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Transcript

BHP Billiton

Environmental, Social and Governance briefing
25 September 2014

Environmental, Social and Governance briefing

1. Tony Cudmore

All right. Well, ladies and gentlemen, thank you so much for coming this morning. We're delighted that you could be here today. Welcome to BHP Billiton's Environmental, Social and Governance Briefing for 2014. Thank you for joining us, particularly those in Sydney and also those who are participating by teleconference. My name is Tony Cudmore and I am BHP Billiton's President of Corporate Affairs. Mike Henry, our President of Health, Safety and Environment, Marketing and Technology, is also with us today. In addition, we have Chris Barnesby, Head of Health, Safety and Environment; Dr Fiona Wild, Vice President, Environment and Climate Change; Ian Wood, Vice President, Community Relations and Sustainability; and Nicole Duncan, Company Secretary.

You may be aware that Jane McAloon, BHP Billiton's President of Governance and Group Company Secretary, had planned to join us for today's presentation. Unfortunately, she is not able to be here. This year's sustainability briefing is more structured than in previous years. The content is also more comprehensive and will cover governance and corporate planning, health and safety, environment, and community. This is about increasing transparency and giving you an understanding of how we apply sustainability principles across our entire business. And, of course, we have time for discussion and questions at the end of the presentation. Before we start, let me briefly draw your attention to the disclaimer and its importance to today's content.

For those on the teleconference, this is slide 2 of the presentation which sets out the legal parameters for the information provided today. The slide pack is available on our website, which I encourage you to access. Safety is central at BHP Billiton so for those in the room, in the event of an emergency, I would ask that you please follow the directions of the Credit Suisse staff, who will direct you to the assembly area. On slide 3, you will see the key themes that we will talk to today. This briefing is an opportunity to report on the charter value at the very core of our business: sustainability.

What this presentation will focus on is not the what of our achievements – the tons, the dollars, the productivity numbers – but rather the how of our achievements: the values, the responsibilities and direction that will help ensure we remain a leading global company. We will explain how our governance systems and corporate planning processes support value creation, build resilience into our portfolio and support our approach and effective control of sustainability risks. We will also outline our position on an approach to climate change. Mike Henry will now explain how he achieved sustainability through our governance systems.

2. Mike Henry

Look, thanks, Tony. Now, between Tony and I, the remainder of the presentation will probably be about 30 minutes at which time we will open it up for Q&A. Now, our presentation today begins with slide 4 which contains our company's most important document. Our BHP Billiton Charter is the foundation document for our decision-making, our actions and our behaviours. It contains our purpose, our strategy and our values and is the way we measure our actions and therefore our success. Now, you all know our purpose quite well. We aim to create long-term

Environmental, Social and Governance briefing

shareholder value through the discovery, acquisition, development and marketing of natural resources.

However, our charter brings to life how we conduct our business. We believe that running our business safely, reliably and sustainably is as important as the tons that we produce. And when our employees conduct their annual appraisal process, not only do they get measured against business-specific KPIs but everyone is also assessed against our charter value sustainability, and this includes group management committee members, where last year the weighting of short-term sustainability KPIs increased from 15 per cent to 20 per cent. We believe that BHP Billiton's ongoing success is underpinned by our visibly commitment to sustainability in all aspects.

As with sustainability, our charter value of integrity is at the core of our operations. And for us, integrity means doing what is right and doing what we say we will do. These values are fundamentally connected and are the foundation of our governance frame. Now, slide 5 contains a quote from Jac Nasser, our chairman, which captures the essence of our approach to governance. And at the heart of it is a shared belief that good governance is just good business and that high quality governance supports long-term value creation. It's why we have a governance framework that goes well beyond regulatory requirements. We apply the better of prevailing governance standards in Australia, the United Kingdom and the United States.

And our framework supports business decision consistent with our charter and strategy in the best interests of all of our stakeholders and that's what good governance is about. Now, our board establishes and maintains BHP Billiton's approach to governance and getting board composition right – and that is the combined sets of skills and experience – is critically important for any company. We believe that the diversity and skills of the board, the backgrounds and knowledge, the experience, geographic location, nationalities and gender is required in order to effectively govern the business and that plan succession underpins that. Slide 6 shows the combined skills and experience of our board in mining, oil and gas, business leadership, strategy and, most importantly, managing material uncertainty and systemic risk in the business. Now, we've had a policy in place now for over three years for each director to stand for annual election and the board believes that this supports accountability to shareholders.

In addition to the skills and experience set out on the table, our board governance document requires that directors demonstrate unquestioned honesty and integrity, preparedness to question, challenge and critique, and a willingness to understand and commit to the highest standards of governance. Now, slide 7 outlines the key governance documents that apply principles right across the BHP Billiton organisation. And I've talked already about our charter and our board governance framework. Now, our management governance framework is the next layer down in the organisation.

This framework cascades into the organisation through a group level documents, or GLDs, which outline the minimum mandatory performance requirements that must be in place in all of our assets. And we believe that our GLDs, combined with powerful group-wide systems and processes, allow us to drive productivity and simplicity. And this helps align our people across all our operations around what matters most and where value is to be found. Transparency is another way we seek to achieve alignment between our people and our stakeholders. And we apply our transparency principles of responsibility, openness, fairness and accessibility to all of our activities and our interactions.

Environmental, Social and Governance briefing

And our 2014 sustainability report released this morning is one example of how we voluntarily disclose information, including performance against our public targets. Our disclosures go beyond what is required by law because of the importance we give to transparency. We see value in our robust governance framework and recognise that in order to maintain a leadership role it must evolve with our stakeholder expectations and with business requirements. Now, while we work very hard to develop this framework, we also recognise that there's always opportunity to do more in this area. Now, the resilience of our portfolio is further enhanced by our approach to risk management.

Risk identification, management and reporting cascades up from our operations to our board, to inform our decision-making and our effort detailed on slide 8. A group risk profile is developed and reviewed by management, the risk and audit committee and by the board. And working with management to identify specific areas of focus, the sustainability committee supports the board in reviewing health, safety, environment and community risks and controls. Our risk management group level document provides the framework for embedding risk identification and management into our business processes. And these processes outline the controls that must be in place, the standards to which they must operate and what leaders are expected to do to verify they are operating correctly.

Now, this work, like other operational aspects of our day-to-day activity, is planned and resourced through our enterprise resource planning system, supporting the discipline with which it is executed. We move now to slide 9 and the corporate planning process that underpins the development and delivery of our strategy, which is to own and operate large, long-life, low cost, expandable upstream assets, diversified by our commodity, geography and market. Now, we assess this strategy against a constantly changing external environment and the risks and opportunities that that presents. Our corporate planning is underpinned by long-term scenario analysis.

And this gives an ability to review future possibilities, taking into account a wide range of potential future uncertainties and systemic risks. Now, as our long-term plan becomes a five year plan and then a two year budget, an annual capital allocation limit is set. And that's in order to maximise total shareholder returns, whilst mitigating financial risk. And within this capital ceiling our major growth options are optimally sequenced over a group-wide, multi-year plan. To inform our decision-making and business portfolio mix, this process includes assessment against a wide range of metrics. Now, our corporate planning processes help to reduce capital and exploration expenditure while improving our overall capital productivity.

Now, I will now talk about how this corporate planning process is applied to achieve maximum shareholder returns. We aim to understand our environment as comprehensively as we can, in order to best position our portfolio for the future. And to do this we develop long-term scenarios that provide a snapshot of how the world might look over decades to come. And this is explained on slide 10. The scenarios incorporate long-term uncertainties, such as geopolitics, macroeconomics, climate change and technological innovation. Now, the scenarios are designed to be divergent but also plausible and internally consistent. They're not forecast and no probabilities are assigned, rather they provide a range of possibilities to test the abilities of our portfolio and investment decision-making.

Now, as part of this we define and monitor signposts assigned to each scenario. And an example of that would be GDP per capita in key commodity importing countries. GDP per capita is a signpost of potential more rapid moves towards consumption driven economies. We

Environmental, Social and Governance briefing

also stress test the portfolio against more extreme scenarios. For example, we consider the possibility of one of the events being a more rapid response to climate change. We have also tested our portfolio against external assumptions around carbon bubble, for example. Now, our scenarios are updated annually, with input from across the company thoroughly reviewed by both the group management committee and the board.

Now, the scenarios we develop shouldn't be viewed as being preferred outcomes. Our company's approach to global challenges remains guided by the values set out in our charter, including sustainability. Now, slide 11 looks at the focus we give to climate change in our corporate planning, investment decision-making and portfolio management. And our modelling shows that our portfolio is resilient to a range of different scenarios and events. And I would note that we have been applying an internal price on carbon in our investment decisions for more than a decade. The diversity of our portfolio means not only is it resilient, but it also provides opportunity to capture potential upsides.

Now, an example of this resilience is in a severely carbon-constrained world where we would expect to see positive impacts in our high quality iron ore, metallurgical coal, uranium, potash and possibly copper assets, mitigate the potential downside in other assets. Now, furthermore the resilience of our portfolio is also supported by relatively short payback periods for many of our fossil fuels investments. As you can see from slide 12, climate change has been a priority for BHP Billiton for almost 20 years now. And I think it's fair to say that we have a clear record of action. We have been setting greenhouse gas targets since 1996. And since 1998 we've reported transparently on our performance by way of our independently verified sustainability report. On slide 13 we outline our position on climate change. We accept the IPCCs assessment of climate change science that warming of the planet is unequivocal, the human influence is clear and the physical impacts are unavoidable.

We believe that the world must pursue the twin objectives of limiting climate change to the lower end of the IPCCs emission scenarios in line with current international agreements while providing access to affordability energy required to continue economic growth essential for maintaining living standards and alleviating poverty. Under all current plausible scenarios, fossil fuels can be expected to remain an important part of the energy mix for decades to come. Therefore, there needs to be an acceleration in the effort to drive energy efficiency, to develop and deploy low emissions technologies and to adapt to the impact of climate change.

We also believe that a price on carbon is essential to drive greenhouse gas reductions and technological innovation. As part of our approach to climate change, we will continue to take action to reduce emissions in our own operations, we will build the resilience for operations, our investments, our communities and eco systems for the impacts of climate change, we will seek to enhance the global response by engaging with governments, we will work in partnership with peers to improve sectoral performance and increase industries' influence in policy developments and finally, we will contribute to reducing emissions through the use of fossil fuels through material investments in low emissions technologies. In the financial year 2013 we set a challenging absolute target to maintain our emissions below our financial year 2006 baseline in financial year 2017 while we continue to grow the business. And as slide 14 outlines, all of our businesses are required to identify, evaluate and implement projects that minimise greenhouse gas emissions.

Now, for example, with our Korean partner, Samsung and KOSPO, we have formally begun construction of the Kelar gas-fired power plant in Chile and our decision to power this plant with

Environmental, Social and Governance briefing

liquefied natural gas instead of coal will help to meet local energy needs while mitigating up to 1.5 million tons of CO₂ emissions each year. We know how important it is to reduce the emissions footprint of our operations. Our assessments show that our operations are already exposed to the physical impact of climate change. Now, these include increasing storm intensities as well as greater water supply variations so we're taking steps, putting measures in place already to mitigate some of those impacts. Now, as an example, over recent decades the southwest of Western Australia has experienced lower and more variable rainfall and this results in greater variability and flows in the Augustus River.

We have been working to minimise the impact of water releases from our Worsley Illumina asset through a new flow regime which mimics the changing natural environment. We believe that there must be a significant acceleration in the development and deployment of low emissions technologies. Now, we at BHP Billiton have invested nearly half a billion dollars since 2007 to support emissions reductions and energy efficiency projects. Now, for example, we support the Australian CO₂ Cooperative Research Centre which developed the Otway Basin Carbon Storage Project which is an internationally recognised research project. We continued to look for other opportunities to partner with governments, industry and researchers to invest in technologies that could lead to reductions in greenhouse gas emissions from the use of fossil fuels.

Moving now to slide 15 and to the health and safety part of our presentation – over the life of our company, our people have always been key to our success and we're the first to recognise that the nature of our operations has the potential to be hazardous. We know that we must carefully manage any risk to the safety of our people and we take that responsibility very seriously. Our approach is to understand, manage and, where possible, eliminate the risks in our business and to capture this, our group level documents set minimum mandatory requirements on risk management. These apply right across our organisation from accountants in head office to electricians on site. Our businesses also work to proactively develop further safety initiatives and one example of this is in our energy coal operations in South Africa where they've developed a remote device that enables audio and visual communication as well as real time gas monitoring to help better manage the risk associated with confined space work.

Now, we aspire to a fatality-free work environment and I'm both humble and very proud to report that in financial year 14 our employees achieved a full year with no fatalities on our operating sites for the very first time. And the bar chart on slide 16 shows that we have also maintained a downwards trend in our total recordable injury frequency, reducing that by nine per cent relative to the prior year down to 4.2 injuries per million hours work and that's a record low for the company. Now, these safety improvements have been achieved at the same time as we've realised significant gains in productivity and where we've seen record production at many of our operations. We see this as a validation of our belief that those same things that drive improved safety performance should also drive improved operating performance and vice versa. As Tony said at the start of the presentation, we believe it's effective as much about how we achieve our goals as the goals themselves. Now, we know that one year doesn't make a trend. We see that past year's performance simply as a validation of what's possible and so we continue our efforts to achieve this on a sustainable basis.

On slide 17 we look at our company's environment approach. We know that our operations impact the environment and so we set ourselves high standards to minimise any negative impacts. Central to this approach are the minimum mandatory requirements set out in our environment GLD. The key principle here is an aim to avoid, minimise and rehabilitate impacts

Environmental, Social and Governance briefing

within our areas of influence and this includes direct, indirect and cumulative impacts. We require our businesses to define target environment outcomes for land, biodiversity, water resources and air and the prevention and minimisation of greenhouse gas emissions. We apply compensatory actions to address residual impacts to biodiversity and eco systems.

We also contribute to environmental benefits through initiatives that support biodiversity, eco systems and other natural resources and one great example of this is at our Western Australian iron ore asset where the asset has completed a five year subterranean fauna survey covering 900,000 square kilometres of the Pilbara which we believe is the largest database of its kind in Western Australia and this data is being used now in a number of impact assessments and supports discussions about how best to manage the impact of our mining operations on underground fauna. On slide 18 we look at our financial year 2014 environmental performance and we're pleased to report that we achieved all of our annual environmental targets and remain on track to achieve our five year target to maintain greenhouse gas emissions below our financial year 2006 baseline.

We recognise that water is a resource that must be shared responsibly with our host communities and the environment. Water scarcity is an ongoing challenge in some of our locations, while in other locations the challenge is one of water excess or water quality. In financial year 2014, all of our operations that identified water-related material risk implemented at least one project to improve the management of associated water resources. As well as managing the environmental impacts of our operations, we also contribute include a voluntary commitment to support areas of national and international conservation significance and this includes helping to protect areas such as the Valdivian Coastal Reserve in Chile, one of the world's biodiversity hotspots. It also includes a breathtaking part of Tasmania that's home to old growth forests and endangered animal species. Together these two projects conserve over 60,000 hectares for 16 globally threatened species. The mechanisms we have in place to respect and enhance the natural environment form an important part of our community engagement strategy. To talk more about that part of our sustainability framework, I will now hand it back to Tony Cudmore.

3. Tony Cudmore

Well, thank you, Mike. For those of you on the phone, my presentation begins with slide 19. Since its inception BHP Billiton has always sought to be a valued partner in host communities. We recognise that the support of those communities is absolutely central to our success. We make positive contributions to these communities in a number of ways including through our business operations and the employment opportunities they provide, through the taxes, royalties and certain indirect taxes we pay, amounting to US\$9.9 billion in financial year 2014 and through the supply of commodities which form the building block for improved standards of living. We also fund programs that benefit education and training, health, economic development and cultural support.

Our community investment track record is summarised on slide 20. We voluntarily invest one per cent of our pre-tax profit in programs that aim to have a long lasting, positive impact on people's quality of life. This includes implementing new community projects and supporting existing ones. During financial year 2014 our voluntary community investment totalled \$242 million made up of \$142 million of cash, in-kind support and administrative costs and a \$100 million contribution to our corporate charity, the BHP Billiton Foundation for larger scaled and

Environmental, Social and Governance briefing

longer term projects. We believe that creating lasting economic and social benefit for our host communities is fundamental to our business. It helps to support local economies and ensures that benefits continue beyond the life of our operations. The key principle of our local level investment is that it must be driven by the needs of our communities. I'm on slide 21. Our programs are driven by research and local knowledge. Where possible, we seek to collaborate with community, government and non-profit organisations to leverage available resources. Our emphasis is always on the long term, placing emphasis on employment, training, capacity building and local economic development. Slide 21 contains examples of this.

The Window of Opportunity program is a five year, \$25 million initiative with an international health NGO called PATH. It operates in communities in South Africa and Mozambique to identify child and maternal health issues. It then works strategically with government, community based organisation, development partners and academic institutions to devise workable long-term solutions. So far it has reached 17,000 households, over 300 health professionals and provided technical support and service quality improvement to 85 health facilities. We estimate the program will benefit around 750,000 mothers and children. PATH have also leveraged our contribution to early childhood development with \$8 million of additional funding from philanthropic, academic organisations and USAID.

A world away from South Africa, in Australia's remote bushland, we're investing in the Bush Blitz program. A multi-million dollar partnership with the Australian government and Earthwatch Australia, it is Australia's largest nature discovery program. As part of the program, members of the public as well as BHP Billiton staff act as research assistants to assist scientists. They collect species, flora samples and process specimens. The first phase of the program led to the discovery of more than 700 new species and they've collected important data that will help protect biodiversity. So successful was phase 1 that we recently announced our commitment to a second phase, bringing our total investment to A\$10 million.

And Bush Blitz is a particularly unique program, combining our commitment to biodiversity, environment and the communities in which we operate. And it's an excellent example because it reflects our community strategy of engagement, inclusiveness and participation. Our employees who participate demonstrate our value of sustainability and are also helping to protect Australia's environment and biodiversity. Another very important part of our community engagement is our approach to human rights and indigenous relations. On human rights, we have aligned our core business practices with the UN universal declaration of human rights, the UN guiding principles on business and human rights, and the UN global compact principle.

Each of our operations must identify and document key potential human rights risks and assess their performance against our UN voluntary commitment and local human rights legislation. We have mandated a zero tolerance policy to human rights infringements, including child labour, inhumane treatment of employees and forced or compulsory labour for our suppliers, who are also required to adopt an open attitude towards the legitimate activities of trade unions. On indigenous relations, because many of BHP Billiton's businesses operate on or near indigenous land, we consider our responsibilities particularly seriously. We recognise the traditional rights of indigenous people, including acknowledging their rights to maintain their culture's identity, traditions and customs.

As one of the 22 member companies of the International Council on Mining and Metals, we've worked to develop a progressive position statement on the issue of free, prior and informed consent. This statement will require the council members to work through a clear process with

Environmental, Social and Governance briefing

those indigenous communities potentially affected by new projects. We recognise that this is an evolving area, however, we see it as a very positive step in support of our charter value of sustainability. And so our presentation today begins and ends with this charter value of sustainability. When I referred to it at the start, I said it was at the very core of our business. Now, at the end of the presentation on our now final slide, I hope you have a greater understanding of how we apply this value to all aspects of our operations.

We explained today how sustainability and integrity underpin our board and governance structures and how these values are critical to delivering high quality governance and long-term value creation. We talked about our long-term corporate planning and scenario development, both driven by the end goal of long-term sustainable operations. Our position on climate change and the actions we're taking in this area are also driven by sustainability considerations and so too are our health and safety framework and our approach to community engagement. We believe that by delivering our strategy sustainably and responsibly, we can deliver ongoing returns for our shareholders and directly benefit the broader community.

Our sustainability, community and group reporting documents contain further details and are all available here today for those in the room and on our website. We've now got time to take your questions, which we welcome. I would just like to quickly notice that in Jane's absence, Mike and I will endeavour to answer any governance related questions that you may have; however, if there are questions that are best answered by Jane herself, we're happy to follow up as appropriate after today's meeting. In addition, Andrew Fitzgerald, our Vice President of Group Reward, is available on phone conference to answer any remuneration related questions. So with that, thank you for your patience as we review this detailed information and we would be delighted to take questions. Thank you. We're just going to do a little logistical move here. All right. We might start with a question from the floor. And if you could identify, if you don't mind, your name and organisation, that would be great. Thank you.