

BHP

BMO Metals, Mining & Critical Minerals Conference CEO speech

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Mike Henry, CEO

Slide 1: BHP at BMO Global Metals, Mining & Critical Minerals Conference

Good morning, all. It's good to be back with you in Florida and thank you to BMO for once again hosting this conference.

I was reflecting on the discussion we had here back in 2020 just before Covid hit.

At the time, I spoke about a few simple priorities, including:

Becoming safer – with our objective being to eliminate fatalities across BHP.

Second, operational excellence – we would become known as the industry's best operator. We would improve operational reliability, lower our relative costs, improve productivity and ensure that we were getting maximum returns for the capital we have deployed in the business.

Third was embedding social value at the core of everything we do, including our efforts to decarbonise our operations and to support others in our value chain to decarbonise theirs.

And finally to reweight our portfolio towards commodities that stand to benefit the greatest from the megatrends of population growth, improving living standards and the energy transition. This would be through growing in future facing commodities – potash, nickel and copper – and through a progressive de-weighting of fossil fuels.

And we would be a disciplined allocator of capital, aligned with the framework that we set out in 2016.

Three years on and I am happy to report that we are continuing to make good progress.

On safety it is bitter-sweet to have to report that while we have made very significant progress since, and in fact achieved four years fatality free in the first half, we tragically lost one of our team members in a fatal accident at Port Hedland a few weeks ago.

Jody Byrne, a BHP employee, was killed in an accident in the rail shunting yard and leaves behind a family and many friends.

We are providing them with whatever support we can and have an investigation underway to determine what went wrong and how we can prevent it from happening again.

We are going to maintain an unrelenting focus on making BHP a totally safe place to work.

Slide 2: Disclaimer

Slide 3: Portfolio positively leveraged to megatrends

Our ability to generate attractive and sustainable shareholder returns is grounded in our portfolio of world class assets in attractive commodities.

We remain constructive on the long-term demand for commodities, driven by the global trends playing out around us.

Recognising that some of our commodities would be more challenged in the long-term as the world seeks to decarbonise, while others would continue to benefit, we spun out BHP's petroleum business last year, creating value and choice for shareholders, and we have been progressing a consolidation of our remaining coal portfolio into only the best of the best coals for steel making – those coals that will help the steel makers in their medium term emission reduction efforts.

What we're left with is a portfolio of commodities that we believe will play a crucial role in helping to shape our future society, and which will see upside in a faster decarbonising world.

The world is going to need more copper and more nickel for electric vehicles, for solar panels, and for the electrification of the economy... more good quality iron ore and more of the highest quality metallurgical coals to make the steel needed for urbanisation and decarbonisation infrastructure... and we'll need more potash to support more sustainable farming.

At BHP, we have the largest copper endowment, and the second largest nickel sulphide resource, globally. We are a leading producer of both good quality iron ore and high quality metallurgical coal. And we have embarked upon a path to becoming a globally significant potash supplier.

As demand for these essential commodities continues to rise, BHP has an embedded competitive advantage as an incumbent, large scale producer, thanks to our high quality assets, our strong balance sheet, and proven operational excellence.

The long run outlook and how our portfolio is positioned is compelling.

Now looking at the nearer term, over the next 12 months, we see three major drivers of the commodity outlook.

The first is slowing growth in the developed world, as the lagged impact of monetary policy and the energy crisis plays out.

The second, and helping to partially or wholly offset the first, China's economy will lift over the course of the year. The reopening is progressing well, and we are already seeing green shoots emerging.

We've seen government leaders signalling a decisive pro-growth stance at the Economic Work Forum in December and since then, major policy changes have been progressed that are expected to support growth in 2023.

In housing, there's been particular support for the supply-side, with developers having obtained 4 trillion yuan in credit lines over the past two months.

And the pivot away from zero Covid has resulted in mobility trends that are almost back to pre-pandemic levels.

As we said back in August, we believe China will be a relative source of stability when it comes to commodity demand. We now have even greater conviction in that view.

Finally, turning back to the global outlook, while it will obviously vary by region, an easing of global inflation is expected to allow central banks to end their rate tightening cycles in the coming quarters, supporting stronger world growth in 2024.

Slide 4: H1 FY23 operational and financial performance

BHP is set up well for the opportunity presented by the long-term outlook and is performing well in the near term.

Last week we delivered another strong set of results, despite the increased external pressures facing our industry.

Production across our major divisions of iron ore, copper and metallurgical coal were all up.

Operational excellence is so important to maximising the value we generate from the capital deployed throughout our businesses.

This can best be seen in our Western Australia Iron Ore results, where we delivered another record half-year of production, thanks to strong performance across the supply chain and supported by the continued ramp up of the South Flank mine, which is improving the average iron content and lump proportion of our iron ore product suite.

At Escondida, our copper production increased by 5 per cent, as we accessed higher grade ore. In our other copper assets, the Spence concentrator continued to ramp up; and Olympic Dam extended its recent track record of operational stability and saw near-record material processed and record gold production. Overall, BHP's copper production was up by 12 per cent.

And while BMA was impacted by extremely wet weather, productivity increased, in part due to the completion of our transition to autonomous haulage fleets at two of our mines. Production was up by 5%.

Despite ongoing challenges in the external environment – inflation, weather, and labour availability – our continued focus on operational excellence and cost control means we're managing inflation better than most.

This operational excellence is due in part to the deployment of the BHP Operating System, which was put in place five years ago, and is now embedded across the whole of BHP.

In addition to the front-line enablement that comes through the BHP Operating System, we have established world class technical capability through our Centres of Excellence. For example, our Maintenance Centre of Excellence is helping us achieve leading levels of equipment availability and maintenance cost efficiency.

For the half year, across all our businesses, we generated a very healthy Underlying EBITDA of 13.2 billion dollars at an EBITDA margin of 54 per cent.

We were pleased to announce a dividend of 90 US cents per share, our 5th highest ordinary dividend ever paid by BHP. This translates to a 69 per cent payout, well above the 50 per cent minimum payout ratio set out in our Capital Allocation Framework.

This allows all BHP shareholders to benefit from our strong operational performance and the recent strength in commodity prices. It also reflects our confidence in the near-term outlook for commodity demand.

Beyond this, we've 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.

On operational greenhouse gas emissions, we're on track to meet our target of at least a 30 per cent reduction by 2030.

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 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.

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.

Slide 5: Near term growth

Now let me turn to growth. I want to start by saying that our single biggest growth lever is improving productivity from our existing assets – by far, hence the strong focus on operational excellence.

We of course have a number of other growth levers as well, including growing production from our existing assets, as well as exploration and early stage entry.

Our exceptional resource endowments alone offer exciting opportunities to grow organically. Through how we bring together operational excellence and technical innovation, we can unlock further growth projects within our existing resources.

Early stage entry is where we take up a toe hold position in a yet to be developed potential Tier 1 resource held usually by a small to mid size company, where BHP's balance sheet and capabilities can be brought to bear.

Our final lever is acquisitions and in fact we have one effort underway with the proposed acquisition of OZ Minerals. We will only pursue acquisitions where we are confident we can create greater value for BHP shareholders. And of course the underlying assets need to be in on-strategy commodities.

I'd like to touch briefly on two examples of near-term organic growth projects we're working on and which present the opportunity to generate value at scale.

The first is growing our production at WAIO. WAIO is an incredible asset that is options rich. It's one of the world's largest iron ore businesses and in recent years it's been transformed into the world's lowest cost, most reliable producer.

Over the years, we've been removing bottlenecks along our port and rail systems, so we can get more of our iron ore onto more ships at Port Hedland – and do it safely, reliably, and cost effectively.

We're looking to increase capacity to greater than 300 million tonnes per annum in the medium term. This is low capital intensity, highly efficient growth.

Longer-term, we are also studying options to grow production to 330 million tonnes per annum, and we expect to have the studies complete in 2025.

The growth to something over 300 million tonnes per annum is expected to be very high value and returns. A step up to 330 million tonnes may also be compelling, but will depend on our study work and our market and industry outlook.

The other exciting growth avenue to call out here is potash and our Jansen pipeline of growth projects. This is a seriously big opportunity and is expected to provide growth options well into the future.

Potash will also diversify our sources of revenue, customer base, and operating footprint. In addition, potash is not strongly correlated to broader economic and commodity prices, so it will bring an important source of added earnings resilience.

Our 5.7 billion dollar Jansen Stage 1 project is tracking to plan. Construction is now 16 per cent complete; engineering is now over 80 per cent complete, 85 per cent of procurement orders have been placed, and we've awarded 2.5 billion dollars in contracts.

We now expect first production in late 2026, versus our initial estimate of 2027. 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 of 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 2024, a year earlier than we've said previously. This will give us additional optionality on when we bring these tonnes to market.

Slide 6: Accelerating our future facing options

Beyond this near-term growth, we're always looking at where further value can come from our assets, and we're considering a number of organic options across our portfolio.

By bringing together operational excellence, innovation and social value, we believe we can unlock even more from our world-class resource base.

Based on our current plans and before taking into account the OZ Minerals acquisition, we expect half of our portfolio will be made up of future facing commodities by 2030. And as I said earlier, the other half will also have up-side leverage to the energy transition thematic.

We're accelerating growth 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. This will help offset grade decline at Escondida and we're hoping to have more to say about this over the next 12 to 18 months.

In South Australia, we are studying the optimal growth pathway for Olympic Dam, including a two-stage smelter which would de-constrain our mining operations.

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

Over the longer term, our pipeline of options includes additional stages at Jansen, which can be supported by the existing shafts, and an expansion at Nickel West to take advantage of our industry-leading nickel sulphide resource.

As you can see, our portfolio is well positioned to deliver value and growth, both now and into the future.

Slide 7: OZ Minerals proposed acquisition progressing

Continuing on this topic of growth, let me touch briefly on 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 board has recommended our proposal unanimously.

OZ Minerals will increase our exposure to copper, nickel and uranium – all of which are important for the energy transition. It will also more than double the gold we currently produce at Olympic Dam.

It has a compelling growth pipeline, and there are attractive potential synergies, including through the proximity to our existing assets. We believe there's potential to create a Tier 1 copper basin in South Australia through the combination of OZ Minerals and our Olympic Dam asset.

This is a good company run by good management, and they've unlocked substantial value so far. It's a company we've been very familiar with for a while, given they essentially operate in our backyard. 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, ahead of an anticipated shareholder vote on the scheme in April, with implementation in either late April or early May.

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

Slide 8: Investment proposition

So to conclude, BHP continues to deliver the strong and consistent performance, and attractive returns, that all of our shareholders have come to expect.

And the future is 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 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, higher-quality metallurgical coal for steelmaking. All vital to the future.

There is growing awareness of the essential nature of these minerals, and governments around the world are increasingly seeking to work with business to speed up approvals processes and provide investment support.

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 – including our people, partners, 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.