

BHP

Financial results for the December 2023 half year

Investor and analyst briefing Q&A transcript

20 February 2024

Introduction

MIKE HENRY (CEO, BHP)

Welcome everyone to the session to talk about our half year results. I have David and Tristan here with me as well, as you would expect. I hope you can see coming through the results another half of solid underlying operational and financial performance.

At WAIO, we continue the momentum. We remain the lowest-cost major iron ore supplier globally. Copper production up by 7%, underlying assets performing well. BMA had a slightly tougher half but New South Wales Energy Coal performing well over the period as well.

We continue to make progress on the portfolio front. This has been a multi-year effort, but you can see the benefit of that coming through now in the opening up and advancement of our growth objectives in potash, sanctioning stage 2 of Jansen during the half. Stage 1 remains on track schedule-wise and budget-wise – in fact, a little bit ahead of originally planned with first production planned for the end of CY26.

Copper South Australia integration has gone well, unlocking synergies ahead of schedule, and we continue to develop our growth options both in Copper South Australian and in Chile.

Underlying operational performance coupled with some buoyant markets for a number of our commodities saw EBITDA up by 5% period-on-period to US\$13.9 billion, net operating cash flow up 30% to US\$8.9 billion, net debt remains US\$12.6 billion so balance sheet remains very strong, and all of that has underpinned our confidence in declaring a dividend of US\$0.72 per share, fully franked.

With that, I might open it up for questions.

Questions and answers

JAMES REDFERN (BANK OF AMERICA)

Two questions, please. I guess the first one is on nickel, as you'd probably expect, big area of focus even though its loss-making for BHP. I guess in your commentary you note that the market might remain in surplus until the late 2020s so, by default, implying low prices for quite a number of years. I'm just wondering, at what point do you think that Nickel West could be placed into care and maintenance and then, I guess, maybe pausing on the West Musgrave nickel project? Thank you.

MIKE HENRY (CEO, BHP)

Okay. Thanks, James. Yes, the glut is so significant coming out of Indonesia and that's now impacting on Class-I nickel prices. We do expect that could continue until the end of the decade. The care and maintenance consideration, that is a much nearer-term, urgent thing that we're looking at currently. You should be expecting that to be a decision in months, not years.

As to what we would then do with West Musgrave, I should start by saying that West Musgrave standalone, notwithstanding the tough nickel outlook and our revised view of forward prices for nickel, could still generate reasonable returns. But having said that, we think the prudent thing to do as we study a potential move into care and maintenance for Nickel West is to slow up the spend on West Musgrave. Then we would then take a concurrent decision as whether to continue with that project or also to press firmer pause on it.

DAVID LAMONT (CFO, BHP)

The only extension I would add into that, James, is unlike some of the other nickel producers in Western Australia, we do have downstream processing. The smelter and the refinery are key components that we need to actually assess as part of that care and maintenance. It's slightly different to others that have already moved into care and maintenance because we do need to actually look at those operations and think about how we would potentially recommence those, if indeed we do go into the care and maintenance.

MIKE HENRY (CEO, BHP)

It's a great callout David. So, in short James, it's not that we're taking excess time here, it's just the reality of us having that smelting and refining capacity that we've got. We need to be quite thoughtful about how we would carry them into care and maintenance.

JAMES REDFERN (BANK OF AMERICA)

Thanks, Mike and David. My second question relates to Samarco. The US\$6.5 billion provision at the moment is your best estimate of the potential liabilities relating to all the claims in Brazil but does not include the class action court case in October this year in London, I believe. I'm just wondering, are you concerned about the class action case in London at all, and is there upside risk to the provision of US\$6.5 billion relating to Samarco? Thank you.

MIKE HENRY (CEO, BHP)

You've characterised it very well, James. US\$6.5 billion is our best estimate as of today to fully resolve the Federal Prosecutor's claim in Brazil, but there are other contingent liabilities. Now, specifically in respect of the class action case in London, we continue to believe that the case is without merits and are defending it very strongly. David, did you have anything you wanted to add?

DAVID LAMONT (CFO, BHP)

No, other than just to say, James, we called out contingent liabilities in relation to not only the UK case but there's also an Australian legal case and they are ones that we will vigorously look to defend.

MIKE HENRY (CEO, BHP)

I think we always have to keep in mind in respect of Samarco as well, that what are we here to do and what did we make a commitment towards. It was to full remediation, resettlement of people, fair and reasonable compensation to be paid, and everything is on track in that regard, with really strong progress made in the past year. 80% to 84% plus now of resettlement cases are completed, people into new homes, over 400,000, 430,000 people provided with compensation along the way.

All of those things we committed to early on have remained on track. Renova and Samarco have been executing well against that, but of course we have these other things that are out there, and we've provided the best estimate that we can at this point.

RAHUL ANAND (MORGAN STANLEY)

Mike, David, good morning. Thanks for the call. Two from me perhaps, first one is more for David and it's a follow-up to James's question on Samarco. David, if you want to shed a bit of light. Obviously, there's been a court ruling in Brazil as well which has a higher number in terms of what you've accounted for in the provisions as opposed to those contingent liabilities.

Obviously, BHP has a view whereby you think that that number is perhaps a bit out of line in terms of where you think it should end up, and you know, despite the ruling having been passed. Can you maybe help me bridge the gap? What information do you think the court's missing in terms of the decision passed in Brazil? That's the first one. I'll come back with the second, thanks.

DAVID LAMONT (CFO, BHP)

Okay. Let me start by saying we've also already commenced a process for clarification in relation to the judicial decision that happened in Brazil. We believe that there is a number of factual inaccuracies that need to be thought through in relation to the judgement. Point 1. Point 2 is that we're also looking to appeal that judgement as well.

Let me be clear, what we also see as the sensible outcome here is that parties are motivated to actually settle the situation with the Brazilian claim through the Federal Prosecutor's claim I'm referring to. We have been in negotiations. I would say all parties are motivated to find a settlement and therefore we've made a reasonable estimate in relation to that settlement and likely outcome.

Now, I will say there's risk associated with that, both ways, both upside and downside. One of the key factors here that I'll just reemphasise is that the primary obligor is Samarco and it's pleasing to see that Samarco is operating well. You will have also seen that we have announced, one, that the judicial restructuring has been resolved in relation to Samarco in the last six months. That has enabled a stable footing from an overall financing perspective for Samarco with clear guidelines moving forward.

Equally, we've announced as part of that, that we're looking to commence the second concentrator as well. So, additional volumes will be coming out of Samarco. Ultimately, the cash that Samarco is able to produce will also go some way to funding the Renova case as well as the Federal Prosecutor's claim.

MIKE HENRY (CEO, BHP)

Sorry, David. Maybe if I can just add one important point, Rahul. That is, that the recent court decision is subject to appeal and that could be a two-to-five-year process, but importantly, the ruling was also that there is no payment due on this or to be payable under that ruling until all appeals had been exhausted.

DAVID LAMONT (CFO, BHP)

Just on the back of that, and I know I'm stating probably the obvious, but this isn't an immediate cash payment. Clearly what we've assessed also is via the provision, over a period of time would be when the cash outflow actually occurs.

RAHUL ANAND (MORGAN STANLEY)

All right, got it. Yes. Just one follow-up then. In terms of your strategy given the court ruling et cetera is probably to appeal the decision, but then also try to settle and obviously not have a five-year timeline of settling Samarco, because it obviously remains a bit of an overhang for the stock.

MIKE HENRY (CEO, BHP)

As David flagged, the parties appear to be quite motivated and there were ongoing discussions in this respect. So yes, that's our intent – we believe it's the intent of others as well – is to find a fair and equitable commercial settlement or commercial resolution to the Federal Prosecutor's claim.

DAVID LAMONT (CFO, BHP)

Yes, and I think the key thing here again is we did flag that that appeal process would be two to five years, as I said, but ultimately a settlement would be over an extended period of time. That's the negotiation position that has been acknowledged I think through the arbitration that we've going through with the Prosecutor.

MIKE HENRY (CEO, BHP)

The payment under any settlement would be over a period, David.

DAVID LAMONT (CFO, BHP)

Correct.

MIKE HENRY (CEO, BHP)

Yes.

PAUL YOUNG (GOLDMAN SACHS)

Morning Mike and David, hope you're well. Mike, a question on copper growth projects and specifically Escondida. I've noted you have confirmed that copper production in Escondida will fall by about 300 kt from FY27 but at the same time, you've announced you're pushing out the decision on the new concentrator into the back end of the decade despite having the resource, water and the balance sheet to commit to that project.

So, I'm just curious, can you talk through the reasons why it appears you're deferring copper tonnes at Escondida despite I guess the grade decline which is coming. Is a factor such as the heap leach technology being low capital intensive, is it labour inflation? Just wondering if you could talk through that, thanks.

MIKE HENRY (CEO, BHP)

Sure, Paul. Basically, it's a value optimisation decision. Given the period of time in which it's occurring, it still remains a bit flexible. Of course, the encouragement to the team is to look at the various options and firm them up as soon as practically possible. But right now, where we stand is, given the myriad of potential paths forward at Escondida, we want to make sure - and sorry, given the myriad of options and of course the capital associated with that and the fact that we're going to have whatever decision that we take with us for a period of time, we want to get it right.

So, against the backdrop of not only the choice between concentrator and leaching, but various options on the leaching front, various options on the concentrator front, the team is working through what the best returns and NPV path forward is for the business. That's seen us slip that FID by a year, but it remains a focus for us.

I should say also that later this calendar year we expect to have more to say about the copper growth options at Escondida, including which paths we believe are most likely to play out and a bit on the returns associated with the different options.

PAUL YOUNG (GOLDMAN SACHS)

Okay. Thanks, Mike. Maybe switching to South Australia, I note you've given an update on the Prominent Hill shaft and the capex associated with that of US\$670 million. Can you please give us an update on the Carrapateena block cave and where that capex is settling out? Considering that Prominent Hill capex has gone up versus the OZ Minerals estimate, I note you've said that it was in line with your estimate when you did due diligence. Just curious around where the Carrapateena block cave capex is falling out. Thanks, David.

DAVID LAMONT (CFO, BHP)

On both Carrapateena and Prominent Hill, let me make one statement, which is, have a look at the independent expert report as well. I think you will have seen in the independent expert's report that it was different to what OZ had actually quoted. So, certainly we have not seen any surprise in relation to both of those in the context of what we had anticipated as part of the acquisition, and both of those are playing through as we expected.

MIKE HENRY (CEO, BHP)

Paul, I might just make one overarching point here, given that you've talked about both Escondida and Copper South Australia. These are two of the biggest copper resources in the world, so against the backdrop of the world needing a lot more copper, I think it's widely acknowledged the copper market is going to move into deficit, and there's a lot more investment in new projects required – we feel like we're pretty well placed. We are still in the process of firming up the options in both of those assets, but there is a lot of optionality there and we'll have further to say on this later this calendar year.

KAAN PEKER (RBC)

Good morning, Mike and team. Sticking on copper, some great drill results from Olympic Dam Deeps in terms of grades and metres. I know it's early stage, but just the conceptual thinking about Olympic Dam Deeps and how that fits into the regional plans? Thanks.

MIKE HENRY (CEO, BHP)

I should start by saying that the work on OD Deeps began before the recent acquisition of OZ Minerals, so it started as us looking at whether there was further potential there to underpin an expansion of Olympic Dam on a standalone basis.

Of course, in the period since, we've had the discovery of Oak Dam, we've had the OZ Minerals acquisition, which has brought Prominent Hill, Carrapateena, and their broader resource base into the portfolio.

So, we should now see OD Deeps as a further option for us to draw upon for near term expansion of Olympic Dam. We've spoken about the fact that we are looking at a move to two stage smelting in an expanded smelter from later this decade, to over 500 ktpa of copper production.

That will come from some combination of Olympic Dam and OD Deeps, Oak Dam, Carrapateena and Prominent Hill. Exactly what that configuration looks like remains the subject of further study, but this is an area where more relatively high-grade copper is an attractive thing to be holding today.

I'm very thankful that the team had kicked off that work and continued on with it, and we're now seeing the fruits of that work come forward in what appears to be an even better resource space in South Australia for us.

KAAN PEKER (RBC)

Thank you. And a second one on met coal. Given the wet weather in Queensland, can you give us a quick rundown or update on the operations and how they've fared? Thanks.

MIKE HENRY (CEO, BHP)

Sure, so this was supposed to be a drier year according to all of the meteorological forecasts, and it hasn't turned out that way. So, as you'd appreciate, with these big, open-cut operations, when you do get wet weather, periods of heavy rains, it does impact on underlying operations.

We were starting the year with low inventories in terms of coal uncovered, given some of the challenges of last year. Hence we see a pretty quick flow through of weather disruptions into actual production, because the buffer in-between has been reduced.

The team is in a period of rebuilding both the stripping inventory and raw coal inventory, but that takes time. Now we've provided updated guidance for met coal for this year, that was obviously a range. We've seen further poor weather, heavy rains early in this half. So, it would be fair to say that within that range we're probably trending towards the lower end of the range rather than the upper end of the range.

LACHLAN SHAW (UBS)

Good morning, Mike and David, thanks for your time. Two questions from me. So, just one around capital management. So net debt guided range, slide 15, payout ratio 40% to 60% of Underlying [*corrected to 50% of Underlying attributable profit*]. You're coming into a pretty heavy investment phase, are there scenarios where you might look to push net debt above the top of the range for a period of time to get these projects done?

DAVID LAMONT (CFO, BHP)

Certainly we're still very comfortable with the US\$5 billion to US\$15 billion. What we have always said is that we're also targeting that US\$11 billion of capital, but it's not a hard number – the capital will flex around timing of individual projects, et cetera.

At the moment we're very comfortable that, based on our own internals, we're able to deliver on the growth platform that we've actually got. As Mike has already alluded to, a lot of that's copper, but also don't forget obviously potash and Jansen. And when Jansen Stage 1 is in production, it's going to produce a significant amount of cash as well, as part of the overall operation.

So, we're comfortable with that US\$5 billion to US\$15 billion, we're obviously US\$12.6 billion at the end of the half, so towards the top end of that, but mindful of the fact that included the OZ Minerals transaction.

I'll come back to the earlier conversation around US\$8.9 billion being the operating cashflow, we're in a pretty good position, pretty solid in relation to the balance sheet.

MIKE HENRY (CEO, BHP)

Lachlan, I would just call out this is a good problem to have. We are so much better placed today than we were a few years ago in terms of the portfolio of growth options, both in execution and potentially ahead of us in copper.

LACHLAN SHAW (UBS)

Second question, just coming back to Copper South Australia and OD Deeps, initially that looks to lend itself perhaps to a block cave. How are you thinking about the optionality for potentially changing the mining methodology at OD overall? Are you rolling out some block caves as the project and spend comes together? If you can give us an updated insight into timing around studies and permitting as you move through? Thanks very much.

MIKE HENRY (CEO, BHP)

So, still too early to call it, Lachlan. Of course all options are on the table in terms of mining method, but OD Deep's specific contribution to that, way too early for us to have a view on that. As to timing, the pivotal timing for us is that we have another major smelter outage in 2027, or beginning late in 2027, so 2027/2028, that would be the natural time to look at expanding the smelter. So, for us to meet that timing, we need to be looking at an FID around 2026/2027, keeping in mind that there's a range of projects here. As I mentioned in response to an earlier question, which resources would we draw upon to feed that smelter? Of course we have a number of options available to us now. There would be the move to two stage smelting technology expansion at the same time. And then there would be the ancillary infrastructure as well.

So, it will be a series of investment decisions that occur around that 2026/2027 timing.

DAVID LAMONT (CFO, BHP)

Mike, if I can just also add into that. I think we always said as part of the OZ Minerals transaction, one of the things that we were pleased with is the expertise that the OZ Minerals team were bringing to BHP. Clearly they have very good and capable block cave experience, and we'll be looking to leverage that as well.

RICHARD HATCH (BERENBERG)

Morning, Mike and David. Thanks for the call. Can I just push you a bit on Copper South Australia? My model suggests that the costs were US\$3.50/lb in Copper South Australia, return on capital employed was 3%.

Can you talk a bit about what you're doing, where you can get those costs in that division to? And then just off the back of this commentary around the '26/'27 FID on some growth potential, can you talk a bit about the capital intensity, what you're thinking there? That's just the first one, please.

MIKE HENRY (CEO, BHP)

Richard, so there's a lot of detail in what you've just said, so I'll ask Investor Relations, Tristan and the team, to get back to you to step through some of the detail. But in respect of the broad point you make around the cost base and capital, I'll say that a number of years ago, this is probably back from memory 2017/2018, we set out a plan at that point in time to do a few things.

One was to resecure operational stability at Olympic Dam, recognising that without operational stability, we were always going to be underperforming from a production perspective. If we were underperforming from a production perspective, costs would be too high and there would be no pathway to growth.

In order to resecure that operational stability, we needed to do two things. One was build capability in the business and invest in asset integrity, which followed behind. We've done those two things successfully. Olympic Dam is now operating as a much more stable business, but still high cost, because it lacks the scale sufficient to really bring unit costs down.

That's where this move to expand the smelter can help us scale returns relatively quickly. What the OZ Minerals acquisition has done is it's given us all of the optionality to enable us not just to operate more stably but to get extra synergies from the combined operations, keeping in mind that we've unlocked US\$50 million per annum EBITDA annualised synergies ahead of schedule, and we continue to focus on what more we can unlock there.

But these assets coming together now gives us the ability to hopefully bring forward an attractive expansion option for the combined asset, which would deliver better returns.

Now as to what capital intensity looks like, still a work in process. On the capital side of the equation, working hard there, but of course the other side of equation is opex, and we need to ensure that the policy settings here in Australia enable high levels of productivity.

I would call out the South Australian Government for being very constructive in their engagement with us to unlock what at the end of the day is a shared opportunity. David, anything you wanted to add?

DAVID LAMONT (CFO, BHP)

No, I think that's obviously as you said work in progress, and the good thing is that we have, through the work that we've done in OD Deeps et cetera, got a very significant resource there that we're looking to actually monetise.

TRISTAN LOVEGROVE (GROUP INVESTOR RELATIONS OFFICER, BHP)

The other thing, Richard, just in terms of the cost base, don't forget we're including all the drilling we're doing at Oak Dam and elsewhere, so that hides the underlying unit cost base. There's a considerable amount of money that we're spending on Oak Dam, but also OD Deeps in terms of drilling.

RICHARD HATCH (BERENBERG)

Do you mind if I go onto one more on coal costs? I'm just conscious your guidance is quite significantly below what you managed to hit in the first half, and then you've also just commented that you'd probably come in at the bottom end of the range. So, is that still a number that the market can hang its hat on, or you can hang your hat on? Or do you think you just need to be higher?

MIKE HENRY (CEO, BHP)

We're maintaining guidance, Richard, for the coal business. Keeping in mind that there is a range here of volume and cost outcomes.

LYNDON FAGAN (JP MORGAN)

Thanks very much. My first question is, just reviewing the OZ Minerals transaction and I guess the capital allocation framework, it's been less than a year since it closed, but we've now got an impairment charge of about US\$1 billion in relation to those assets, or almost 20% of the deal value. So, I'm just wondering whether you can shed some light on some of the learnings that might arise from that situation?

The second question I've got is just trying to break down the 500 ktpa target in Copper South Australia. Are you able to give an asset split or talk about what the Oak Dam target might be within that? Thanks.

MIKE HENRY (CEO, BHP)

David, maybe you can take the first one around the transaction and I'll speak to the 500 ktpa target?

DAVID LAMONT (CFO, BHP)

Yes, so Lyndon, certainly if we step back, and I think your question was the nature of what learnings would we necessarily take. Well, I think the first thing that I would say is we always need to concentrate on where the majority of the value sits, and the majority of the value we always thought in relation to OZ Minerals was South Australia, and being able to actually access the copper side of things.

So, probably leads neatly into your second question, which I'll leave for Mike to comment on. The second thing is clearly yes, we have taken the impairment charge in relation to nickel. One of the things that we did assume initially with West Musgrave coming into the portfolio, was that there would be the ability for synergies and operational improvements by taking that concentrate and processing it through our Nickel West facilities, so smelter and refining.

Clearly, if that operation goes into care and maintenance, this would no longer be the situation. Having said that, we're all brilliant in hindsight. We did not anticipate, nor did the rest of the market, the rapid growth of the Indonesian supply which was not Class-I nickel, and how that's now impacting the battery market for nickel.

So, our learning, in any operation in this industry, the number one driver always is the market and the prices that are actually attained. We have good internal proprietary information that we continue to exercise and review, but we also are constantly looking at how can we improve in relation to that.

So, did we get the impact of the nickel market in our projections wrong? Yes. But we're not alone in that context. What we're now doing is how do we optimise that operation and continue to look at the best way forward?

MIKE HENRY (CEO, BHP)

Let me just comment on copper, but before I do that, clearly we weren't expecting the nickel market to plunge as quickly and as significantly as it has. Having said that, on the copper side of things, so at Copper South Australia, it would be fair to say that we're seeing more value opportunity and more optionality than was originally anticipated.

You see that in an acceleration of synergies that we've managed to unlock there so far, US\$50 million per annum annualised EBITDA. Then when I come back to your question around how do we get to the 500 ktpa – by the way we're targeting more than 500 ktpa – but where does it come from?

Pre-OD Deeps, it was potentially a bit of expansion, well the existing growth out of the ex-OZ Minerals assets, a bit of expansion out of Olympic Dam, and then the development of a reasonable sized Oak Dam. Of course OD Deeps now has yet another option for us to consider. So, at this point I think probably the base case thinking is that we would expand Olympic Dam, so it would be the earlier vision that I mentioned, which is development of an Oak Dam option, sizing still to be determined. A bit of expansion out of Olympic Dam and then the existing production plans for the other assets.

That gets us that 500 ktpa-plus – exactly what the mix looks like, that's the subject of current studies.

LYNDON FAGAN (JP MORGAN)

Thanks, and if I could just sneak in a follow-up. If Nickel West does go into care and maintenance, could you talk to the timing of the US\$900 million rehabilitation costs and how quickly that would need to be deployed? Thanks.

DAVID LAMONT (CFO, BHP)

Lyndon, firstly we need to assess whether that is where we're going to go, and as Mike mentioned earlier, we're doing that with a sense of urgency. I would just say, the closure provisions that we have across the board, so not just in relation to Nickel West, are not an immediate spend.

Clearly there would need to be plans put in place to meet the rehab obligations, and that is consistent with any asset that we have. So, it's not cash out the door immediately, it would be over an extended period of time.

MIKE HENRY (CEO, BHP)

The other point I would note, David, is moving into care and maintenance doesn't trigger rehab. If we were to elect to close the asset, then of course all of that would come towards us.

But at this point what we're looking at, because we can see a more positive outlook for nickel in due course, the focus is, if we were to do anything, is it a care and maintenance scenario? What would that entail? How would we preserve the ability to come out of care and maintenance?

I want to stress the fact that we're looking at this as quickly as we can, taking into account the technical complexities that arise in looking to move a smelter and refinery into care and maintenance versus just a mine and a concentrator for example.

ROB STEIN (MACQUARIE)

Thank you, Mike and team, and congratulations David on your time at BHP. If we look at the portfolio of copper production and the potential dips that will be experienced from '27 until you can start executing some of these growth options in '31, does that mean that copper production shortfall and that cash shortfall puts pressure on you to go after any short-term copper production growth that you may deem necessary, either organically or inorganically? Or do you think as the rest of portfolio matures that growth can be offset by potash at Jansen and similarly WAIO production uplift?

MIKE HENRY (CEO, BHP)

To some extent you've answered the question there, in that, at the same time as we were currently forecasting that dip in production out of Escondida, it's the exact same time that potash production is coming on, and we continue to creep valuable growth out of the WAIO asset in iron ore. But that doesn't mean that we aren't pursuing at pace our other copper growth options. It's not a response to, it looks like production is going to fall and therefore we have to chase after it, it's just we have such optionality in the portfolio. Of course in a world where we're forecasting a shortfall in the copper market, copper is really looking like a really attractive commodity to grow into, we want to mature these options as quickly as practically possible, and it could yet be that some of the other options inside the portfolio we're able to bring forward a little bit more quickly. We continue to look at where there are opportunities to do so.

You also asked about inorganic and is this something that would cause us to chase after acquisitions more quickly, I would say most definitively, no. We will remain every bit as disciplined on the M&A front as we've shown ourselves to be with things like the Noront attempted acquisition in Canada and with OZ Minerals.

We're a long-term company. We have the resources that underpin a really attractive long term growth outlook for ourselves in copper and if that means that there are some swings and roundabouts year on year, so be it. Because of the broader portfolio that we have in potash and iron ore and so on, I'm not very concerned about that at all.

ROB STEIN (MACQUARIE)

Thank you. Then, in terms of nickel, again probably getting more questions than it has for a while, the upcoming spend on the smelter rebuild, is that now under serious review, i.e. probably not going to go ahead and are you exploring options to export concentrates, so effectively shutting downstream business but retaining the high-grade upstream portions of the business to go forward? Is that something that looks attractive?

MIKE HENRY (CEO, BHP)

All of that is being considered Rob as part of this review that we have underway. I can say for certain that the smelter investment, or the smelter refurbishment, is well and truly part of the consideration about whether we maintain current operations at Nickel West or move them fully into care and maintenance.

I flagged earlier that the reason that this takes us a little bit more time than if we just had a mine and a concentrator, is specifically that from a smelter perspective, if we're going to move into true care and maintenance with the ability to come back out again, we have to consider what is required by way of how we take the smelter into care and maintenance, whether any investment is required and so on.

All under review, progressing as quickly as possible and this is a decision in months, not years.

ADRIAN PRENDERGAST (MORGANS FINANCIAL)

Thanks, Mike and David. Just a question back on Escondida. As you say, the outlook for production post '27 does look quite a bit lower than current in terms of assessment at least. You've explained why in detail, but just interested in how you rate your confidence level in Escondida eventually being able to get back to that 1 Mtpa level, and then I'll come back with another one.

MIKE HENRY (CEO, BHP)

Probably the best way, and I don't want to try to quantify the confidence level here, what I can say is very large resource, biggest resource in the world, relatively higher grade and lots of options available to us by way of different approaches to leaching and different concentrator options. We couldn't ask for a better setup in terms of different ways of looking at the challenge and opportunity here. We will have further to say on it later this calendar year and I say that as perhaps a demonstration of confidence that there will be opportunities for us yet to unlock it at Escondida.

ADRIAN PRENDERGAST (MORGANS FINANCIAL)

Great. Just one more on Copper South Australia, there's already been a few questions, but maybe just narrowing in on the Carra expansion option. The shape of the Carra ore looked a bit challenging for me considering a block cave.

Now that it's been in your portfolio for some time, keen to see what you're thinking about the challenges, whether you think you're still likely to go down that path and just your general thoughts.

TRISTAN LOVEGROVE (GROUP INVESTOR RELATIONS OFFICER, BHP)

To clarify, your thoughts with regards to Carrapateena block cave.

DAVID LAMONT (CFO, BHP)

Let me start by saying, as I mentioned earlier, certainly from our side of things we're very pleased with how both Prominent Hill and Carrapateena have come into the portfolio. We also value the fact that we did acquire some block cave experience through that, which we are certainly looking to leverage more broadly across South Australia. The Prominent Hill and Carrapateena assets are performing as we expected, in short, and that's both on the capital side of things and also on the operating cost perspective. I would just reference again the independent expert's report as opposed to what the previous owners of the assets have said, but very consistent, we're very pleased with how they're actually going. We're already getting some of the material from Prominent Hill through to Olympic Dam and that's clearly also delivering some synergy benefits and that's the longer-term leverage, is to how do we create a basin that is able to share that infrastructure, but very happy.

GLYN LAWCOCK (BARRENJOEY)

Good morning, Mike and David. First one is just on the iron ore market and as it pertains to China Minerals Resources Group (CMRG). It seems like we've been status of discussions with them for a while. Just anything coming up, because I've heard talk of them wanting to move back to fixed price contracts. Any light you can shed on that thanks?

MIKE HENRY (CEO, BHP)

Glyn, I can say that our relationship with CMRG remains constructive. I've met with them, Vandita and the team of course meet with them regularly, and – again, I want to be careful here – but as far as I'm aware, nobody's looking at moving back to fixed price contracts at this point in time. This is all about how we go about creating more sustainable supply chains and confidence in indices and so on and so forth, so it's actually been a very constructive engagement with CMRG to date.

I might just add on that, that I think all market participants recognise the pitfalls of that sort of pricing mechanism because we've been there before and that didn't work out well for any players in the sector when it comes to sensible risk management and so on, and I think that's pretty well understood actually.

GLYN LAWCOCK (BARRENJOEY)

No, no. Totally agree. Then Mike, obviously not a great topic, but I mean operating performance was going really well – fatality free for four years. But we've now had three fatalities in the last 13 months. Are there any observations you can make? Similarities across the incidents and perhaps what you're doing to address that Thanks.

MIKE HENRY (CEO, BHP)

Glyn, thanks for calling it out. I have to say that I am personally gutted by the fact that three people haven't gone home at the end of shift in BHP under my or our watch. It's something that we take super, super seriously. It's been the topic, as you would expect, of much conversation and action on the part of me and my team, spending a lot more time in the field. I've mandated certain requirements for the team in the coming weeks and months as to how much time and what we do when we're in field and that includes full night shifts, full day shifts and so on, just to get out there and listen to our people, hear what their observations are.

I was on site – and this was pre Luke losing his life at Saraji – I was on site at Jansen at the beginning of this year, I was on site at Port Headland the week before last, and what we're hearing from the teams on the ground, and this is both employees and contractors, by and large, is that the safety culture and our approach to safety management has improved over time. And we see that coming through in many of our underlying statistics.

And yet, as you call out, we've had three people in the past year who haven't made it home.

Now, similarities between the incidents are hard to call out. Three different assets – you know the fact that they all involve mobile equipment, or involved moving equipment, is something of course that we're paying attention to.

I do note that notwithstanding kind of a broad uplift and positive sentiment towards how safety is being managed, of course it's a big business and there are variable practices across the Group and that's some of the feedback that comes back as well.

We need, starting with me, more consistency, better consistency, in how we're leading safety. That's a key area of focus and we also need to be continuing to uplift culture when it comes to safety.

The final point I would note is that we know we've got the right systems and tools in place to manage safety well, and where things like field leadership, the BHP Operating System are deployed well, we find that those operations are running with better safety and better productivity, so this is partly about us simply reinforcing those things we already know and are deployed well throughout the business.

PAUL MCTAGGART (CITIGROUP)

Thank you. I hate to labour Escondida again, but just confirmation really. We've talked about a like for like replacement of Los Colorados in the past which would be a faster permit process than an unaltered or expanded Los Colorados. I just wanted to confirm, you've highlighted expansion opportunities at Laguna Seca 1 and 2, would that also require an extended permitting process, or do you think under your existing permits you can do expansions at those two concentrators? Thank you.

TRISTAN LOVEGROVE (GROUP INVESTOR RELATIONS OFFICER, BHP)

A couple of points – one is Los Colorados replacement, which we've talked about for a while, but then you were also asking around whether Laguna Seca 1 and 2 expansions, which we first talked about here, require permitting requirements, and yes, they will both require a meeting of requirements, but at different levels.

PAUL MCTAGGART (CITIGROUP)

Okay, thank you. It'll be a slower process I presume, because obviously it's not going to be using existing permits so that was my kind of sense. I mean, these are opportunities, but they will probably take a bit longer. Is that correct?

MIKE HENRY (CEO, BHP)

That's been reflected in the new timelines that we've provided around Escondida. You would have seen that we've slipped the decision by a year in the latest update, but I want to come back to, the team is very focused on maturing these options and everybody understands the value in earlier copper production rather than later.

But best estimate at this time, including for those reasons, had us taking a little bit longer to move to FID.

JOHN TUMAZOS (VERY INDEPENDENT RESEARCH)

Could you please explain the interaction of the different parts of the nickel business between the mines from whom you buy concentrates, the concentrator, smelter, refinery. Are there certain silos that you can operate stand alone or is it operate all or nothing logistics?

MIKE HENRY (CEO, BHP)

John, it's a very interesting point and I think it was alluded to in one of the earlier questions as well. There's actually a reasonably high degree of optionality in the nickel business to sell different types of product – everything from nickel sulphate to refined nickel to a matte product coming directly out of the smelter through to concentrate.

Now, of course, the different products have different levels of market liquidity and different returns and so on, but in the past we've optimised in the moment between the different products. So if we've had problems with the refinery, we might have sold some matte, and likewise, if there were problems in the smelter, sold some concentrate. Technically, there is the ability to sell the different products, but because of the discounts you would take for certain products, it can become economically unattractive fairly quickly.

About 30% of Nickel West's production comes from third party sources, or roughly one-third, and we have seen some of those other sources already moving into care and maintenance, which of course means less supply for us then, which impacts on the scale where it's negative for us because we're producing less to wash fixed costs through.

RAHUL ANAND (MORGAN STANLEY)

Hi again team. Thanks for the follow up opportunity. I've got two. Firstly, an easy one really on Spence growth option. Work completed there end of last year. How are you thinking about recoveries going forward? Obviously, you're still sitting significantly below that 80% mark at the moment. How should we think about those going forward?

The second one is around nickel. How are you thinking about the commodity and the business now Mike? I mean, is this still a pillar for BHP and if so, is this the best time to be doing counter-cyclical transactions in this space? Thanks.

MIKE HENRY (CEO, BHP)

Maybe I'll start with the nickel question in terms of how we think about the portfolio first and then David, maybe if you could speak to Spence.

Let me start with, where was nickel pre the recent decline? We've always said it has been a very small part of the BHP portfolio, and even under a growth scenario, or a successful growth scenario, it was going to remain a small but potentially attractive part of the BHP business. It's by no means the needle mover in terms of growth for BHP.

Now, as we sit here and look at the industry overall, we've said that we expect this oversupply is going to persist for some time, which we've called end of this decade, whereas the 2030s are likely to be more attractive. It's one thing for us to say we're going to hang on to nickel assets, and that's always a matter of review. It would be a wholly other thing for us to back ourselves on acquisitions specifically focused on nickel for an opportunity that may open up in the 2030s.

In a world where we've demonstrated a very disciplined approach to capital allocation overall, including acquisitions, I think it would be very hard to make the case for that when, if everything goes well in terms of the copper options and so on that we bring forward, we're going to have so many other competing opportunities to deploy capital for very attractive returns for shareholders. David?

DAVID LAMONT (CFO, BHP)

Yes, certainly. Thanks for the question in relation to Spence. Let me just point out the H1 performance was ahead of that similar period last year, so just for clarity, about 73.7% was the recovery that we had in the first half versus the prior year at 71.4%.

What we do expect is as we get deeper into the pit, we move our way more into the sulphide side of the ore recoveries and that that would then lead to a further improvement in overall recoveries.

That's where we are with Spence.

LACHLAN SHAW (UBS)

Morning again, Mike and David. Thanks for taking my follow up. I have two. One is a simple clarification. I'll start there first.

Just on nickel, the view the market is oversupplied till end of the decade. I'm just wondering how much of that rests on views about changing battery chemistry, so the rise of LP and LMFP chemistry in EV batteries?

MIKE HENRY (CEO, BHP)

Sure, that's a quick one to answer, Lachlan. That's not what's driving this view. This is all a supply side view and it really does come back to this surge in supply that we've seen come out of Indonesia and then work its way into the LME given the recent rule changes on the part of the LME where that Indonesian product is now impacting on the price for Class-I nickel.

LACHLAN SHAW (UBS)

Second question here. Just on labour costs, you called it out in your comments, Mike, around EA as being somewhat sticky. Obviously, we've got the Same Job, Same Pay, which continues to progress. Can you just elaborate on potential options around productivity that you might be able to deploy to try and offset some of those headwinds? Can you just elaborate on what that might look like please? Thank you very much.

MIKE HENRY (CEO, BHP)

Sure. First of all, you see this coming through in the broader business performance to date, and certainly, you can see it in the flagship iron ore business where we've done a better job, I think fair to say, than the sector overall in terms of maintaining good cost control. That has kept us at the low end of the cost curve and the world's lowest cost supplier.

Now, how do we go about doing that? Our focus is on our work practices and a well engaged frontline workforce, which is what the BHP Operating System is intended to stimulate. But it also comes through the deployment of technology and innovation. For example, more use of automated trucks, which you've seen us rolling out in iron ore, coal and now into our copper assets in South America.

So, through the work practices, good leadership and deployment of technology, that's intended to allow us to operate at peak productivity and you already see that coming through in the results.

KAAN PEKER (RBC)

Thanks for taking my question again. Just a clarification on the medium term copper volumes out of Escondida, that 900 ktpa to 1 Mtpa, is that assuming any additional leaching capacity? I've got a second one to follow up, thanks.

MIKE HENRY (CEO, BHP)

It's only taking into account the Full SaL leaching technology that we've called out, which plays out over a number of years, so it's an aggregate number. It's not a material contributor to the 900 ktpa to 1 Mtpa.

KAAN PEKER (RBC)

Sure, thank you. There's been quite a lot of interest in DRI obviously in terms of steelmaking and it does look increasingly popular. Some of your peers have shown interest in West African iron ore deposits. Why not BHP?

MIKE HENRY (CEO, BHP)

Amongst the various opportunities we have to grow the business, Kaan, we've taken the view that we're better off deploying capital into potash and copper, in particular. But the other thing I would note is that there's only about 3%, from memory, of global iron ore resources today that are suitable for DRI production with existing DRI technology. So if you're sitting there as a steelmaker, that's not a very attractive outlook. So we believe that steelmakers are highly motivated to find alternative routes to green steel, including the one that we together with Rio Tinto and BlueScope and others are pursuing, which is called ESF, or electric smelter furnace, because that methodology allows for green steel production but it's also much more suitable for Pilbara ore.

So we think from an overall market structure, market dynamic perspective, steel mills are going to be incentivised to pursue either a wider quality aperture for DRI or a different technology like ESF. Therefore, we're choosing to back that view by staying in the Pilbara and ensuring that we're running that business as productively as possible.

PAUL YOUNG (GOLDMAN SACHS)

A question on Spence and the tailings dam capex I guess is part rebuild there, I'm just wanting you to reflect and hear your views on what's gone wrong at Spence. I know when it was approved in 2017 the project had been studied for probably three or four years and BHP sort of got the capex down a lot on Spence, in my view, to prove to the market that you could build projects at a lower capital intensity versus some peers. So, were there shortcuts taken there and what learnings can you take from the Spence tailings dam experience to other projects?

MIKE HENRY (CEO, BHP)

It's a really interesting question, Paul, in that it would be easy to look at Spence and say, well the team at the time got it wrong. I think we have to keep in mind that the minute that any company has all projects going perfectly well, it suggests that there's probably a little bit too much fat built into the projects. Specifically in the case of Spence, and I recall discussions around the table at the time, there was a real focus on how do we go about bringing on a project like this even more efficiently. So there were some assumptions made that in the fullness of time have proven to be maybe just slightly off, but then in order to remediate them, I'm talking specifically about the concentrator here, it requires some further spend.

In the case of the tailings dam, I think that's a separate issue. That wasn't primarily related to less steel, less concrete and so on like you saw with the concentrator and building on a tighter footprint or against a tighter set of parameters. In the case of the tailings dam, that's just been some issues with the underlying surface upon which the tailings dam has been built. One of the unfortunate things about tailings dams, when you need to get into remediation work associated with them, it can be a relatively expensive exercise. I would note that so far, the tailings dam challenges that have arisen haven't had any impact on production, but over time it is going to require a remediation effort, as we've called out.

What are the learnings coming out of this? The learnings are, as we already know, with tailings we need to check, recheck and recheck again. But in terms of the overall project design, I've been quite cautious internally to say we don't want a reaction to this that says we can never have things not quite perform to plan when it comes to capital projects because I know that the behaviour that that will stimulate internally will be one of gold plating. I don't think either we nor shareholders want that. We want reasoned judgment exercised when it comes to big projects like this, with due study given, but then with an acceptable distribution around the mean of project outcomes.

PAUL YOUNG (GOLDMAN SACHS)

Okay, thanks Mike. A question for David around capex and also possible M&A, particularly bolt-ons I mean, I know you haven't changed the capex guidance in the medium term, but there's a fair few moving parts. Maybe some remodelling required across the street with respect to nickel care and maintenance costs, the Samarco cash flows and Jansen capex. For what it's worth looked like a little bit more loaded into the medium term rather than long run. Now Escondida possible some capex being pushed out to the right hand side.

I know you've got the met coal proceeds coming in the door in the June quarter, but what is the balance sheet's ability to take on possible bolt-ons on undeveloped assets in the medium term?

DAVID LAMONT (CFO, BHP)

So let me start by saying no change in strategy which would be the first comment, from what we have consistently said. So just to be clear, when we called out US\$11 billion of capital, that's what we see as being a sensible level to grow the business, but also ensure that under the CAF we continue to pay a minimum of 50% dividend and where possible, above that, like we just have.

The good thing is that we actually have more options ahead of us. Internally, there's more ask than the US\$11 billion that we have from a capital perspective, so that gives us the ability to actually prioritise those that are going to be the greatest add to overall value.

That hasn't changed. So yes, you can talk about individual projects like West Musgrave, Spence growth, the options that we actually have in Copper South Australia, or the options we have in Escondida – all of that comes into the mix. When we look forward, we certainly think that US\$11 billion capital is an appropriate number, balancing that out, which I should also just say is linked back to the early stage entrants that we have.

I will call out, we're spending more on exploration than what we have historically spent. You will see that we also have Xplor, you will see that we do have early stage entries. So, all of those are factored into how we monetise those over the medium to longer term, and that's factored into our thinking around the US\$11 billion. I'll just re-emphasise, no change to strategy or direction in relation to the options that we have.

MIKE HENRY (CEO, BHP)

Thanks again everybody for joining. I know there were quite a number of discussions around nickel and so on, for obvious reasons, but I do just want to pull things back to where's the business is at overall.

Underlying operations continuing to perform quite strongly, you can see that most evidently in the iron ore business. On the portfolio front, we continue to make solid progress against the plan we laid out a few years ago, with the final piece falling into place in coal with the announced divestment of Blackwater and Daunia. This gives us a tighter, much higher quality portfolio of coal, with over 85% of the production now in the premium quality coking coals, which will attract premium pricing.

With Copper South Australia, we've managed to bring that business together quite well. As David mentioned earlier, underlying operations performing well, and we've unlocked more synergies even more quickly than originally planned. And we're also developing growth options across both Copper South Australia and Chile, even as we build out this fantastic new potash business.

So overall – strategy with respect to the portfolio, underlying operations going quite well. David just flagged that because of all this work on building out the growth options for us, we'll have more opportunities than we wish to apply capital to at any given point in time, and stimulating that healthy level of competition between projects helps us maintain discipline and deliver better returns long term for shareholders.

Thanks everybody for joining, and we look forward to seeing a number of you in the coming weeks.