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BHP approves investment in Jansen Stage 1 potash project

BHP has today approved US\$5.7 billion (C\$7.5 billion) in capital expenditure for the Jansen Stage 1 (Jansen S1) potash project in the province of Saskatchewan, Canada.

BHP Chief Executive Officer, Mike Henry, said Jansen is aligned with BHP's strategy of growing our exposure to future facing commodities in world class assets, which are large, low cost and expandable.

"This is an important milestone for BHP and an investment in a new commodity that we believe will create value for shareholders for generations," Mr Henry said. Jansen is located in the world's best potash basin and is expected to operate up to 100 years. Potash provides BHP with increased leverage to key global mega-trends, including rising population, changing diets, decarbonisation and improving environmental stewardship.

"In addition to its merits as a stand-alone project, Jansen also brings with it a series of high returning growth options in an attractive investment jurisdiction. In developing the Jansen project, BHP has had ongoing positive engagement and collaboration with First Nations and local communities, and with the provincial and federal governments. Jansen is designed with a focus on sustainability, including being designed for low GHG emissions and low water consumption." Mr Henry added.

Jansen S1 is expected to produce approximately 4.35 million tonnes of potash per annum (1), and has a basin position with the potential for further expansions (subject to studies and approvals). First ore is targeted in the 2027 calendar year, with construction expected to take approximately six years, followed by a ramp up period of two years.

Jansen S1 includes the design, engineering and construction of an underground potash mine and surface infrastructure including a processing facility, a product storage building, and a continuous automated rail loading system. Jansen S1 product will be shipped to export markets through Westshore, in Delta, British Columbia and the project includes funding for the required port infrastructure.

We anticipate that demand growth will progressively absorb the excess capacity currently present in the industry, with opportunity for new supply expected by the late 2020s or early 2030s. That is broadly aligned with the expected timing of first production from Jansen. Beyond the 2020s, the industry's long run trend prices are expected to be determined by Canadian greenfield solution mines. In addition to consuming more energy and water than conventional mines like Jansen, solution mines tend to have higher operating costs and higher sustaining capital requirements.

At consensus prices (2), the go-forward investment on Jansen is expected to generate an internal rate of return of 12 to 14 per cent, an expected payback period of seven years from first production and an underlying EBITDA margin of approximately 70 per cent given its expected first quartile cost position.

We have previously acknowledged the US\$4.5 billion (pre-tax) of capital invested to date has resulted in a significant initial outlay and that our approach would be different if considering the project again today. The investment to date includes construction of the shafts and associated infrastructure (US\$2.97 billion (3) scope of work), as well as engineering and procurement activities, and preparation works related to Jansen S1 underground infrastructure. The construction of two shafts and associated infrastructure at the site is 93 per cent complete and expected to be completed in the 2022 calendar year. To date approximately 50 per cent of all engineering required for Jansen S1 has been completed, significantly de-risking the project. If the investment to date were to be included, the full cycle project would yield a much lower internal rate of return.

As part of our 2021 financial results, we have assessed the carrying value of the existing Potash asset base as at 30 June 2021 and have recognised a pre-tax impairment charge of US\$1.3 billion (US\$2.1 billion after tax). The impairment charge against our Potash assets reflects an analysis of recent market perspectives and the value that we would now expect a market participant to attribute to our investments to date.

Mr Henry said, "Jansen will create at least 3,500 jobs during peak construction and 600 in operation. Jansen S1 will have a gender balanced workforce and approximately 20 per cent of local First Nations employees. In construction and in ongoing operations we will continue to enable local and indigenous businesses. Building on our more than ten-year presence in Saskatchewan, we have signed

agreements that provide tangible mutual benefits including jobs and training, small business development and procurement with six First Nations communities around the site, the first of their kind in the potash industry. We appreciate the support we have received from the federal and provincial governments to encourage investment in the country and province.”

(1) The Jansen S1 project will convert approximately 20% of the 5.23 billion tonnes Measured and Indicated Mineral Resources into Ore Reserve (see Appendix 1).

(2) Price assumptions reflect average of CRU and Argus prices. Average 2027–2037: US\$341/t CRU and US\$292/t Argus. IRR = Expected Jansen Stage 1 IRR across approximately 100 year mine life. Jansen Stage 1 IRR is post-tax, nominal and reflects the range of the average CRU and Argus prices, and excludes expenditure on shafts and essential services consistent with previous disclosure.

(3) The US\$2.97 billion current scope of work for Jansen is part of approximately US\$4.5 billion that has been invested on the project since 2008 ahead of the sanction decision on Jansen Stage 1. Approximately US\$220 million of the US\$2.97 billion approved for the current scope of work, expected to be completed in the 2022 calendar year, is not yet spent. Sustaining capital for Jansen Stage 1 is expected to be approximately US\$15/t (real) long term average +/- 20% in any given year.

Appendix 1 has been submitted to the FCA National Storage Mechanism and will shortly be available for inspection at <https://data.fca.org.uk/#/nsm/nationalstoragemechanism>.

Further information on BHP can be found at: **bhp.com**

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