



**Financial results for
the half year ended
31 December 2022
Investor and
analyst briefing
Q&A transcript –
Session 2**

21 February 2023

Introduction

MIKE HENRY (CEO, BHP)

I'm going to say just a very brief introduction on the results and the outlook, but before I do that, I do want to touch briefly on safety.

This is priority number one. Nothing matters more in BHP. Against that backdrop, it has been a tough couple of weeks. After four years of good safety performance, one of our team members tragically lost their life on the job. That team member's name is Jody Byrne. He leaves behind family and friends, of course. He was an employee in our iron ore operations, but had also been an employee at BMA, so was relatively well known across the businesses here in Australia. So, a real tragedy.

We're providing support wherever we can. There is an investigation under way, of course, the learnings from which will be absolutely rigorously implemented across the business, and it is important that we learn from this.

We've already had an intense and very specific effort under way in recent years across the Company, to fully eliminate fatalities, and that's supported the strong performance over the past four years, but as this incident has shown us, we cannot rest on this front, and we will be looking for every opportunity to redouble our efforts in this regard.

I'll turn now to results. We delivered steady and reliable operating performance in the first half. In fact, production was up across our big businesses of iron ore, copper and coal. Western Australian Iron Ore posted record half year production, and we remain the lowest cost iron ore producer globally. In fact, we stretched our lead in that regard relative to the next best during the period. Our lead stretched out to 12%, with our C1 cost being US\$15.50 per tonne, and the next best being 12% higher than that.

Copper production was up for the half, as Escondida accessed higher grade ore. The Spence concentrator, of course, is ramping up and Olympic Dam extended its recent track record of operational stability. In Queensland, in spite of the very extensive wet weather, the business showed underlying improvement in productivity, and that allowed them to increase production, as well.

This performance and delivery from the teams right across the BHP business has translated into strong shareholder returns, and value creation for all of our stakeholders.

If we then turn from the past half to the outlook, over the course of this calendar year we're expecting three big themes to play out. One is a general slowing of growth in Europe and the US, and that's a result of the lag impacts of last year's anti-inflation policies and of the energy crisis.

China's reopening, conversely, is progressing well, with some real positive signposts emerging early in the new calendar year. Bank lending, mobility data, new home prices, in some cities, and business surveys are all showing solid signs of improvement.

The pent up demand being released as China opens back up from COVID, coupled with growth promoting policies, are expected to drive stronger economic growth, and increased demand for the commodities that we're producing. So, we now have even greater conviction that China's going to be a stabilising force for global growth over the remainder of calendar year '23.

Looking a bit beyond that, while it varies by region, we do see that an easing of inflation may allow central banks to end the rate-tightening cycles in the coming quarters, and as such, we expect world growth, overall, to strengthen in 2024.

Now, lots of moving parts in the near term, of course, but it's fair to say that the economic picture is clearer now than it was, say, six to 12 months ago.

Over the long term, we remain very confident about the demand for our commodities, being driven by these big trends that we've spoken about previously, growing mobile population, increasing standards of living, and the energy transition. So, overall, we're being very purposeful and disciplined in our pursuit of growth in future-facing commodities, our cost management and our underlying operational performance, and importantly, we have positive momentum behind us, as we head into the rest of financial year '23, and then financial year '24.

Questions and answers

LIAM FITZPATRICK (DEUTSCHE BANK)

Good morning, Mike. Two questions from my side. Firstly, on Samarco. Can you give any colour on how the negotiations are progressing with the government, and the prosecutors over a definitive settlement? Is it your expectation that we could perhaps see something later this calendar year?

Then secondly, just interested in your thoughts on the coking coal strategy. I mean, normally, there are advantages to scale and market share, and you seem to be, bit-by-bit, divesting the lower quality assets, so, why not fully exit coking coal, I guess, is my question? Thank you.

MIKE HENRY (CEO, BHP)

Okay, well, I'll answer coking coal, David. I'll say a few words on Samarco, but will then pass across to you.

On coking coal, what you see in the announcement we've made today around divesting Blackwater and Daunia is very consistent with the strategy that we've laid out previously. We're trying to create a portfolio here, that has a positive leverage to the big themes that I just spoke about, and we're convinced that the highest quality of coals for steelmaking have upside opportunity in a faster decarbonising world. So, consistent with what we've said previously, we're looking to concentrate the portfolio on the best of the best assets.

Now, we believe the business still has adequate scale, we'll continue to be the biggest supplier of those premium quality coking coals into the market, and we remain convinced that those are a valuable part of the BHP portfolio, going forward.

On Samarco, the first focus, of course, remains on the commitments we laid out previously, around ensuring that communities were resettled, compensation was provided, environmental rehabilitation was undertaken, and there has been strong progress on that front, over the past 12 months.

We have about 70% of the resettlement cases now completed. Further work under way, in that regard.

Compensation progressed during the period, and of course, Samarco's back up and running, which has created jobs locally, both within Samarco, the Renova Foundation, also significant jobs. And Samarco being up and running is helping to fund remediation, compensation and resettlement, as well.

Now, on the negotiation of a definitive settlement, obviously, the government has been in transition in Brazil, new government settling in, but in due course, we do look forward to negotiations progressing again. I wouldn't want to call the timing with which those will be concluded.

David, is there anything you'd like to add?

DAVID LAMONT (CFO, BHP)

No, I think you covered it, Mike. I mean, certainly, the most pleasing thing is actually what we're seeing on the ground in Brazil. As Mike mentioned, with the 70% of resettlement cases already completed, and a further 15% are actually in progress. So, on the ground we're starting to get more traction, but as Mike mentioned, the change in government has meant that we just have had a bit of a pause there.

What I would also just say is we are in absolute alignment with Vale and Samarco on the way forward, and we're hopeful that a settlement will be reached.

JASON FAIRCLOUGH (BANK OF AMERICA)

Good morning, guys. Thanks, Mike and David for taking our questions. I know it's a busy day for you.

Just a couple of questions. One on Chile, and then one on coking coal markets.

First of all, Chile, obviously, you're a huge investor there, via your holdings in Escondida and Pampa Norte. I'm just wondering how you're thinking about incremental investments into Chile, in the context of the political and social developments there?

Secondly, just on coking coal markets, China, historically, we've thought of as being broadly self-sufficient in coking coal, and yet there's some potential signs there of a hiccup, and looking at the fact that the Chinese appear to have lifted the coal import ban for Australia, I'm wondering what we should read into that? Interested in your thoughts on both of those, please.

MIKE HENRY (CEO, BHP)

Okay. Hi, Jason. David, I'll take the one on Chile, and perhaps, if you want to comment on coking coal markets.

Clearly, there's some uncertainty out there still, Jason, on where the royalty rate is going to land. Having said that, there's been good engagement between government and industry, in an effort to work towards any changes still being at a level that will keep the industry there competitive.

Now, on your question about what does this all mean then, for further investments on our part in Chile? We haven't yet been quite confronted with that, because the things that we may invest in, remain in study, and so, Rag and the team there have done a great job of accelerating some of those studies, but as we progress them, we're then keeping an eye on what's happening with the unfolding potential changes to royalties.

We'll then need to make a decision about whether we see risk and returns for further investments in Chile as still being attractive, relative to other options in the portfolio, and relative to returning further cash to shareholders.

We're not at that point yet. Some positive signs in terms of levels of government engagement, but until we know exactly what it looks like in the final reckoning, hard to be definitive about.

David, coking coal?

DAVID LAMONT (CFO, BHP)

Yes, thanks, for the question, Jason. Let me start by saying that as a result of the trade relationships between China and Australia to some degree opening up, we see that as an overall positive for the market, as such. For us, we have been able to redirect the majority of our volume that was going into China into India largely, and we have built very good customer relationships through our customers in India. Our first position will be we'll continue to obviously support those underlying customer relationships.

Specifically, in relation to China and the trade flows post the Australia ban, what you did see is tonnes going in from Russia and Mongolia into China. China isn't self-sufficient on hard coking coal, they do require importation into that. You should see line of sight of that perhaps to the trade situation with Australia opening up. We think that overall is a very positive aspect of the global seaborne trade in hard coking coal, and we'll continue to work very well with our underlying customers, both in China and other jurisdictions.

AMOS FLETCHER (BARCLAYS)

Hi gents, thanks for taking the questions. Two questions on met coal. The first one was just regarding the barriers to reinvestment and growth in BMA. You've been making the point of the China import ban and the Queensland royalty hike have been the main barriers to that increasing; one of those have been reversed. My question is, do you have any legal avenues available to potentially look at overturning the royalty hike in Queensland?

Then the second question on met coal disposals, could you give us a bit more detail on the coal quality mix at Daunia and Blackwater? Maybe talk about what percentage of EBITDA these assets are contributing, and where the unit costs sit relative to the broader BMA business. Thanks very much.

MIKE HENRY (CEO, BHP)

David, maybe you can take the second half of Amos' question. Amos, just in terms of barriers to reinvestment and growth, yes, you're right. One half of the equation has been removed, being the China import ban. But we're still left with the investment climate there that is riskier and higher cost than the alternatives available to us.

BHP is a global company. Even here within Australia, we've got attractive investment options in Western Australia. We've been clear that we're studying options around being able to grow the iron ore business to 330 million tonnes per annum. We're looking to grow the nickel business. In South Australia, just with Olympic Dam and Oak Dam, there's an opportunity. Once the OZ Minerals acquisition is completed, that's going to open up other opportunities for us.

Against that backdrop of other jurisdictions and I should have mentioned of course Jansen in Canada, both stage 1 but then potentially stage 2. Against that backdrop of us having options to invest and grow value for shareholders in lower risk jurisdictions with high returning projects, we're going to do the sensible thing there. I don't think shareholders would expect us to do anything otherwise than chase those better returning, lower risk options. David?

DAVID LAMONT (CFO, BHP)

Certainly in relation to the overall coal quality, what this will see us do is move out of the semi-soft part of the coking coal market. It will leave us with more of our product in the high (quality) coking coal market, which is very consistent with our strategy as we have articulated; to continue to actually leverage into the decarbonisation factors within the steel industry, and we certainly see that there's at least a decade of strong support for the underlying hard coking coal that we'll have remaining in our portfolio.

If you look at the two assets that we flagged, they represent around about 25% of our overall production for BMA, but far less on the revenue side of things, given that they're not that premium hard coking coal product. In relation to, I think you also asked about unit costs, it wouldn't change fundamentally the overriding unit cost position for BMA.

TRISTAN LOVEGROVE (IR, BHP)

I think the other thing worth saying, Amos, I think it's in the annual report on I think page 220. They've got the reserves and resources, and you can see there the different shakeup for the reserves, in particular I'd point to, for those two assets.

MYLES ALLSOP (UBS)

Thanks. Just a few quick questions. Maybe first of all, on the met coal scene, where are we with the BMA labour negotiations? Is there any risk of disruption? Just a clarity on Samarco as well, the US\$3.4 billion provision. Are you sure that's enough to complete the - sort of make good Renova Foundation commitment if we're spending US\$2 billion of it over the next 12 months? It seems that that liability may be a bit short, never mind the fine.

Then maybe just on Escondida as well, when will the studies be complete? When will you be in a position to start talking more clearly about the fourth concentrator and the other options there? Thanks.

MIKE HENRY (CEO, BHP)

David, why don't you take the one on Samarco first and then I'll speak about met coal and Escondida?

DAVID LAMONT (CFO, BHP)

Yes. Myles, specifically in relation to Samarco, let me start by saying that I think this is the first reporting results that we haven't seen a shift in the underlying provision for Samarco. That gives you a position whereby we are seeing traction on the ground as we mentioned earlier, in relation to resettlements and the overall Renova Foundation commitments that we've looked at.

As part of that, it's also worth noting, as you said, we have – of that provision of US\$3.3 billion, around about US\$1.9 billion we expect potentially to be settled out this year. That's consistent again with Vale's position and our own in relation to the provision for the next 12 months. We have indicated that we will fund round about US\$900 million as a commitment that we've also announced.

The remaining US\$1 billion is really around risk factors et cetera, and we need to see how things play out from our commitment on the ground. We feel very comfortable with that level of provision for the known obligations that we actually have today. You will also note in the financials that we do have a contingent liability but that contingent liability is very much about legal cases as opposed to our commitments that are agreed and in place in relation to the Renova Foundation.

MIKE HENRY (CEO, BHP)

So, Myles, just on met coal labour negotiations, I don't know if you're aware or not but the central agreement there has been agreed, which is the key agreement that everybody focuses on. Of course, you've always got other agreements being negotiated along the way but the big one has been agreed already.

Escondida – your question was when will the studies be completed and when will we be able to talk about them further. Firstly, Rag and the team have done a great job of accelerating quite a number of different studies, so they'll all land at different times. Where I don't want us to end up is engaging until the studies have been properly progressed.

I don't want to end up in a situation where we're engaging too early and being seen to overpromise things, so we do want to let the studies run their course. In addition to the studies, of course we have – as I mentioned earlier – the royalty process unfolding there.

Now, I think certainly over the next 12 months, we'll have made progress and we'll be able to talk about things in a richer way perhaps than we can today, but I don't want to get locked into providing a specific time when we'll come forward with which studies, other than to say that they're underway, progressing to plan. Once we're sufficiently confident around them, then we'll come forward and speak more openly about them.

DANIELLE CHIGUMIRA (CREDIT SUISSE)

Great, thank you for taking my questions. Firstly, a question on inflation. You called out diesel as a driver for higher than expected inflation. On a go forward basis, how much higher is diesel currently trending than what you'd budgeted for fiscal '23?

Secondly, thinking about met coal again, so thinking about coal sales more broadly, obviously we've seen a history of miners targeting to sell coal assets in one and a half to two years and that's not always resulted in value creation. If you had the choice or the benefit of hindsight between a Cerrejón type of disposal and keeping Daunia and Blackwater in the portfolio, what would you choose?

MIKE HENRY (CEO, BHP)

Thanks, Danielle. It's a slightly hard hypothetical because of course, at any given point in time, there's so many variables that come to play. But we do also have a successful track record of disposing of assets for good value, so that's the approach that we're adopting around Daunia and Blackwater.

We think markets are favourable currently but at this point we've entered into a process and we'll need to see whether at the end of the process, we believe that there is appropriate value and risk to be had for BHP shareholders and if not, then we may not successfully conclude that process.

Right now, we're starting with the expectation that we will, given the environment that we see and how we see the buyer's universe, but as we demonstrated with New South Wales Energy Coal, we'll be disciplined about this.

On diesel, David, you might want to give specifics, but diesel prices were about 70% higher period on period. Coming down, but people shouldn't expect that that's going to play directly through to the cost line immediately.

DAVID LAMONT (CFO, BHP)

Yes, certainly – and just to put this into some context – as a result of the half-year result, we didn't change our cost guidance for any of the assets as such, so if you factor in our forward view therefore around diesel et cetera plays into that guidance that we've actually given to the market.

As Mike mentioned, we did see period on period diesel costs up some 70%. To put that into perspective for you, of our overall cash costs it's gone from what was roughly 5% to now about 8% of our total cash cost position. So, significant in that sense but the peak we see as hopefully being behind us.

We have certainly seen more recent prices being more favourable but understand that there's always a lag effect here in relation to spot prices to when we actually see that hitting our cost line.

DOMINIC O'KANE (JP MORGAN)

Hi, guys. Thanks for the questions. Just two questions on copper. Obviously, the half was interrupted and we're continuing to see social and civil disruption. Can you just maybe talk to us about the challenges and the risk factors for Q3, Q4?

Then also on Spence. You mentioned the tailings storage facility anomalies but you seem pretty relaxed still about that issue. Is there an ongoing risk to – or risk factor for Spence guidance or your outlook for Spence for that reason? Thanks.

MIKE HENRY (CEO, BHP)

Sure. Look, let me talk about Spence first and then I'll come back to broader industry and then how we see potential impacts of social unrest and so on. So, please, anything to do with tailings, we're never relaxed about. We take these things incredibly seriously.

What I was trying to convey was the team on the ground there is doing a good job of managing through and managing the tailings storage facility in a safe and reliable way, but we never take anything to do with tailings for granted or lightly. Now, what we do see, setting aside the tailings issue, the underlying operational performance of the asset is improving.

So, the concentrator's ramping up, recoveries are improving, which are all positive signs, and the team's working through what the remediation approach will be for the tailings facilities, whilst at the same time looking at how we can get even more capacity out of the infrastructure in there, so further opportunities to creep beyond the 270ktpa that we've spoken to.

On the broader copper outlook – and without wanting to get specific about Q3 and Q4 where we've got on the one hand slowing growth in Europe and the US, which make up a significant portion of copper demand, but on the other hand, you've got weighing against that slowing of demand, starting low inventories, as well as disruption.

What we've been saying is that we're forecasting the market to move into slight oversupply, very slight oversupply, in the coming few years, but that's predicated upon a disruption rate of around 5% per annum. Now, it doesn't take too much by way of further social unrest beyond that for the market to tip back into a bit of undersupply. It is pretty finely balanced.

SYLVAIN BRUNET (BNP)

Good afternoon, Mike, David and Tristan. Just following up a little bit on Pampa Norte. If you could perhaps unpack for us any of the elements that could have weighed on profitability in this last half, just to try and normalise things.

My next one would be on OZ Minerals and synergies, but I understand you can't go too much into details. Could you give us some early findings there and any refining of the plan and any timeline of when we should expect a bit more colour on that? Thanks.

MIKE HENRY (CEO, BHP)

Okay. Sylvain, if you don't mind, can you just repeat your question in respect of Pampa Norte? I got the one on OZ Minerals but the line broke up a little bit when you were talking about Pampa Norte.

SYLVAIN BRUNET (BNP)

I was just finding profitability was a little bit lower than expected so I just wanted to understand a little bit better the elements that could have been one-offs and that we should normalise.

MIKE HENRY (CEO, BHP)

Got it, okay. Terrific. Look, I'll leave that for David but let me speak firstly about OZ Minerals. So, the transaction remains on track, for lack of a better word. The expectation at this point is that OZ Minerals' shareholders will vote on the transaction in April.

Subject to a successful vote there, then we'd move pretty quickly to closing of the transaction and into an integration process. Now, one of the early things that we would be doing upon integration is really looking at where the opportunities exist for optimisation between the OZ Minerals assets in South Australia, Olympic Dam and Oak Dam, both in the near term but also in the longer term, as well as looking at the potential for tying in the West Musgrave project into our Nickel West assets.

But the heavy lifting on that will occur post-closing and then we'd be moving as quickly as possible to steer everyone towards what that overarching vision looks like for the possibilities that may be unlocked through the basin. Now, of course on specific synergy numbers and so on and near term synergies that may be unlocked, that's something that we would be talking to probably closer to the time or shortly after the transaction closes, as opposed to at this point.

David, did you want to take the one on Pampa Norte - Sylvain's just calling out that profitability was a bit lower than expected. Are there any one-offs that we wanted to call out there that were impacting results for the period?

DAVID LAMONT (CFO, BHP)

So, certainly Pampa Norte and specifically Spence was obviously in the ramp up phase that we've already articulated and that continues to be an ongoing focus. If you look at Cerro Colorado, though, at the same time it's in ramp down because obviously, that's all complete at the end of '23.

So, there is nothing specific in there other than the ongoing inflationary pressures that we actually see in both of those and the ramp up, et cetera, alongside Spence.

TRISTAN LOVEGROVE (IR, BHP)

Sylvain, I would just add, we did call out on page 12 of our results announcement the one-off contractor costs and higher consumables associated with, as David says, the drive to improve recoveries at Spence in particular.

MIKE HENRY (CEO, BHP)

Yes, which was concentrator upgrade improvements.

RICHARD HATCH (BERENBERG)

Thanks. Good morning, guys, and thanks for the time. Just following on from that, Pampa costs were about US\$2.65 a pound as I back it out ,US\$2.66, for the first half, which is well above your historical averages over the last few years, but I appreciate you've got some one-offs in there. Mike, David, what's the medium term target for Pampa Norte costs please and over what time frame would you like to get there?

Then just secondly on coal prices. With thermal coal prices cratering through US\$200/tonne, are you seeing any of those low quality met coals come back into the met coal market that have been previously directed to the thermal market for the arbitrage and are you worried in any way, shape or form about the lower quality end of the met coal market just in terms of price performance for the second half of this year or the remainder of this year? Thank you very much.

MIKE HENRY (CEO, BHP)

Sure, thanks, Richard. So, on Spence, we haven't provided a medium term cost guidance for Spence but if we just take you through the high-level logic, production continuing to increase at Spence, Cerro Colorado in ramp down and there's costs associated with ramping down but those will diminish over time, and then we have concentrator upgrade improvements that were costing money through the period. But then again, over time, it will reach more of a steady state for the concentrator subject to some of the work that Rag and team have underway to look at whether there's further opportunities to expand beyond the 270ktpa. So, all up, that points to costs coming into better territory over time.

Now, on thermal coal, the point that you make around low quality met coals having migrated into the thermal coal market off the back of high prices – well, I think the response to your question is somewhat embedded in the question itself in that for the first time – and many people thought it would never be possible for thermal coal pricing to exceed met coal pricing in the way that it has for an extended period.

Thermal coal prices weren't brought back down through significant switching out of coking coal into thermal coal. Yes, of course there was some, but as things reverse, thermal coal prices come back down, there will be some pull back into met coal prices but not something that disrupts our thesis around how we see the opportunity for in particular the high quality hard coking coals in this faster decarbonising world where we expect that in the years ahead, they're going to be in even greater demand and stand to see some price upside.

TYLER BRODA (RBC)

Thanks. Thanks, Mike, David, Tristan for the call this evening. Appreciate it. Two questions from me. The first one is the US\$10 billion medium-term capex target. Clearly, there's a lot of projects starting to come forward and looking like they're high return projects. I guess is that number still appropriate? Do we expect an update post the OZ Minerals closing?

Then the second question would be just related to that on slide 13, the Capital Allocation Framework (CAF). In the past, you've done 44% shareholder returns since 2016 when this was put into place, which is fantastic. From a more philosophical perspective, do you think that you will see the capital investment side increase and then is there a maximum percentage on that basis that you would target or I guess maybe a minimum shareholder return you'd target? Thanks very much.

MIKE HENRY (CEO, BHP)

Let me have a go at this, David, but you may have things that you'd like to add. So, your question, Tyler, around will the US\$10 billion medium term capex level change with OZ Minerals projects, I don't think you can look at it and say, well, we had US\$10 billion, OZ Minerals comes in and therefore it's some higher number, because at the end of the day, we want to stimulate competition for capital.

Yes, OZ coming in is going to give us more options and that's great because it should stimulate more competition and through competition, higher average returns. Now, we'll have to look at things. As I said earlier, once the transaction has successfully closed, there will be a period in which we look at the various options to create more value in and around the basin, but for now, let's stick with the US\$10 billion and we'll look at how we go about stimulating competition within that.

Now, on the CAF and 44% shareholder returns. I think shareholders want us to be developing high returning project options within the portfolio. Isn't it great if we've got the luxury of decisions around how we can go about creating more value through reinvesting back in the business? Having said that, we've got a very clear dividend payout policy of 50% and so this period it was higher than that.

It has been higher but we'll need to judge that on a period by period basis and it all comes back to returns. Are there opportunities in the portfolio for appropriate risk and high returns to be deploying capital into growing shareholder value? If yes, then we'll look to invest and otherwise, the cash goes back to shareholders. There'll always be a balance between the two, as we've demonstrated over recent periods. David?

DAVID LAMONT (CFO, BHP)

Yes, the only addition that I'd actually add to that, Tyler, was obviously it's framed around also the balance sheet strength that we have and the net debt range of US\$5 billion to US\$15 billion. Certainly, at the end of December we closed at US\$6.9 billion, which enabled us to have that payout ratio of 69% and I'll just reference here, that US\$0.90 per share is the fifth highest dividend that we've paid out in the history of BHP.

So, we acknowledge that there's a balance here between investing back into the business but I will just reiterate the CAF starts with maintaining the operations and ensuring that we've got the right level of asset integrity work, safety spend, incorporated into that maintenance and sustaining capital is also our decarb spend, and then we look at the 50% return to shareholders and any excess over and above that then is divvied up between the aspects of additional dividends or balance sheet strength or, indeed, growth capital.

ALEXANDER PEARCE (BMO)

Hi all. So, I have another question on the coal asset sales. You've mentioned a focus on the higher quality coal within your portfolio going forward. I wondered whether you'd actually consider ever adding volume to met coal if the quality was high enough, whether that's from your existing portfolio options or externally, or should we essentially think with this division at least, production wise is now either flat or lower going forward? Thank you.

MIKE HENRY (CEO, BHP)

Good question, Alexander. So, first of all, we've said that we see there being potential upside for high quality hard coking coals in a faster decarbonising world. Now, part of that will be driven by the value in use premiums that should accrue to these coals because of the positive impact they'll have on blast furnace productivity and therefore emissions intensity.

It doesn't equate to strong demand growth in met coal markets and therefore, the opportunity to grow production – because we always keep an eye on what's happening in the markets and how will bringing on new production or is further production needed by the markets or not.

We would always look at options around that but the reality is today that we believe that there's other opportunities within the BHP portfolio to be able to invest capital for better returns and importantly, lower risk, given the impacts of the royalty changes in Queensland.

So, it's a bit of a theoretical exercise at this point in that the royalty changes have been made, they've fundamentally altered the risk and returns landscape for growth capital in BMA. So to the extent that that remains in place we won't be investing further growth capital in BMA or Queensland. Now, if that were to change and if the market was looking positive and there were high returning opportunities in BMA, then yes, it would be incumbent on us to consider them. They would go through the CAF as with all of our other projects, but right now given how we see risk and returns in BMA, - we're not carrying forward those opportunities.

BOB BRACKETT (BERNSTEIN)

Yes, good morning. You disclosed that Jansen Stage 2 feasibility study was pulled forward a year. Should I interpret that as optimism around Jansen Stage 2 or simply efficiency?

MIKE HENRY (CEO, BHP)

I would say it's our pursuit of options. What we're trying to do is create options. It shouldn't be seen as us intending to, at this point, say we will definitively proceed with Jansen Stage 2, we just want to have the options available to us as soon as possible.

Now, of course, given the tragedy that has played out in Ukraine, potash markets have been buoyed in the near term but our broad thesis around potash has been pretty consistent. Global population growing, higher standards of living, constraints on arable land, need for more sustainable farming bodes well for overall potash demand and we've got some great assets in Jansen. Jansen Stage 1 progressing well is definitely a factor in this as well.

If we get to FY24 and we've completed the studies, it looks like the project is high returning, it looks like the market can accommodate those volumes or needs those volumes sooner rather than later and we're executing well on Jansen Stage 1, then there's the option available to us to pull the trigger on Jansen Stage 2 then but for now it's all about progressing the studies and building or giving ourselves the option.

DANIEL MAJOR (UBS)

Yes, thanks for the questions. M&A seems to be a dominant theme in the sector at the moment so I'll ask a couple of questions there. Firstly on the fertiliser side you've obviously got Jansen accelerating the next phase, is potash still absolutely the focus of any exposure to the sector or would you look at any acquisitions that might include nitrogen and phosphate as well. That's the first one.

The second one, in copper. Can you make any comments about your position in Filo Mining, whether there's views there.

The third one - looks like a spinout of Teck Resources coal business could create an opportunity for somebody. Would the suite of base metal assets for Teck be complementary to your portfolio? Thanks.

MIKE HENRY (CEO, BHP)

Okay great, thanks Daniel. Look, I want to start with how we think about value because it's important to understand that to inform how we think about M&A. So we have five levers available to us to grow shareholder value. First and foremost, by far the biggest and the most within our control is productivity - operational excellence, getting more out of the capital that we already have deployed into the business, we've got a building track record around that.

Second then is organic growth. We've spoken earlier on this call about some of the studies that we have underway in South Australia, in Chile, at Jansen, in iron ore, in nickel, but it's getting more out of these fantastic resources that we already have in the business. BHP is the largest holder of copper resources globally, second largest resource of nickel sulphides, great potash resources. So through the combination of operational excellence and innovation, we believe that we can get more out of existing resources, again, more within our control and our belief is that there's going to be a number of high returning projects therein.

Now, there's a bit of a longer-term effort around greenfield exploration. We've upped our activity there specifically for copper and nickel and alongside that, early stage entry where - and you flagged one of them - Filo Mining - where we are taking positions on the ground floor with some of these potentially large, tier 1 resources which are held by generally small to medium sized companies but where we can bring BHP's balance sheet and capability to bear in partnering with them to develop those resources over time. So those are the first four levers available to us and then M&A.

M&A always has to be for assets or commodities that are on strategy, assets that are of the quality that we like, so tier 1 assets, and it has to be at a price and with conditions that allow us to create more value or be confident about creating more value for BHP shareholders. So we will be very disciplined about M&A.

Now your question was, will we in the case of fertilisers pursue other fertilisers than potash. We're very disciplined and purposeful about how we go about selecting the commodities that we invest in and we've said we like potash. It has good alignment to BHP capabilities. It's a sufficiently large market. We're able to get our hands on assets at the low end of the cost curve. So that is the key focus for us, potash.

Filo Mining, we're partnering there in Filo Mining, getting to understand the jurisdiction better and getting to understand the resource better. Then we'll re-evaluate what role we can play, together with Filo Mining, over time to support the development of that project.

Then your question about the Teck spinout, of course, never want to speculate on individual opportunities, I would just direct you back to the points that I made about M&A being but one of five growth levers available to us. There's others that are much more within our control and any M&A that we pursue has to be for the commodities that we like, the asset qualities that we like and at a value that's going to create good value for BHP shareholders.

RAHUL ANAND (MORGAN STANLEY)

Mike, David and team, thanks for the opportunity. Two from me. Number one, maybe first one for David. David, is it fair to say that given you're now within that net debt range and with the capex and growth considerations now starting to rise as you start to pivot towards growth, are your future payouts now more likely to be matched to free cash flow as your capex outpaces your depreciation? That's the first one.

Then the second one perhaps for Mike. Mike, in terms of Oak Dam, some interesting drill results today. Grades ranging from 0.8% to 4.34%. I mean eyeballing I think the grades seem to be about that 2% mark for copper. I just wanted to touch upon the asset. I mean when do we expect further updates? How does it fit in with OZ Minerals in terms of competing for an investment in terms of a brand new mine development? Then what's your broader plan for the district so to speak once - if we assume that OZ Minerals is part of your suite? Thanks.

MIKE HENRY (CEO, BHP)

Okay David, net debt and then I'll speak to the question about Oak Dam.

DAVID LAMONT (CFO, BHP)

So in relation to the net debt, we obviously have, as you articulated, the US\$5 billion to US\$15 billion range. Now, fundamentally this is driven also by the underlying performance of the business and how that tracks. But we do think that investing back into growth is also important given where we are in the cycle and that's why we put forward that US\$10 billion mid-term guidance in relation to capital. But we will be very diligent and careful in relation to our balance sheet as well as part of the overall exposure.

So the payouts that ultimately will get paid to shareholders will be assessed on a six-monthly basis based on the forward view that we actually see of overriding markets and the cash that we've actually delivered in the period. So very committed to the 50% at the minimum and we'll continue to evaluate what we do over and above that in the period based on the current business performance.

MIKE HENRY (CEO, BHP)

So, Rahul, just on Oak Dam. So that broader basin opportunity is a really interesting one. We've got Olympic Dam, which has clawed its way back from, what was over quite an extended period of time, quite an unreliable operation to where it's now operating more reliably. As a result of that we've seen good production from Olympic Dam.

Oak Dam continues to be a promising prospect for us. As to when you'll see further updates, probably the way I would couch it is, so we've been quite clear that we're looking at what the next phase is for Olympic Dam and one of the considerations there is a potential move to two-stage smelting, which would de-constrain the underground and would give rise to an overall more efficient asset.

The natural timing for that to happen is around 2027 and 2028. Why? Because that's when we have the next major smelter campaign at Olympic Dam and we don't want to take the smelter down twice. So we would target the natural timing to look at a move to two-stage smelt. We'll need to consider then how we want to scale that smelter.

Are we scaling it just for Olympic Dam or are we scaling it for a combined Olympic Dam, Oak Dam development and then if the transaction for OZ Minerals is concluded, that brings in further optionality.

So after conclusion of the OZ Minerals transaction, given the latest understanding that we have of Oak Dam and the more reliable performance out of Olympic Dam, we'll be stepping back and saying well what is the long-term opportunity here for the basin and against that backdrop then we'll make the decisions around the smelter over the next few years and we will engage you all further on what our vision is for the basin. But still, a little bit too early to be definitive about it but I think you can see the direction that this is moving in and the optionality that we're going to have.

The other point I should make is OZ Minerals, this is a great company, good management and whilst there's certain benefits that we think bringing BHP's capabilities to bear on OZ Minerals assets are going to bring, there's also going to be a lot for us to learn from the OZ Minerals team, which is why we've been quite clear we want to retain the vast majority of OZ Minerals employees. One of the things where we may be able to apply some of that can-do attitude and their own ingenuity and agility is to how we go about developing things like Oak Dam and the broader basin opportunity.

MIKE HENRY (CEO, BHP)

Okay, well look, thanks everybody for joining. I hope you can see that the underlying business performance here continues to track pretty well in spite of inflation, in spite of wet weather on the East Coast and so on. Production up across the three big businesses.

As you can see in the iron ore business where we've extended our lead as the lowest cost supplier - the teams are doing a pretty good job of guarding against and pushing back on some of the inflationary pressures that are coming to the business. We're not immune, of course, but you can see that in relative terms the business is doing pretty well and we're continuing to execute against strategy, as you can see on the portfolio front.

I should also mention social value. This is something where over the period there's been quite a number of important developments, one of them being our Indigenous people's policy statement, which brings even greater clarity to how we engage with Indigenous peoples right around the world.

That focus on social value, the way that we're creating value for all those around us, coupled with this relentless focus on operational excellence and all the benefits that's bringing to us in terms of greater reliability, better costs, that's a good package. We think it's a pretty compelling package for long term value creation for shareholders when brought together with some of the changes that we're making in the portfolio.

So thank you everybody and between the group of us we look forward to meeting you in the coming days and weeks.