



**Financial results
for the half year
ended
31 December 2020
Investor and
analyst briefing
speech**

16 February 2021

Mike Henry

Slide 1: Title slide: Financial results for the half year ended 31 December 2020

Hello. Thank you for joining us to hear about BHP's December 2020 half year results.

Today I have with me David Lamont, our new Chief Financial Officer. It is great to have him on board. David, we've tried to make your first results announcement with us a bit easier by delivering a great set of numbers.

Slide 2: Disclaimer

Slide 3: Title slide: Mike Henry

Today we're going to talk with you about three things:

- Our strong set of operational and financial results.
- The compelling outlook for our commodities given the recovery underway and continued growth in the global economy, as well as the energy transition.
- Finally, how that positive outlook, coupled with our agenda of driving operational excellence, creating value for all stakeholders, and increasing our exposure to future facing commodities, will enable us to continue to deliver excellent value and returns to shareholders.

Slide 4: Consistent approach delivers strong results

We are delivering on this agenda.

In the past 12 months, the worst pandemic the world has seen in over a century has brought human tragedy and economic disruption globally.

In one way or another, COVID-19 has touched every person, and every part of BHP and our supply chain.

However, against this backdrop of unprecedented challenge, we have achieved almost unprecedented performance. The best of BHP has truly shone through.

The pandemic has reinforced the importance of everything that we have been so focused on in terms of people, culture, the contribution we make to society and, of course, operational and financial excellence.

Thank you to BHP employees and contractors for their resilience and unwavering resolve in the face of the pandemic, and to communities, suppliers, customers, governments and Traditional Owners for their continued support.

Our collective efforts and commitment have made this strong set of results possible.

Our company is safer, more reliable, more productive, and is delivering exceptional returns to shareholders.

Slide 5: H1 FY21 operational highlights

I would like to reflect on a few highlights from the half.

First and foremost, safety has improved. Not only have we reduced our Total Recordable Injury Frequency by 16 per cent, but even more importantly, we have remained fatality free.

We are not complacent however – far from it. Having now achieved two years fatality free only sees us redoubling our focus on continuing to improve safety across the company.

We have continued to deliver reliable operational performance. We are doing what we said we would do. We are enabling this performance through a systematic focus on improving maintenance, engineering, and asset integrity. During the half, we achieved record production at Western Australia Iron Ore; record concentrator throughput at Escondida; and, in terms of production, the best half at Olympic Dam in five years.

In spite of the challenges faced across the industry related to COVID-19, an inflationary environment and other factors, we have continued to reliably progress our major development projects.

Atlantis Phase 3 in the Gulf of Mexico delivered first production in July, ahead of schedule, and the Spence Growth Option in Chile delivered first production in December, as planned – a great achievement given the restrictions in place. South Flank in Western Australia will see its first production within the next six months, also on schedule and on budget.

Finally, we've advanced and added to our options in future facing commodities.

Slide 6: H1 FY21 financial highlights

Notwithstanding the market disruption and low prices for some commodities, our continued focus on operational reliability and cost discipline, coupled with the resilience provided by our portfolio diversification, has supported very strong financial performance.

- Margins rose to 59 per cent, our second highest half in the past 20 years.
- Return on capital employed increased to 24 per cent, the highest in the past nine years.
- The resultant strong operating cash flow and our investment discipline ensured net debt remained at the bottom of our target range.
- And today we announced a record half year dividend of 101 US cents per share – returning more than US\$5 billion to our shareholders.

Slide 7: H1 FY21 social value highlights

Now, in tandem with our commitment to delivering strong value to shareholders, we are every bit as committed to growing value for all the others who depend on and support BHP.

We believe that this focus, and the capability we bring to it, will be a long-term source of competitive advantage.

Our commodities play an essential role in underpinning the economy globally, and through our ongoing business we make a very significant contribution to the societies we operate in, and David will talk further about this shortly.

In addition, we're proud of the way we've been able to engage others around us and the further support we've been able to provide to help them navigate through the ongoing pandemic. This has included temporary and permanent employment, direct contributions towards local social and health programmes, research funding, and financial support for business partners.

In addition to our focus on working with others locally to create shared value, we are also committed to continuing to demonstrate leadership on environmental sustainability, including on climate change.

We announced during the half a related new set of ambitious targets and goals.

- In keeping with our commitment to reduce operational emissions by 30 per cent by 2030 and be net zero by 2050, we established renewable power contracts for our coal operations in Queensland and nickel operations in Western Australia. This follows on from our other recent decision to move to fully renewable electricity supply at our Escondida and Spence operations in Chile.
- In working with others to decarbonise other parts of the value chain, we pioneered the world's very first LNG-fuelled bulk carrier shipping contracts to support greener freight.
- And we partnered with China BaoWu – and even more recently, JFE Steel in Japan – to advance lower emissions steel production.

We continued our drive to ensure we have teams that are capable of peak performance. This included further progress towards gender balance. Female participation in our workforce increased to over 27 per cent. We already have a gender balanced executive leadership team. And we boosted our Indigenous participation to 6.7 per cent in both Australia and Chile.

With that short introduction, it's my pleasure now to introduce David.

David's track record of financial management in multinational organisations, depth of experience across a diverse range of industries, including mining, and ability to deliver strong results to shareholders, make him a wonderful addition to our team.

Welcome David, over to you.

David Lamont

Slide 8: Title slide: David Lamont

Thanks, Mike. To begin with I must say it is great to be back at BHP after more than 15 years.

Before I discuss the results, I thought I would share some of my initial impressions.

The culture and capability of the organisation clearly comes through in the performance over the last six months. BHP is in great shape financially and operationally. I feel very honoured to be joining a strong leadership team.

However, there is always more to do. Throughout my corporate career I have worked for companies with strong research, science and technology skills embedded in their DNA. BHP indeed has these attributes and I firmly believe that by applying these in an innovative and focused manner we can extract more from our existing resource base.

We need to move faster in a number of areas, be more agile whilst holding onto the right rigour, especially as we take further steps to increase our portfolio of future facing commodities, and continue our leadership on social value which is not only the right thing to do, it also makes sound financial sense.

I'm personally committed to ensuring consistent and robust returns to shareholders, helping the organisation continue on the path to decarbonisation, and continuing to improve efficiencies across the business.

And with that, I'd like to now turn to the half year financial results.

Slide 9: Financial performance

This was a strong first half result, despite a number of the headwinds most notably COVID-19.

Our outstanding operating performance, when combined with higher iron ore and copper prices, drove Underlying EBITDA up 21 per cent, to US\$14.7 billion – at a margin of 59 per cent.

Underlying attributable profit increased by 16 per cent to US\$6.0 billion. The effective tax rate was just over 34 per cent which increases to 42 per cent with the inclusion of royalties and the PRRT payments.

Net exceptional items were US\$2.2 billion, primarily due to a US\$1.6 billion impairment of our energy coal assets.

Dividend for the half was a record 101 US cents per share, and represents an 85 per cent payout ratio.

Slide 10: Segment performance

As mentioned our financial results were supported by strong underlying performance across the business.

Western Australia Iron Ore contributed over US\$10 billion of EBITDA at a margin of 73 per cent. Capitalising on the highest prices since 2013 we achieved record production for the half and lowered our C1 unit costs by two per cent, despite a strengthening Australian dollar. An outstanding achievement that also resulted in sales of 290 million tonnes for the calendar year.

Importantly, Samarco restarted operations in December. The ramp up of operations will continue to support the local communities with jobs, and the delivery of Renova's programmes in the region.

In Copper, EBITDA increased by 59 per cent to US\$3.7 billion. Record concentrator throughput at Escondida more than offset the impact of grade decline and disruptions due to COVID-19. Unit costs were better than full year guidance, driven by excellent cost management and higher by-product credits.

Our Petroleum business achieved an EBITDA of US\$800 million, at a margin of 49 per cent. Unit costs were better than guidance of US\$11 to US\$12 per barrel, reflecting lower discretionary maintenance activity.

And finally our Met Coal business had a challenging half, impacted by lower prices, reduced volumes due to adverse weather conditions, higher maintenance activity and unfavourable FX movements.

With all major maintenance for the year now behind us, a strong second half is expected. Unit cost and production guidance for met coal remains unchanged, however volumes are expected to be in the lower half of the range. This of course will be subject to any potential impacts on volumes from restrictions on coal imports into China and any further significant wet weather during the remainder of the year.

On this note, we are continuing to sell everything we produce, successfully redirecting coals that would otherwise have gone to China. While we can't be sure of how the situation will evolve, we remain of the view that ultimately, Chinese steel mills will continue to require higher-quality steel-making coals to meet their efficiency and environmental objectives.

Across all our businesses, we are performing well in controlling costs. Building on our first half performance we remain on track to achieve full year unit cost guidance despite uncontrollable costs such as diesel, acid and explosives which are expected to see some cost inflation in the second half.

Slide 11: Consistent cash generation and returns

Excluding 2016, when we saw a dramatic fall in commodity prices, we have generated net operating cash flow of at least US\$15 billion every year over the past decade. This demonstrates the consistency of returns and low volatility that our portfolio provides.

We continued this strong performance with US\$9.4 billion this half.

A combination of strong operational performance, disciplined capital investment and our Marketing team's ability to obtain negotiate competitive commercial terms for our products enabled strong cash flow generation and high returns to shareholders.

From the chart on the right you can see since the 2019 financial year more than 75 per cent of free cash flow, after dividends to our minority partners has been returned to shareholders whilst maintaining a strong balance sheet.

Slide 12: Capital allocation

Throughout my career across a range of industries and geographies the use of capital has also been one of my key priorities. Indeed prior to joining BHP as a shareholder I closely followed the application of the Capital Allocation Framework and the manner in which it transparently directs cash to its value-maximising use.

Indeed it is similar to the approach I took at CSL. It makes complete sense to me and I hope to continue to evolve and further embed the approach at BHP. We will continue to apply the same level of rigour.

This slide shows how we've applied the Capital Allocation Framework this half.

The US\$3.6 billion investment in maintenance, growth projects and exploration was in line with our plans.

Capex guidance has increased for the full year to US\$7.3 billion due to a stronger Australian dollar.

Our balance sheet is robust, with net debt at US\$11.8 billion, at the bottom end of our target range. Strong free cash flow generation more than offset US\$900 million of lease additions, mainly related to the Spence Growth Option, and US\$400 million in premiums paid on the value accretive hybrid repurchase programs.

Off the back of our strong results, today we announced a record interim dividend of 101 US cents per share, which equates to US\$5.1 billion.

Including the dividend announced today, over the past three years we have returned more than US\$30 billion to shareholders.

Slide 13: Return on Capital Employed

Over the half, our return on capital employed increased to 24 per cent.

Return on capital for this period is almost six times higher than at the end of FY16.

The Western Australia Iron Ore return on capital of 70 per cent is an outstanding result, helped by higher prices but also the record production achieved for the calendar year.

While our copper assets are showing the benefits of recent capital investment and higher prices.

Our focus remains on improving returns in other parts of the business.

Based on the consistent performance of the last five years, and despite the cyclical nature of our industry, earnings and returns are reflective of a high quality stable business, and these results demonstrate the resilience of our diversified portfolio.

We remain confident in the positive underlying fundamentals of our commodities. There are a number of near-term uncertainties – including, obviously, COVID-19, and we continue to watch the recovery carefully and monitor for impacts on our business. To date the organisation has done a great job of managing the challenges we have witnessed across the world.

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

Mike Henry

Slide 14: Title slide: Mike Henry

Thank you, David.

As you've just heard, we've delivered a strong set of results this half.

Let me now take you through what lies ahead.

Slide 15: A constructive outlook

We are confident in the outlook.

While the world is a more volatile and uncertain place today, the global economy is rebounding strongly despite the on-going effects of COVID-19.

Recent trade tensions have impacted our coal business, however, our diversified portfolio and strong relationships with customers and suppliers have served us well.

Government stimulus and pro-growth agendas, which are expected to remain in place for an extended period, are anticipated to provide considerable support for recovery, and lead to robust growth, a lift in inflation and solid demand for mineral resources and oil and gas.

In steel, for example, we expect continuing strong end-use demand to underpin production of more than one billion tonnes in China for a third consecutive year.

More broadly, the welcome drive to decarbonise the globe will also accelerate demand for many of the commodities we produce.

The determination of key economies – like China, Japan, South Korea and the US – to tackle climate change with greater ambition, will require substantial investment in decarbonisation infrastructure and the technologies that will leverage them.

In a Paris-aligned, 1.5 degree scenario, we expect that investment in such things as copper-intensive solar generation, nickel-intensive batteries, and steel-intensive wind turbines will contribute to a more than doubling of the amount of primary copper and a quadrupling of the amount of primary nickel demand over the next 30 years, as was produced over the last 30. Demand for steel will almost double on this basis, and Potash will be vital for more efficient agricultural practices.

And as the shift to cleaner energy sources occurs, the world will still need oil and gas on its pathway to decarbonisation.

This is occurring at a time when the industry's capital discipline and decline in exploration success over a number of years means that there's fewer high quality growth projects in the global pipeline.

And yet demand, of course, will not wait. Tighter market balances will lead to price support for many of our commodities.

Slide 16: Longer term drivers for resources

Add population growth and further rises in living standards to this equation, and the conditions are very promising.

Our products are enablers of both traditional economic growth and the energy transition. Resources are fundamental to the way we live now and how we will live in the future.

So how will BHP benefit from this? How will we grow value?

Slide 17: Delivering on our agenda

First and foremost, by being better at what we do – everyday.

We are systematically unlocking greater performance across the business by making better use of our equipment and enabling our people to work smarter, be it in the way we apply the BHP Operating System, or our technical centres of excellence, or through an inclusive and diverse workforce.

We're starting with the bottlenecks, but if there's a gain to be made on safety, productivity or reliability, you can bet we are working on it, bit by bit.

Our agenda is delivering results – something our recent performance makes clear.

Slide 18: Growth options to capitalise on market opportunities

Along with delivering operational improvements, we are strengthening our portfolio to protect and grow value over the long term.

This means advancing our projects, creating and securing more options – particularly in future facing commodities – and exiting assets where value can be maximised under different ownership.

While trends like decarbonisation will affect the attractiveness of each commodity differently, our resources – their size; quality; optionality; and the technologies available to extract them – will be as influential on how we grow.

We start in a strong position.

In iron ore and metallurgical coal, our focus is on growing value through lowering costs and driving incremental growth by lifting productivity – something we've been incredibly successful at doing in recent times. Should market dynamics warrant additional volumes, the scale and quality of our resources provides capital-efficient expansion options and we have very clear line of sight on how we would deliver these.

We are progressing with our plans to divest BMC and our energy coal assets. This will focus our coal portfolio on higher-quality coking coals, which are both necessary and attractive for steel-makers in a decarbonising world.

In petroleum, recognising the opportunity to grow value in the coming years, we will progress our well-defined project pipeline which includes the short lifecycle projects deferred from last year, as well as some attractive larger ones. We will pursue targeted divestments of later-life assets. And we will also explore potential counter-cyclical acquisitions.

The timely purchase of an additional 28 per cent stake in Shenzhi, completed in the last half, is a good example of this. Shenzhi is a field that we, as the operator, know well. The additional volumes will help keep our overall Petroleum division production broadly flat in the medium term. And recent drilling results have added to our confidence in the resource.

We are also creating and securing more options in future-facing commodities. In copper and nickel, our world-class resource bases in Chile and Australia contain significant potential. While their medium term development pathways are well understood, we are working on technical innovations to enable the economic extraction of more of these resources in the longer term. We will also add options through exploration, early stage entry and, again, potentially value-enhancing acquisitions.

We've demonstrated this over the past six months through greenfield exploration and our option agreement with Encounter covering the Elliott Copper Project in the Northern Territory.

Lastly, in potash, Jansen is an opportunity in a commodity we like. Potash is well placed to benefit from the world's population growth and changing diets. Our significant resource base provides many options, and Jansen Stage 1 – the first of these – remains on track for Final Investment Decision in the middle of this calendar year.

Slide 19: Social value is core to everything we do

A lot more supply of commodities is going to be required in order for the world to continue to grow and to make the transition to cleaner energy. There is obvious tension between the very need to increase production of commodities to make the world more sustainable on the one hand, with the pressures to reduce the negative sustainability footprint associated with resources production on the other.

The more alignment we can create between resources companies like BHP, investors and society in how we navigate this tension and manage the trade-offs, the more likely it is that the transition can be achieved sustainably, quickly and cost effectively.

Conversely, a lack of alignment will result in poorer sustainability outcomes, and slower and more costly progress on the energy transition.

We are committed to continuing to deliver excellent returns for shareholders and other stakeholders, doing so with an ever-reducing direct sustainability footprint and demonstrating leadership through investment in the technological solutions and policy advocacy required to actually decarbonise the supply chain.

Investors have a role to play in ensuring markets function such as to stimulate these behaviours, including differentiating between those that choose to take responsibility, and those that don't.

Strong commitment to sustainability is important to us all. Not only is it the right thing to do, it preserves and grows long-term value for shareholders and society.

We have an extensive history of leadership on this.

We have been focused on reducing our operational emissions for more than two decades. Most of our assets are already at the lower end of their respective emissions intensity curves. And we are lowering them further through widespread take up of renewable power, and through diesel displacement – a more complex task.

I mentioned earlier some of the steps we have taken to support decarbonisation of our value chain, including the maritime and steel industries.

Water sustainability is also a priority for the world and for BHP. We've invested more than US\$4 billion over the past 15 years to move to 100 per cent desalinated water at Escondida. We've ensured our new concentrator at Spence operates with desalinated water too.

And recognising that many of our operations are tied to Indigenous communities, we continue to invest in the relationships of trust we have shared with traditional owners over many years. In September 2020, we further strengthened our 20-year partnership with the Banjima people through the establishment of the South Flank Heritage Advisory Council. This will ensure on-going high level dialogue between us on important cultural heritage and other matters.

These are but a few examples of why we believe we can help to meet the world's growing demand for commodities sustainably, for the benefit of all.

Slide 20: Investment proposition

So, to conclude.

We took some big steps forward in the past six months. Our people and our strong foundation have seen us navigate the challenges of the pandemic with courage and conviction.

Our focus on operational excellence and financial discipline meant we captured the benefit of higher prices and delivered a strong set of results and returns to shareholders.

To help to meet the world's growing demand for commodities sustainably, we made clear our commitment to addressing climate change and have taken action within our operations and throughout our value chain.

With our proven agenda and compelling outlook for our commodities, we are well-placed to grow value and returns for decades to come.

Thank you.