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Dear Shareholder,

### **BHP Annual General Meeting**

In the lead-up to BHP's AGMs, I wanted to write to you to highlight BHP's approach to social value.

I also want to draw your attention to two non-routine items on the AGM agenda this year: a revised Remuneration Policy and two shareholder-requisitioned resolutions related to membership of industry associations, which I will discuss later in the letter.

### **Social value**

Throughout its history, BHP has recognised its corporate responsibility. Over the last decade, the business landscape has shifted and the expectations of shareholders and stakeholders have changed.

As a Company, we recognise we must work with others to address issues and opportunities, both inside and outside the mine gate, and we must work with a range of stakeholders to make a positive contribution. That is consistent with our longer-term interests and the long-term interests of our shareholders. Without the overt support of communities and other stakeholders, BHP cannot succeed.

We also strive to build social value through trust and transparency. That is why we disclose our total direct economic contribution, which in FY2019 was US\$46.2 billion. This includes payments to suppliers, wages and employee benefits, dividends to shareholders, and taxes and royalties to government.

We consider social value throughout the value chain, from our local operational footprint, to our impact on society. We continue to focus on local businesses through initiatives such as the Local Buying Program to support suppliers in our communities. We also take a global perspective. This year, in a widely reported speech delivered by our Chief Executive Andrew Mackenzie, we announced a range of measures to address global warming. I will highlight four of them. First, we have approved a five-year US\$400 million Climate Investment Program to find the best technologies, investments and solutions to reduce greenhouse gas emissions across our value chain. Second, and in line with the Paris Agreement and the recent work of the IPCC, we will update our climate portfolio analysis in 2020. We will evaluate the potential impacts of a broader range of scenarios and a transition to a 'well below' 2 degrees world. Third, we have committed to setting a medium-term, science-based target for the decarbonisation of BHP's operations, which will reflect the goals of the Paris Agreement. Finally, we recognise the need to measure our stewardship of BHP's products and so, in 2020, we will also set public goals to address scope 3 emissions.

Two investor briefings focusing on our approach to social value will be held on 8 October and 23 October.

### **Remuneration policy**

During the past two years, the Remuneration Committee invested time reviewing the Company's remuneration policy, to ensure it supports the attraction and motivation of talented executives and, at the same time, aligns business performance and remuneration outcomes. Based on the findings of this review, several enhancements to the remuneration policy are being proposed.

Remuneration Committee Chairman, Carolyn Hewson, and I consulted widely with investors during the year around our thinking on the remuneration policy. We received valuable input from investors that helped to shape the changes that we are bringing to the AGM. The changes take some leverage out of the remuneration arrangements while preserving a long-term focus and a significant exposure to the share price. There is also a reduction in the pension contribution rate from 25% to 10% of base salary, and the introduction of a two-year post-retirement shareholding requirement for the CEO.

A comparison of actual total remuneration outcomes from FY2009–FY2019 against notional outcomes over the same period under the proposed changes, indicates the prior CEO's total remuneration would have been lower by US\$19 million (25% lower) under the proposed remuneration policy. Conversely, the current CEO's total remuneration would have been marginally higher by US\$1 million (2% higher).

The Remuneration Report and the Notice of Meeting contain the details of the proposed changes.

### **Shareholder resolutions**

The Company has received two resolutions from shareholders in BHP Group Limited representing approximately 0.1% of the shares on issue in BHP Group Limited. The resolutions request:

- an amendment to BHP Group Limited's constitution to allow for 'advisory' resolutions; and
- suspension of BHP's membership of industry associations that undertake lobbying, advertising and/or advocacy relating to climate and/or energy policy, and whose record of advocacy since January 2018 is inconsistent with the goals of the Paris Agreement.

The Board considers that these resolutions are not in the interests of BHP shareholders as a whole, and has recommended that shareholders vote against them. Some of the key considerations are set out below. In addition, two global investor calls have been scheduled for 23 and 24 September. Further information, and updates on any new developments, will be provided on those calls.

### Constitutional amendment

The proposed amendment to the Constitution of BHP Group Limited would allow advisory resolutions to be put forward without the level of limitations, thresholds and regulatory oversight required in other jurisdictions, including the UK.

We believe that a change in the requirements relating to shareholder requisitioned resolutions is a matter for the Australian Government, taking into account appropriate limitations and thresholds and with any change applying to all Australian companies. I note that the Australian Council of Superannuation Investors (ACSI) has similarly concluded that this matter is best addressed through law reform rather than company-by-company constitutional amendments.<sup>1</sup>

### Resolution on industry associations and the Paris Agreement

I have referred earlier in this letter to a range of initiatives that BHP is taking that are aligned to the goals of the Paris Agreement. BHP supports the Paris Agreement as a critical element of the response to global warming.

#### *Review of advocacy by industry associations*

The Board recognises that there is increasing stakeholder interest in the nature and role of industry associations, and the extent to which the positions of industry associations on key issues are aligned with those of member companies.

BHP has robust governance processes in place to monitor and review the climate and energy policy positions of its industry association memberships, and to act when these positions are found to be materially different to BHP's core climate and energy policy positions.

BHP published its first industry association review report in December 2017. As a result of that review, BHP ceased its membership of the World Coal Association. BHP also worked with the Minerals Council of Australia and the United States Chamber of Commerce to develop new climate and energy policy positions.

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<sup>1</sup> ACSI, Towards Better Corporate Accountability, 2019: <https://www.acsi.org.au/images/stories/ACSIDocuments/ACSI-Towards-Better-Corporate-Accountability-April-2019.pdf>

BHP is currently conducting its 2019 industry association review and will publish the outcome of that work. The review includes comparison of the positions taken by relevant industry associations since January 2018 as against the positions held by BHP in climate and energy policy areas of importance to the Company. The methodology of the review will be consistent with that which underpinned the 2017 industry association review with enhancements based on feedback received on previous reviews and scope changes including review of Coal21.

We are aware of some investor concern related to Coal21. BHP's membership stems from our belief that low emissions technologies (LET), like carbon capture and storage (CCS), will be vital to achieving the goals of the Paris Agreement.

BHP actively monitors the activities of Coal21, both as a member and through our position on the Board. Over the course of the past year, BHP has also been working with Coal21 to amend its Constitution to better reflect its purpose. That is, to invest in research and deployment of LET to reduce and remove existing and future sources of energy and industrial emissions. The Coal21 Board has unanimously agreed to amend its Constitution to reflect this purpose. Discussions are also underway in relation to the role of the CEO being an exclusively Coal21 role, with no report to the Minerals Council of Australia. As indicated above, Coal21 is also 'in scope' for our 2019 review of industry associations.

As in previous years, the Board is being updated in relation to the industry association review and will endorse the outcomes.

The substance of the second shareholder resolution therefore incorporates what the Company has been doing since 2017 and continues to do, with the outcomes of the latest iteration to be released this year.

### **Looking ahead**

Throughout FY2019, I met with many of our shareholders and stakeholders. These discussions have renewed our commitment to deliver on the five key priorities for BHP – safety, portfolio, capital discipline, culture and capability, and social value. I strongly believe our focus on these key areas will create value for shareholders and make a positive contribution to society.

### **Further information**

Should you wish to discuss any of these issues in greater depth, please contact our governance team.

Yours sincerely



**Ken MacKenzie**  
Chairman