Letter to shareholders from Susan Kilsby, the Chair of BHP's Remuneration Committee

15 September 2020

Dear Shareholders,

I am writing to you for the first time as Chair of BHP's Remuneration Committee. I am looking forward to engaging with shareholders as the Committee undertakes its work, however, unfortunately due to the restrictions in place as a consequence of the COVID-19 pandemic, we are unable to meet in person at this time. In lieu of this, I would like to provide you with an outline of our FY2020 remuneration outcomes, together with key elements for FY2021, all of which are set out in more detail in BHP's Remuneration Report, released on 15 September 2020 as part of BHP's Annual Report.

Remuneration policy

The Committee sought and received approval from shareholders at last year's AGMs for a revised remuneration policy, with almost 94 per cent of votes in favour, and we believe the policy will serve stakeholders well. The key changes approved for the CEO were:

- A change in the balance of incentive arrangements comprising:
  - a significantly reduced LTIP grant size of 200 per cent of base salary (on a face value basis), down from 400 per cent
  - a CDP with a longer term focus than the former STIP. The CDP outcome is delivered one-third as a cash award, with two-thirds delivered in equity, as two-year and five-year deferred share awards each of equivalent value to the cash award. This aligns participants' incentive remuneration with performance over the short-, medium- and long-term

  These two changes in combination did not materially alter the target value or vesting profile of incentive remuneration, but resulted in a 12 per cent reduction in the maximum possible remuneration for a year.

- A significant reduction in the pension contribution rate to 10 per cent of base salary, down from 25 per cent (noting that the workforce average is approximately 11.5 per cent of base salary). As a result of this change, fixed remuneration for the CEO role has been reduced by 12 per cent and overall target remuneration reduced by 4 per cent.

- The introduction of a two-year post-retirement shareholding requirement.

We were also pleased to again receive support for our overall Remuneration Report from shareholders at the 2019 AGMs, with approximately 96 per cent voting 'for' the report. This continues our strong shareholder support over the past five years, where on average almost 97 per cent have voted in favour.

The Committee is focussed on having and applying a remuneration policy and approach that supports the Group's strategy and enables the attraction, retention and motivation of the talented executives so critical to delivering the best outcomes for all BHP's stakeholders. In addition, the Committee is cognisant of the need to navigate the priorities of differing jurisdictions.

COVID-19

In early 2020, BHP began to experience the impacts of the COVID-19 pandemic. All BHP employees have come together as one team to deal with the issues faced, and despite the challenges, BHP's results have been strong. The CEO and other ELT members have provided effective leadership through this period, and the Committee is proud of the way BHP's employees have found new ways of working, collaborated to solve problems, supported each other and their communities, and aligned around a common goal.

Despite the challenges the COVID-19 pandemic has presented, in FY2020 BHP has not needed to furlough any employees without pay, has not sought any government assistance, and did not raise additional equity. In addition, BHP's safe operational performance through this year, together with solid profitability, enabled the Board to declare a robust final dividend payable to shareholders in September 2020. This follows a record interim dividend paid to shareholders in March 2020, and continues the delivery of strong and consistent returns to shareholders. The COVID-19 pandemic increased costs and reduced volumes during FY2020, which negatively impacted executive remuneration outcomes.

During the COVID-19 pandemic, BHP has been especially conscious of contributing to the communities in which we operate, by doing all it can to keep employees, their families and their communities safe and healthy. BHP took action to slow the spread of COVID-19 into the workforce by investing in more transportation capacity, restricting travel to the operations and protecting at-risk workers. BHP has also created hundreds of operational jobs across our Minerals Australia business, funded local health and social programs in the communities where

BHP operates, and for the Company's small, local and Indigenous suppliers, BHP reduced the time taken to pay their invoices to help address the financial stress they might otherwise face as a result of the pandemic.

CEO succession

A key element of the Committee's work during the year was the remuneration implications of CEO succession. Mike Henry was appointed CEO and Executive Director effective 1 January 2020. Mike's fixed pay on appointment was set at US$1.870 million per annum, which included a base salary of US$1.700 million per annum plus a pension contribution of 10 per cent of base salary. ***This level of fixed pay for Mike was a reduction of 12 per cent from Andrew Mackenzie's fixed pay of US$2.125 million per annum.*** Mike participates in the CDP and LTIP in accordance with the approved remuneration policy.

Andrew stepped down as CEO and a Director of the Company on 31 December 2019, and he retired from BHP on 31 March 2020. The terms of Andrew's departure announced on 23 December 2019 reflected the Group's remuneration policy and the rules of our incentive arrangements and leaving entitlements as approved by shareholders.

CEOs' remuneration

The scorecard against which the CEO's annual performance is assessed comprises stretching performance measures, including HSEC, financial and individual performance elements.

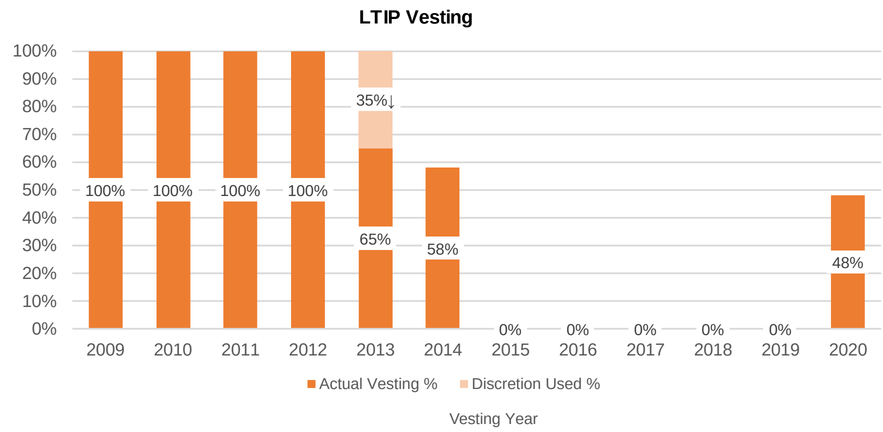
BHP's HSEC performance was positive during the year, with no fatalities recorded, and improvements in all key health and safety indicators, while environment and community outcomes were broadly in line with expectations. Financial and operating performance was sound, yet fell slightly short of the stretching targets set at the commencement of the year.

While the COVID-19 pandemic impacted BHP, society and the global economy, the Group maintained continuity of operations while keeping employees healthy and safe. Despite this, there were significant costs and other impacts of COVID-19 to BHP's financial results for FY2020, which were announced to the market on 18 August 2020. The direct costs have been recorded as an exceptional item in the financial statements. Nevertheless, ***the Committee concluded that, while these COVID-19 related costs were outside the control of management, they, together with the volume impacts of COVID-19, should flow through to the financial measures for CDP scorecard purposes, thereby reducing the remuneration outcomes for executives from what they would have otherwise been***. The Committee considered this was appropriate in light of the global impacts of the COVID-19 pandemic.

The Committee also considered each of the CEOs' performance against their individual objectives. For Mike, this included assuming the CEO role, redefining and restructuring the ELT, enhancing the performance improvement focus, strategy review, portfolio value and options analysis, accelerating gender balance aspirations, and the work of the Tailings Dams Taskforce. For Andrew, this included enhancing the value of the portfolio, maximising performance options, and maintaining a robust succession slate. The Committee considered both Mr Henry's and Mr Mackenzie's performance against their individual objectives to be in line with target.

Overall ***for FY2020, the Remuneration Committee has assessed Mike's and Andrew's performance and determined CDP outcomes of 96 per cent for each of them, against the target of 100 per cent*** (and the maximum of 150 per cent), with the outcomes prorated to reflect the periods as CEO.

The vesting outcome for the 2015 LTIP against the relative TSR performance conditions was 48 per cent, and this is the first vesting under the program since 2014. BHP outperformed the sector peer group significantly, but did not meet the performance threshold for vesting against the MSCI World index. This 48 per cent level of vesting is aligned with the long-term average vesting under the LTIP since its inception 16 years ago. Consistent with prior practice, the Board and Committee has conducted a holistic review of business performance over the prior five years since grant to ensure this level of vesting was appropriate.



Overall, Mike's actual total remuneration for the second half of FY2020, measured in accordance with the UK 'single total figure of remuneration' methodology, was US$6.1 million. As Mike was an executive director at the time of the 2015 LTIP vesting, this amount reflects the full value of the 2015 LTIP awards which vested to him in August 2020 (these awards were granted to Mike in a prior executive role in 2015, before he became an executive director). Andrew's actual total remuneration for the first half of FY2020, using the UK 'single total figure of remuneration' methodology, was US$2.4 million[1]. These outcomes reflect solid performance against both annual and long-term measures.

Further details in respect of overall remuneration outcomes for the year for the CEOs, together with information on how the outcomes are aligned to performance during FY2020, have been provided in BHP's 2020 Remuneration Report.

As at the date of this letter, Mike's shareholding meets the minimum shareholding requirement of five times pre-tax base salary.

For FY2021, the Committee determined that Mike's salary remains unchanged at US$1.700 million per annum, as it was at the time of his appointment. In addition, the other components of his total target remuneration (pension contributions, benefits, CDP and LTIP) also remain unchanged.

We have also ***addressed last year's commitment to clarify and strengthen the link between executive remuneration and climate change for FY2021. The weighting on climate is now 10 per cent*** of the 25 per cent HSEC weighting in the CDP scorecard, which compares to circa 4 per cent allocated to climate change in the prior STIP, and we have enhanced the disclosure of climate-related performance targets.

Remuneration outcomes for the Chair and Non-executive Directors

Fees for the Chair and Non-executive Directors are reviewed annually, and are benchmarked against peer companies. No changes to the Chair's fee will be made for FY2021. In addition, base fee levels for Non-executive Directors will also remain unchanged.

Summary

With the COVID-19 pandemic this year, FY2020 has presented many challenges, not only for BHP, but also for many other companies, governments, employees, families and communities across the world. On behalf of the Remuneration Committee, I would like to recognise the hard work, dedication and sacrifices of all of our employees. They have aligned around a common cause, and through their steadfast commitment, they have remained safe and healthy, continued to support their communities, and enabled BHP to generate robust results for all stakeholders.

The Committee believes the remuneration outcomes for FY2020 reflect an appropriate alignment between pay and performance during the year and are also fair in terms of the global context in which decisions have been made. We are confident that shareholders will recognise this as a continuation of our long-held approach. We look forward to ongoing dialogue with, and the support of, BHP's shareholders, and I very much look forward to meeting shareholders face-to-face when once again we are able to do so.

As always, we welcome your feedback, and should you wish to provide comments, raise queries or discuss the contents of this letter or BHP's 2020 Remuneration Report, I would request you contact Andrew Fitzgerald, Vice President Reward at BHP, at investor.relations@bhp.com, in the first instance.

I thank you in advance for your support.

Yours sincerely,

Susan Kilsby
Chair, Remuneration Committee

[1] Under the UK 'single total figure of remuneration' methodology, this excludes the value of Andrew Mackenzie's vested retained 2015 LTIP award of US$5.3 million, which vested after Andrew had retired from BHP and he was no longer an Executive Director. The number of 2015 LTIP awards had been prorated downwards for time served at the time of Andrew's departure.