

# **BHP**

**Bank of America  
Global Metals,  
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**Q&A transcript**

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## Questions and answers

### **KATE MCCUTCHEN, BOFA**

So let's get into it. Let's start with a simple one and you touched on it in your presentation, Brandon. What is your vision for BHP under your leadership?

### **BRANDON CRAIG, BHP**

Thank you. I think the simplest way I can describe it would be to say it's accelerating performance to the limit and maybe I'll just talk about that very briefly through the lens of safety and productivity. So on safety, I have a view that if you don't have safe and stable operations, you don't have the right to do any further growth or any further investment in your business. So investing heavily and making sure we can eliminate fatalities from our businesses is a key priority. So we will be doing a significant amount of work on pursuing absolute zero in terms of fatalities in our business and supporting that thinking across the industry.

On productivity, I think we have seen in BHP that implementing our operating system has been a formula for accelerated productivity, but we can also see a lot of emerging technology coming towards us. And I have a view that if you can couple the operating system together with some of the latest advances in technology, we have the ability to compound and accelerate how fast we can go after that improvement. Technology also changes the structural limit of productivity. So technology allows you to unlock a level of performance that with more traditional approaches you cannot achieve. So that combination of an operating system and technology is very powerful.

And then on growth, there's two components. The first, organic growth and delivering that with discipline and confidence so that people can actually bank that growth in terms of how they look at our businesses is really important, and we'll be strengthening our organisation to bring that delivery reliability to our capital projects. But I also want the organisation to be a lot more creative in terms of how it thinks about unlocking additional growth.

Now, I described in my presentation a concept of programmatic growth. I think it's critical that a business like ours has an underlying growth rate banked into it, which then gives you the degrees of freedom to be able to pursue more interesting and more creative options in the future. If we can put all of that together, we can drive BHP's value to the next level and that's what I'm going to be focusing on.

### **JASON FAIRCLOUGH, BOFA**

Let's just back up a little bit and something we're asking most of the CEOs today. Obviously we have a situation in the Middle East. How is that impacting your business so far on the supply side, on the demand side? And there's a particular focus on diesel and particularly with some big miners that are moving a lot of dirt like you. So how do we think about that?

### **BRANDON CRAIG, BHP**

Listen, I think like most other mining companies we are watching what happens in the Middle East very, very carefully. Most of our businesses do run on critical input supplies like diesel, explosives, and similar. So those inbound supply chains are really important.

But if I answer the question through the lens of, I think looking at BHP as a business, what's important is the underlying demand for our products is very resilient, so that's important. Because when you have conflict, the risk is you can get GDP impacts and you can get demand destruction that happens. BHP, we're not seeing any of that at this stage. Iron ore continues to be strong, copper continues to be strong, so we are obviously very pleased about that.

But on the inbound side, could there be a disruption to critical supplies like diesel? Fortunately, we have very strong supply arrangements in place. We have very strong supply relationships in place. And because of that, what we've seen is the Middle East disruption translates more to a pricing impact to a supply chain risk impact, particularly when your business is strong as BHP.

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I think what we see in the market is for the supply and demand to balance out through energy products, it's the more marginal producers that are ultimately impacted by disruptions and supply chains. So for BHP, it's fundamentally a pricing effect that we have to manage. And it's still not immaterial, though. I mean, if you want to put that into numbers, \$1 per barrel of diesel translates, if you assume you have to carry \$1 a barrel over 12 months, that translates to about \$10 million of EBITDA impact for a company like BHP. So it's not insignificant, but I think the quality of the portfolio, the tier one nature of our assets, the quality of our supplier relationships is translating to the business being incredibly resilient during this period.

### **JASON FAIRCLOUGH, BOFA**

Okay, thank you.

### **KATE MCCUTCHEN, BOFA**

So BHP seems to have rebranded themselves as the world's largest copper producer, which is technically true. Tell us a bit about that, Brandon.

### **BRANDON CRAIG, BHP**

Yeah, I'm not quite sure if it's necessarily a rebranding per se, but I think we've been working really, really hard in our copper business to try and lift our productivity to try and lift our performance. And in recent years, we've managed to unlock 30% underlying growth in the copper produced from the business. And we've done that really through productivity and focus on business performance. So it's something we are particularly proud of to have accomplished, but it's not meant to be a signal to anyone that we're trying to necessarily become a pure play copper business.

I think similar to what Simon was describing earlier, we do fundamentally believe in the diversified model. We think that gives us a unique set of advantages to be very successful in the market, but copper clearly is a focus. If you have a look at the slides, you will see some of the organic growth options we set out earlier. Those are highly attractive options. Copper is an incredibly resilient commodity in the sense that it's not easily substitutable, it's quite ubiquitous in the development of countries, very strong demand profile over the next decade. So we are very bullish copper, but we still fully intend to remain a diversified company.

### **KATE MCCUTCHEN, BOFA**

And so given that you are bullish on copper, what does that mean for the other parts of your business in terms of attracting capital when copper is possibly the standout?

### **BRANDON CRAIG, BHP**

Well, we certainly apply capital across the portfolio still. The single exception is probably Queensland. We obviously have a set of royalty arrangements in Queensland we are not very comfortable with and because of that, we are not investing significantly into Queensland. But across the balance of the portfolio, potash, copper, iron ore, I think if you refer to the chart I had up earlier, there's still investment going into all of those businesses.

Now, the level of investment in each one is different. I think you can see there is a bias to copper. We have the view that it holds probably one of the strongest long-term demand profiles of all the commodities in the portfolio. So we think it's right that it attracts a disproportionate share of capital, but we are certainly not starving the capital that goes to the balance of the business and we will continue to put capital into iron ore and potash as well.

### **KATE MCCUTCHEN, BOFA**

And so if we come back to the copper growth in the portfolio, there's probably a couple of things to unpack. How do you think about the capability of the business to execute or manage projects and then does that hit differently for the greenfield optionality you have versus the brownfield optionality?

### **BRANDON CRAIG, BHP**

Yeah, I think if you have a look at BHP's track record on major projects, our underlying track record is actually very strong. If you look at the last \$35 billion dollars of investment over recent years, we've delivered that capital to within 3% of the cost estimates we set out to the market. I think the single exception is Jansen where we've got some productivity assumptions incorrect and where we didn't estimate inflation and escalation appropriately I think going through 2021 when we had COVID and we ended up with inflation levels higher than what we expected.

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But if you have a look at the underlying capability in BHP to deliver major projects, we've got very strong project systems, we have very strong project talent and because of that, we are very confident we have the internal capability to be able to deliver major projects.

And it's important to understand when you have a look at the portfolio, how we think about the projects because we are not carrying every growth option alone. If you have a look at Escondida, for example, that's probably one of the projects we're carrying as BHP. But if you go into Vicuña, we are doing that jointly with Lundin. If you have a look at what we're planning for Resolution, that's going to be done together with Rio Tinto.

So the fact that we've partnered, that partnership helps us distribute risk. You put all of that together with our projects being in different jurisdictions. Our projects are not competing with each other. We've set risk frameworks up through who we partner with and we've got very good embedded capability for delivering. So you package all of that together and we're very confident we can deliver the set of projects we've currently set out.

### **JASON FAIRCLOUGH, BOFA**

Let's dig into Vicuña a little bit. I think it's interesting because you mentioned it's a JV. It's a JV where you aren't in the sole driving seat. And so how are things going with Lundin so far?

### **BRANDON CRAIG, BHP**

Yeah, great. Great, actually.

### **JASON FAIRCLOUGH, BOFA**

Good answer. Good.

### **BRANDON CRAIG, BHP**

Yeah, no, it is genuinely good. I think as BHP, historically we shied away from joint ventures and partnerships. We had a sense of discomfort if we didn't have direct control over the work that we were undertaking.

### **JASON FAIRCLOUGH, BOFA**

And that's post Samarco particularly?

### **BRANDON CRAIG, BHP**

No, not necessarily post Samarco. I think our strategic philosophy was always own and operate, and that was the dominant thinking in the business. But I think we've seen that we can be a little bit more nuanced and a little bit sophisticated about how we think about managing risks, particularly in more complex jurisdictions. And putting together a way of working that allows us to address the specific issues we need to manage.

So if you look at a project like Vicuña, I think there's no disputing the quality of the resource space. There's 47 million tons of copper in the Vicuña resource, which is phenomenal, but we needed to make sure we could create an investment approach that would give us confidence we could deliver. And in Lundin, they have a track record of delivering projects in more complex countries. They'd been in Argentina for a very long time. So because of that, we can partner with a team that actually has demonstrated capability of successfully working in these jurisdictions, so that's valuable for us.

But in addition, the way to think about this is the complementarity, you can bring the best of both organisations together in terms of how you structure these arrangements. So when you look at the joint venture structure we've established with Lundin Mining, we can both vend talent into that structure. We can take the best of standards, policies, and systems for both organisations to put them into that vehicle. And that combination actually is really, really interesting because it allows you to take the best of Lundin, which is speed, agility, a level of entrepreneurship, incredible focus on cost. And you can couple that with BHP, which has probably got more rigorous systems, more rigorous governance. That combination together is proving to be really, really successful.

So we actually find that the more we operate in this manner, the more we find that it's beneficial. And at the same time, in a country like Argentina, a structure of this nature, because it's a joint venture and the scale of the investment being, by the time we get to Filo, \$18 billion, being able to risk share that through more parties is a very sensible thing to do.

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**JASON FAIRCLOUGH, BOFA**

Okay. Well, we're of time. Let's see if we've got any questions from the floor. Anybody got a burning question? There's one right behind you there, Jack.

**SPEAKER 4**

Going forward, how you see the production of iron ore in Australia? It means to maintain because of the resource replacement and option of growth?

**BRANDON CRAIG, BHP**

So I'll speak to BHP's component of that. So we currently have a number of investments underway in our iron ore business. We have what we call the Western Ridge Project, which is an extension of our Newman mine, we have Ministers North, which you could see as an extension of the old Yandi mine, and we have infrastructure investment both in rail and car dumping and port infrastructure. That combination will allow our iron ore business to grow to about 305 million tons.

And then the opportunity for BHP is to capacity creep that volume through productivity because the way to think about our business is you don't want to overinvest in infrastructure, you want to make sure you're harnessing the maximum productivity potential so you get the best capital efficiency out of your business. So for BHP, the ultimate constraint in our iron ore business is the volume we can put through the port at Port Hedland. That's about 330 million tons.

So if you invest in infrastructure and mining capacity to get to 305, that delta is just a huge opportunity to do through pure productivity and capacity creep where you can get all that volume at zero capital. So that's going to be the focus for us. We'll deliver the projects we have in train and then we are going to push really hard on how we can deploy the operating system, the technology I described earlier to be able to then unlock future volumes, at very, very low capital.

**JASON FAIRCLOUGH, BOFA**

Could probably squeeze one more in. We've got one right here we can go to.

**BEN SHREWSBURY, ABERDEEN**

Hi, Ben Shrewsbury from Aberdeen Investments. Could you maybe talk a little bit around the infrastructure portfolio and what is non-core, what is core, and just the value unlock opportunity for BHP with, I suppose, that non-core segment, please?

**BRANDON CRAIG, BHP**

Sure, sure. So it's interesting to think through that question through a lens of history. Now, when you develop major mining infrastructure, what tends to happen is there's very little state, province, or country-level infrastructure. So you have to carry a lot of infrastructure directly as the business. If I use Escondida as an example, you have to put in the power infrastructure, you have to put in the water infrastructure, you have to put all of that in place. When you do that, you end up in a situation where you've had to put the infrastructure in place, but if the infrastructure existed or you were later in your development, you wouldn't need to put that infrastructure there. So in many respects it becomes somewhat unnecessary and it becomes low-returning capital within the portfolio, and it would fit the descriptor of being better owned by a larger, major company or state energy corporation, for example. Those opportunities I think are where we have opportunity to try and monetise that infrastructure in some way.

Having said that, I think we've shared with the market that we believe there's about \$10 billion of opportunity for BHP. Well, I know we've delivered about \$6.3 billion of that so far, so there's \$4 billion to go. We know what those opportunities are, so it's not an undefined quantum of capital improvement. We're busy actively working through those residual opportunities, but I'm not expecting any opportunities beyond that \$10 billion number. Now there would be capital that in theory you could recycle in that manner, but you start to approach a point where you either lose operating control or create operating risk by doing that and that's a level we don't want to go past.

**JASON FAIRCLOUGH, BOFA**

Okay. Could you join with me, please, in thanking Brandon for his presentation?

**BRANDON CRAIG, BHP**

Thank you.