

BHP

Operational decarbonisation investor briefing

Q&A transcript – Session 1

21 June 2023

JAMES REDFERN (BANK OF AMERICA)

Thank you and thanks for the update today. My first question is just with regards to the various divisions within BHP. In FY22 met coal accounted for 42% of Scope 1 and 2 emissions, so the largest on a segment basis followed by copper at 23% and iron ore at 21%. Given everything that's been presented today, I was wondering if you could please rank which segments you expect to be the easiest to reduce operational emissions by 2030 and beyond and why? Then I've got a follow up please.

TRISTAN LOVEGROVE (GROUP INVESTOR RELATIONS OFFICER)

Thanks James. What I'm going to do is hand over to Anna but I think it is important to remember that we have in our emissions profile 100% of BMA whilst we obviously only have an equity stake of 50%. Anna, do you want to provide any comments and if required hand over to Graham?

ANNA WILEY (VICE PRESIDENT PLANNING & TECHNICAL, MINERALS AUSTRALIA)

Thanks James. I think when you speak to the individual assets or commodities like you mentioned there, I did mention in my presentation that each of the assets is individual in how it comes together and the mining methods you use. To Tristan's point, in BMA we are reporting at 100%. A lot of its emissions are coming via the methane pathway which I have also spoken to today.

I think if you're looking to which is likely to transition earlier, certainly our copper operations with their higher exposure to power and much lower exposure to diesel, as you can see on those small charts, they will be the ones like we've mentioned in the presentations both in Alejandro's operations with the power coming out and then also similarly as we see improvements in the Australian grid in Olympic Dam and our PPAs there, but they will also be coming down.

The exposure to diesel then, which would be our next category across the operations in BMA and WAIO, as I mentioned, at the back end of the decade we'll start to bring that down. WAIO has a higher exposure to diesel, BMA has the methane emissions in its portfolio, so I think we will be working on both of those as we move forward.

TRISTAN LOVEGROVE (GROUP INVESTOR RELATIONS OFFICER)

Thanks Anna. Go on James. Over to you, next question.

JAMES REDFERN (BANK OF AMERICA)

Thanks Tristan, thanks Anna. My second question is, I guess, with regards to the haul trucks, but particularly WAIO and BMA which tend to be powered by electric battery to displace diesel. You noted the operational, the opex is expected to be similar, I'm just wondering about the productivity for the electric haul trucks versus diesel with regards to obviously the need to recharge the batteries and how long the batteries will last and so on and so on. Thank you.

ANNA WILEY (VICE PRESIDENT PLANNING & TECHNICAL, MINERALS AUSTRALIA)

Yes, let me speak a little bit to that James. We expect that, and what our modelling is showing is that, where we can put a dynamic charging system into the mines that is by far the most cost-effective way to run the mine. As I mentioned in the presentation, we are modelling all of our mines in all of the configurations with both static charging where the truck would have to stop and charge and then equally where it's able to charge under a trolley line or with a dynamic charging solution.

Our preference is to have more dynamic charging in the mines, which creates an overall lower cost profile when we can do that. The trade off with that is that some of our mines, particularly our coal operations, on the high wall side where our blasting occurs or we need to move the roads more often, we can't necessarily do that as much as we'd like to, so then we have to have less trolley, slightly more static charging locations.

Where we have to put more static charging locations in, we will see more hours required for the haul cycles and more truck hours required, but there is, you know, with my asset management hat on from the past, there is some trade off to that, is that while those trucks are statically charging, they're not obviously doing any work so the life of the truck will increase. So the unit cost of haulage movement over the life of the truck won't change but we will see some additional hours.

At this stage it's not significant. Like I mentioned in the presentation, we will need some additional truck hours to cater for those statics but the more dynamic charging we can put in the better we will be.

PAUL YOUNG (GOLDMAN SACHS)

The first question and it might be for Patrick on the capex, Patrick and the \$4 billion estimate. Just an observation, obviously we're in an inflationary environment and that the last sort of two to three years that number has gone from a \$2 billion to \$4 billion estimate, then up to \$4 billion, now it's approximately \$4 billion. Just curious about what inflation have you built into that number? There's obviously probably some change of scope along the way but just after how conservative that number is?

PATRICK COLLINS (HEAD OF DECISION EVALUATION, TRANSFORMATION PORTFOLIO & PERFORMANCE)

Yes, our capital figures there are reported on a nominal basis and important to say that I think we've got it footnoted there that Escondida is reported on 100% basis as well. That nominal forecast does incorporate our internal view of inflation which obviously has increased substantially in the last 12 months, 18 months, so not just in Australia but around the globe.

So yes, the inflation has been captured within that estimate and to your point, yes, we have seen some cost increases at the early stages of study for some of these projects, but we're still within that \$2 billion to \$4 billion range.

PAUL YOUNG (GOLDMAN SACHS)

Okay, thanks Patrick. Then the next question is on Escondida capex and actually just what's going on at Escondida within this decade on emission reduction. First of all, the capex there implies about \$1.2 billion by 2030. Just based on that percentage pie chart, is the majority of that, is that actually trolley assist the majority of that spend?

ALEJANDRO TAPIA (VICE PRESIDENT PLANNING & TECHNICAL, MINERALS AMERICAS)

Thanks. Basically, what we have, as I mentioned in my presentation, is Scope 2, which already went to zero and in the case of Scope 1, what we have is trolley to the end of the decade. Also, as Anna mentioned we will see a transition depending on how the battery electric evolves by the end of the decade as well similar to Australia.

The other thing that we have and Anna mentioned it as well is the boiler displacement. That's for Escondida and for Spence and that's the first step in eliminating Scope 1 emissions in Chile.

PAUL YOUNG (GOLDMAN SACHS)

Yes, okay, understood. Thank you. Just one last one on Escondida. With the trolley assist I just note that on I think one of the earlier slides you mentioned that you will get 30% reduction in emissions with the initial phase. Stage 1, at Escondida seemed a little low, so I'm just curious about with the trolley assist are you really just targeting a trolley assist on the main pit initially rather than Escondida Norte and the dump leach. Thanks.

ALEJANDRO TAPIA (VICE PRESIDENT PLANNING & TECHNICAL, MINERALS AMERICAS)

Okay, thanks. I think 30% on the Scope 1 emissions in Spence and Escondida, that's just for context 200 trucks, ultra-class haul trucks - that's a big number. That's one to start. Second, as I also mentioned, it's for value. At the moment trolley assist, it's been planned for the final ramps. So, similar to what Anna mentioned, our ramps that we don't want to be moving around every year or so, so that's the first stage of the scope and that's what triggered the 30% reduction of Scope 1, but again, over the basis of 200 ultra-class haul trucks. Thank you.

RAHUL ANAND (MORGAN STANLEY)

Hi team, thanks for the call. Look I want to touch mainly on Scope 1, just related to the Safeguard Mechanism and how the industry evolves mainly in terms of what's controllable.

So if I start with iron ore, I just wanted to understand how are your current strategies comparing to others in the industry? Mainly because with the Safeguard Mechanism, obviously the weight attributed to the rest of industry in iron ore, for instance, is going to keep increasing and by 2030 it's going to be largely industry emissions.

So if I look at some of your competitors, they have more aggressive targets available to decarbonise. How do you see your targets versus theirs and to be able to meet the mechanism by 2030? Then sticking to iron ore, how does the generation part of it join in as well, because some of the generation is company owned in iron ore, does that qualify as Scope 1 or is there a different set of rules that come in for that under the decarb mechanism? That's my first one, I'll come back with a second.

TRISTAN LOVEGROVE (GROUP INVESTOR RELATIONS OFFICER)

That's a big first question, Rahul, but thank you for that. So first I'm going to hand over to Graham and then maybe he wants to point to Anna, but I think the important thing is don't link our targets and goal to the Safeguard Mechanism, but Graham can you sort of give a little bit more colour on that?

GRAHAM WINKELMAN (HEAD OF CARBON MANAGEMENT, SUSTAINABILITY & CLIMATE CHANGE)

Yes, thanks Tristan. Look first of all, let me reiterate that we certainly support the Government's recent changes to the Safeguard Mechanism. We recognise there's further clarification required around the establishment and review of industry-based science going forward, but we're very supportive of the mechanism in principle, primarily because it builds upon an existing policy rather than inventing a new policy.

We have 17 facilities covered by the Safeguard Mechanism. As you would know, Safeguard Mechanism focuses on Scope 1 emissions and obviously as you've seen from the presentation today, the vast majority of our emissions abatement to 2030 is focused on Scope 2.

With declining baselines out to 2030 across all of our Australian assets, we are likely to see a compliance obligation open up for the organisation that effectively occupies that space between our own ability to reduce Scope 1 emissions, primarily diesel, over the 10-year period, or six-year period now and the baseline decline over that period.

We are limited by the ability to implement new technologies to drive down emissions reductions in Scope 1, particularly for diesel and so we do expect that compliance obligation in the form of Australian carbon credit units to be met over that period of time, ramping up relatively slowly, but ramping up to 2030 obviously.

We know there's a few flexibility mechanisms within the Safeguard Mechanism, multiyear averaging, banking and borrowing, the potential generation of Safeguard Mechanism credits for those operations that operate below the line, so we are yet I think now to fully establish what we think our exposure will be because some of those things and mechanisms are still being bedded down. But we're starting to firm up an idea that the impact of the Safeguard Mechanism will be relatively modest on an operating cost perspective as we go forward.

I will hand over to Anna, however, to talk specifically to the effort that we're undertaking within Scope 1 emissions reduction in the iron ore business in diesel and just for clarification, the Yarnima facility is a Scope 1 emission for the organisation in the form of natural gas and is captured by the Safeguard Mechanism. Over to you, Anna.

ANNA WILEY (VICE PRESIDENT PLANNING & TECHNICAL, MINERALS AUSTRALIA)

Thanks Graham and thanks Rahul, I was going to start with that easy part of the question too that Graham's already covered in relation to the Scope 1 for Yarnima. In relation to the effort going in, in Western Australia, as you would have seen on one of the capital charts, you will see that we are putting a lot of our capital between now and 2030 into Western Australia. That's across our entire program of diesel activities, inclusive of locos and trucks.

I think we're moving incredibly quickly there. We've got trials now, as I mentioned, coming in 2024. We are targeting actual sites for replacement prior to 2030 and the way that we're going to do that, the expectation is that we'll do an entire site before moving onto the next site.

So in a similar way that we deployed autonomy, we'll look to do a whole site electrified and then move to the next site and the next site. That's important when we think about the safeguard that Graham just talked about because we will be looking to see how, if we have one site that's entirely complete and another that we haven't yet go to starting yet, how we can then move between those sites, recognising that it'll be a much steeper drop off at one site, compared to the linear trajectory that's forecast.

I think the other point, we are working also on the power, as you mentioned, so the other challenge associated with the diesel displacement is we need the power to be able to displace that diesel, so the whole thing will work as a system and so I think I'd just reiterate the point that I've already made, which is we're moving very quickly to be ready in all of those elements - have the power ready, make sure we can displace the diesel and manage one site at a time as far as the replacement goes.

RAHUL ANAND (MORGAN STANLEY)

I appreciate the complexity and obviously with that power generation as well, my understanding was that it is Scope 1 but the baseline decline rates required are different, which might help.

Look, the second one I promise is easier, perhaps. If we touch upon BMA, seems to have the highest level of emissions in the Group at this point in time and I know you're undertaking several steps there for Scope 2.

Mainly, just wanted to understand, I mean in the event that this does become an area where it becomes hard to abate, I mean the methane technology has been available, but not implemented, maybe that's an opex hurdle. At what point do you start looking at this from a carbon perspective and potentially think about demerging the assets? Or otherwise, do you think that the abatement plan that you have currently, I'm not sure whether trolley trucks are part of it, are going to be effective enough at a Group level for this asset? Thanks.

TRISTAN LOVEGROVE (GROUP INVESTOR RELATIONS OFFICER)

Thanks Rahul. I'm going to hand over to Anna, but before I do, I'll just reiterate this is just an operational decarbonisation briefing, so we're not going to talk about portfolio, but I think you've heard from management around their thoughts with regards to BMA. So Anna, do you want to comment on the levers?

ANNA WILEY (VICE PRESIDENT PLANNING & TECHNICAL, MINERALS AUSTRALIA)

Absolutely, from a decarbonisation, we're going to do both. So we're working on diesel and we're working on methane. From methane, we're looking now into how we can move much more quickly to better understand the resource in the ground in relation to methane, so for methane extraction, there's two parts to it. We need to understand the porosity of the rock and also the density of the methane and that gives us a lot more insight then into how quickly and how much we can then use in other alternative sources and pre-drain ahead of the mines.

To your point that technology, it is not widely completed today, but I think what I would say is similar to some of the diesel examples we've been given. Trolley has also been around a long time, but with the intensity of innovation focus now moving into that, we've seen that come an awful long way in a short period of time. So we'll deploy the technology that is available today and then we will look to see that same acceleration curve, which we should see now come across industry to the methane challenges, so we're very committed to that.

Then the diesel displacement is the same. So from a diesel displacement perspective, we're going to be looking at battery electric haul trucks, the trolley system can be used in parts of BMA, we already have draglines and shovels operating on electricity today at BMA, so maybe those two parts are the right two parts to touch on. But very committed to applying today's technology and also future technologies to both of those problems.

TRISTAN LOVEGROVE (GROUP INVESTOR RELATIONS OFFICER)

It's worth highlighting, Anna, that chart that you showed on your slide about how low the BMA's emissions are with regards to the other met coal mines. Operator, next question.

ROB STEIN (CLSA)

Hey guys, thanks for the opportunity. Just continuing on the BMA theme, how does reviewing mine operations in the context of carbon emissions change your mine planning strategies, specifically open cut versus underground and capturing methane prior to the mining operation and even capturing it from fugitive emissions in an underground sense and reusing that fugitive emission for power generation or combusting it in a thermal oxidiser or something like that? How does that change your view on the benefits of open cut versus underground and does it change your move to underground earlier?

ANNA WILEY (VICE PRESIDENT PLANNING & TECHNICAL, MINERALS AUSTRALIA)

I think, interestingly, each area is unique and so where you might think that there's a general view that says we do this rather than that, the work I've been exposed to so far, it is very specific to which mine in which area. Like I said, in some cases the methane is lower, there's actually much lower concentrations of it and that gives a different pathway if there's higher concentrations of it in a certain point.

I think we are actually looking hard at underground options in our BMA context, but they also come with their own set of challenges, particularly around extraction of the resource, the mine plan design for those underground resources can be challenging.

So I think what I would say is we're including all of our social value commitments, not just decarbonisation when we look at future mine plans, so that's inclusive of our biodiversity commitments, commitments around decarbonisation and we do overlay those when we consider the mine planning designs that we're putting together for the future.

ROB STEIN (CLSA)

Thank you and Tristan, if I can have a follow up on a similar theme, just with regards to when you make different capex and opex decisions around, well sorry, how the capex and opex trade-off changes as you move to decarbonised solutions, like trolley assist and trolley assist and battery and how that may change your thinking around mine planning and a hub-and-spoke model in assets like WAIO. Have you started to incorporate that type of thinking and have you seen any type of change or value realisation from making those trade-offs in your early phase mine planning?

ANNA WILEY (VICE PRESIDENT PLANNING & TECHNICAL, MINERALS AUSTRALIA)

We have started looking at it. What I would say is that it's still early days, but when I was talking to our mine planning team recently and also the team that works with me on the decarbonisation mining side of things, some of the reflections they have are not intuitive in terms of what we thought might be a constraint and isn't and then turns out not to be. So it is helpful that we've now got the effort that we have underway that I referred to in relation to the modelling because that gives us an insight into what we need.

For example and as you'd expect, where we can keep longer runs in position for a longer period of time and not have to turn those over, that will help us with not having to move the infrastructure. But equally I was quite pleased when I saw that the static charging points that we can install, we can move those around to then enable the boost as required. But we will be looking then to where we can optimise so we know that the more we can keep on the dynamic charge, the lower cost it will be. So if we can design our mines to keep more of that dynamic charge locations in place for longer, that will be helpful to us.

So we will start to incorporate those, once we get a better handle on our concept of operations, we will then incorporate those into our long-term mine plan designs and the long-term mine planners will pick those up.

ROB STEIN (CLSA)

Thank you for that. Sorry, maybe just one last little quick one. How has battery tech, I mean obviously it's moving at a rate of knots and you can see that in the different changes and different battery chemistries, but then also salt-safe batteries now making great leaps and potentially being available towards the back end of the decade at scale. How is that changing then how aggressive you can be on different assumptions around operability and charging and the impacts to potentially operations of recharging now that technology is obviously moving at a rate of knots?

TRISTAN LOVEGROVE (GROUP INVESTOR RELATIONS OFFICER)

Looks like that's another one for you, Anna. Feel free to bring Pat in if he's got any thoughts on the capital allocation with regards to that, but I suspect it's more for you, Anna.

ANNA WILEY (VICE PRESIDENT PLANNING & TECHNICAL, MINERALS AUSTRALIA)

That's okay, I could talk about this all day, so I'm really happy to have the questions actually. Look we are seeing the battery technology changing. Our current expectations are that it is, though, where I talked about, I'm probably more excited by the innovation that is moving into the dynamic charging systems. So I think, sometimes in our conversations we're thinking, well the answer lies in more battery and freeing ourselves up from those dynamic charging situations.

But the view that I would have, recognising that having to stop trucks to put them on battery, having to take them out of circuit to put them onto battery, recognising that the decay in the battery will be higher if we have to charge them a lot more intensely. So where we see that, we'd rather keep them on the dynamic charging system and the easier that dynamic charging system is to install, move, the lower cost it is, the more investment that goes into transformers, I think the more excited we'll be.

So I am pleased with what's happening on the battery side and that's really important, but equally on the dynamic charge and all of our charging work that we're doing will also be important.

As a side note, I mentioned in my speech that we're working with a group called CharIN, a charging initiative and they work on plug designs globally, whether it's for marine or for mobile fleets, so there's all these different elements that we need to see innovation in, the plug designs, the energy management systems, the dynamic transfer systems of energy. So the innovation is exciting across all of those. Battery tech is one element but the others are also important.

AUSTIN YUN (MACQUARIE)

Thank you, morning all, thanks for the update. Just the one question on the battery side, trying to understand your battery procurement strategy. Do you have a view on how much battery you need? Because seems like everyone is moving to that direction and will take some time to get the materials ready to put into the trucks. Thank you.

TRISTAN LOVEGROVE (GROUP INVESTOR RELATIONS OFFICER)

Thanks Austin. Another one for you, Anna. We've lost Anna. Right, well while we wait for Anna to come back on, I'll see whether Pat, whether you've got any comments on that, I appreciate it's more of a technical aspect for Anna, but just see if you've got a comment?

PATRICK COLLINS (HEAD OF DECISION EVALUATION, TRANSFORMATION PORTFOLIO & PERFORMANCE)

Yes, I think that's reflective really in that technology maturity and look, we do see a lot of uncertainty in this space and that also drives the way that we're going to allocate capital to these investments, which is why we're spending so much time on these trials and studies, not just to get our operations set up, but also to advance the tech readiness in this space so that the whole industry can benefit from this in future decades. But absolutely there is uncertainty in that space and that's why we need to push ahead with the trials and studies.

TRISTAN LOVEGROVE (GROUP INVESTOR RELATIONS OFFICER)

We'll go back to Anna. Sorry, okay, so the procurement strategy for batteries and expected battery demand volume, any issue with that given the demand for batteries globally for electric vehicles but also obviously trucks. So, do we see any issues and what's our process to secure those batteries?

ANNA WILEY (VICE PRESIDENT PLANNING & TECHNICAL, MINERALS AUSTRALIA)

With relation to that, there's two different types of batteries that we're looking at, there's our batteries for our power systems and also the batteries obviously for our fleet. In both cases at this stage, we are planning to use what I would probably call our conventional procurement process to do both of those.

Both our power system batteries are already available and we see those being installed across the world. Then when it comes to the fleet batteries, again we're working with our OEMs on the procurement of those batteries. Because each battery type will be slightly different at this stage per OEM.

So, it will be complicated and it will take longer term planning is what I think I'd say, but at this stage we are working on that. It's early days, the ramp up of our fleets comes later in the decade. So I think at this stage I'd say we're using conventional procurement for that, but we will look to see if that's not going to work for us, whether we need to develop certain partnerships, different partnerships to make that a success.

PAUL YOUNG (GOLDMAN SACHS)

A question, so I think to Alejandro I guess, seeing it's focusing on Chile once again. I think it's slide 12, just referring to the emissions step up from seven to 12 terawatt-hours per year, just curious, Alejandro, with that step up in power consumption, is the majority of that again the trolley assist at Escondida and Spence or is there some grinding circuit, say concentrator expansions assumptions built into that estimate?

ALEJANDRO TAPIA (VICE PRESIDENT PLANNING & TECHNICAL, MINERALS AMERICAS)

Okay, it includes not only the Scope 1 program, it includes also our growth plans, the electrification of fleet, we're also assessing non-conventional tailings which will require more power. So it's a combination of the portfolio we have for Chile.

PAUL YOUNG (GOLDMAN SACHS)

Thanks Alejandro, but specifically does it include additional crushing capacity, grinding capacity?

ALEJANDRO TAPIA (VICE PRESIDENT PLANNING & TECHNICAL, MINERALS AMERICAS)

No, it includes the replacements of the Los Colorados, that you probably are aware. It includes assessing the extension of the life of Cerro Colorado. It includes some of the bottlenecking projects in Spence and also in Escondida Moly plant facility as part of the growth and the alternative that we're looking at the moment. So, it's a combination.

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