us. Scenario analysis relies on assumptions that may or may not be, or prove to be, correct and may or may not eventuate, and scenarios may be impacted by additional factors to the assumptions disclosed.

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Other factors that may affect the actual construction or production commencement dates, revenues, costs or production output and anticipated lives of assets, mines or facilities include our ability to profitably produce and transport the minerals and/or metals extracted to applicable markets; the impact of foreign currency exchange rates on the market prices of the minerals or metals we produce; activities of government authorities in the countries where we sell our products and in the countries where we are exploring or developing projects, facilities or mines, including increases in taxes; changes in environmental and other regulations; the duration and severity of the Ukraine conflict and the COVID-19 pandemic and their impact on our business; political or geopolitical uncertainty; labour unrest; and other factors identified in the risk factors discussed in section 9.1 of the Operating and Financial Review in the FY2022 Annual Report and BHP's filings with the U.S. Securities and Exchange Commission (the 'SEC') (including in Annual Reports on Form 20-F) which are available on the SEC's website at www.sec.gov.

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Presentation of data

Unless specified otherwise: variance analysis relates to the relative performance of BHP and/or its operations during the half year ended 31 December 2022 compared with the half year ended 31 December 2021; operations includes operated assets and non-operated assets; total operations refers to the combination of continuing and discontinued operations; continuing operations refers to data presented excluding the impacts of Onshore US from the 2017 financial year onwards and excluding Petroleum from the 2021 financial year onwards; copper equivalent production based on 2022 financial year average realised prices; references to Underlying EBITDA margin exclude third party trading activities; data from subsidiaries are shown on a 100 per cent basis and data from equity accounted investments and other operations is presented, with the exception of net operating assets, reflecting BHP's share; medium term refers to our five year plan. Queensland Coal comprises the BHP Mitsubishi Alliance (BMA) asset, jointly owned with Mitsubishi, and the BHP Mitsui Coal (BMC) asset until our 80 per cent interest in BMC was sold to Stanmore Resources on 3 May 2022. Numbers presented may not add up precisely to the totals provided due to rounding. All footnote content (except in the Annexures) is contained on slide 19.

Non-IFRS information

We use various Non-IFRS information to reflect our underlying performance. For further information, the reconciliation of non-IFRS financial information to our statutory measures, reasons for usefulness and calculation methodology, please refer to Non-IFRS financial information set out on pages 53 – 65 of the BHP Results for the year ended 31 December 2022.

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BHP also holds interests in assets that are owned as a joint venture but not operated by BHP (referred to in this presentation as 'non-operated joint ventures' or 'non-operated assets'). Notwithstanding that this release may include production, financial and other information from non-operated assets, non-operated assets are not included in the BHP Group and, as a result, statements regarding our operations, assets and values apply only to our operated assets unless stated otherwise.

[1] References in this presentation to a 'joint venture' are used for convenience to collectively describe assets that are not wholly owned by BHP. Such references are not intended to characterise the legal relationship between the owners of the asset.