

BHP

AGM shareholder resolutions discussion

Presentation & Speeches

20 October 2022



Bronwyn Wilkinson, Practice Lead ESG EMEA

Hello and thank you also to all the BHP shareholders who have joined us for this discussion.

For those of you who I haven't met, I'm Bronwyn Wilkinson and I am BHP's Practice Lead ESG for the EMEA region.

I am joined by a number of colleagues today:

- Geof Stapledon – BHP's Group ESG Officer
- Fiona Wild – BHP's Group Climate & Sustainability Officer
- Stefanie Wilkinson – BHP's Group Company Secretary
- Steve Barley – BHP's Manager Global Accounting Policy

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Shareholder event

20 October 2022

Agenda

1. Introduction	Bronwyn Wilkinson
2. BHP's Climate Transition Action Plan Summary of progress following 2021 'Say on Climate' vote	Fiona Wild
3. 2022 shareholder resolutions	
3.1 Background to the filing & technical matters re changing the company's Constitution	Stefanie Wilkinson
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4. Q&A	Bronwyn Wilkinson

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Bronwyn Wilkinson, Practice Lead ESG EMEA

The focus of today's discussion is BHP's upcoming AGM, and in particular the shareholder resolutions on the agenda.

As this Agenda slide shows, Fiona will get things started with a brief update on BHP's progress on key initiatives since the 'Say on Climate' vote last year.

After that, Stefanie will give a bit of background on the mechanics of shareholder resolutions in Australia, and in particular AGM Item 13, a shareholder proposal to amend BHP's constitution.

Fiona will then go through the two substantive shareholder resolutions – AGM Item 14 on Climate policy advocacy and AGM Item 15 on Climate accounting and audit.

We have progressed our Climate Transition Action Plan (CTAP) targets, goals and commitments



Operational greenhouse gas (GHG) emissions targets and goals for the short-, medium- and long-term



Value chain GHG emissions targets and goals for the medium- and long-term



Assessing capital alignment with a 1.5°C world and the transition to a low-carbon economy



A position on just transition for the environment, our communities and workforce



Strengthening our policy engagement



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BHP

Fiona Wild, Group Climate & Sustainability Officer

In 2021, BHP released its Climate Transition Action Plan (CTAP), which outlined our climate change strategy, targets, goals and commitments and progress, and received close to 85% approval from shareholders at last year's AGMs.

The CTAP builds on our demonstrated, decades-long commitment to addressing climate change including setting and achieving operational greenhouse gas emissions targets, undertaking scenario analysis, including potential impacts of a transition to a 1.5 degree Celsius world, and investing in the technologies, products and services that support decarbonisation.

In the past 12 months, we have delivered further progress against our climate change strategy.

Firstly, we have reduced our operational, or Scopes 1 and 2, greenhouse gas emissions by 24 per cent from the adjusted FY2020 baseline for our medium-term target.

The main contributor towards reduction of operational GHG emissions has been the supply of renewable energy for some of our operated assets, notably in Minerals Americas, with Escondida and Spence mostly supplied by renewable energy for their electricity in the first half of 2022.

And we are on track to meeting our medium-term target because of our decarbonisation strategy, plans and investments, including our expected spend of around US\$4 billion on operational decarbonisation by FY2030, with plans reflecting an annual capital allocation of up to around US\$600 million per year over the next five years.

Secondly, in support of our goal to pursue net zero value chain, or Scope 3, emissions, we have put in place steel decarbonisation partnerships covering ~13% of reported global steel production capacity, further supported by a commitment to invest up to more than US\$75 million in research and development.

BHP's customers in steelmaking are diverse, with some integrated steelmakers in what we term the 'optimisation' stage under our 'steel decarbonisation framework', focused on energy and process efficiency, increasing scrap ratios and raw materials optimisation.

Other customers are exploring 'transition' stage solutions like alternative fuels, modified blast furnace operations, and end-of-pipe solutions like Carbon Capture and Utilisation (CCU) and Carbon Capture, Utilisation and Storage (CCUS).

We have progressed our CTAP targets, goals and commitments (continued)

And some companies are investigating the viability of 'green end-state' technologies (which may have potential to reduce CO₂ emissions intensity compared with business as usual by up to 90%), such as hydrogen-based direct reduction iron (DRI) with electric arc furnace steelmaking and direct electrolysis processes, like molten-oxide electrolysis.

Our strategy to support emissions reductions in steelmaking is to partner, innovate, advocate and aim to supply the optimal products across these stages, including through feasibility studies, pilot-scale projects and trials at customer plants.

In addition, we also progressed work to support emissions reduction in the maritime sector, joining the US Government's First Movers Coalition (Shipping Sector), forming a consortium to analyse the potential to develop an iron ore maritime green corridor fuelled by green ammonia, and progressed use of LNG as a transitional fuel.

Thirdly, we now require all investment decisions to undertake a viability assessment under our 1.5 degree scenario, which we described in our Climate Change Report 2020, available at [bhp.com](https://www.bhp.com). We also incorporate regional carbon price assumptions alongside qualitative and quantitative metrics, as well as our scenarios, to inform our portfolio strategy and investment decisions.

Our focus for capital expenditure is now on commodities we assess as having a significant upside through the transition based on these scenarios and metrics, demonstrated by:

- Total capital and exploration expenditure for Continuing operations in FY2022 of US\$6.1 billion, of which only US\$73 million or 1 per cent was for our energy coal assets; and
- Positioning our operated assets with some of the lowest GHG emissions intensities of benchmarked mines around the world, leading to sustainability-centric product supply partnerships with customers and end users like Tesla and Ford.

Fourthly, we defined and published our approach to Just or Equitable Change and Transitions that recognises that changes in our business can have significant, and sometimes disproportionate, effects on communities where we operate.

One of the first examples of this approach in action will be for the Mt Arthur Coal mine, following BHP's decision to keep it in its portfolio but with the intention to cease mining by the end of FY2030 (subject to approval to extend the mining consent beyond 2026).

Over the next eight years, we plan to work together with the community to undertake a comprehensive and equitable pathway to 2030, which builds a forward plan for our Mt Arthur Coal team and surrounding communities. Our ambition is to collaborate on world class rehabilitation and future land use that supports the needs of the Upper Hunter region.

And finally, we participated in a number of initiatives that help shape policy, ranked highly in several investor benchmarks, and progressed our regular industry association review, which will be published by the end of December 2022.

Achieving the aims of the Paris Agreement will require supportive policy across jurisdictions globally. The policy-making process is complex, and change is unlikely to be smooth or linear.

We believe BHP can best support policy development by ensuring we meet our own climate targets, goals and strategies, continuing to make the case for the economic opportunities arising from the energy transition, and focusing on those policy areas where we are likely to have the greatest ability to influence change.

On this note, I'll now pass back to Stefanie to discuss shareholder resolutions put forward to this year's AGM.

Shareholder resolutions: Background / technical aspects



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- This year, BHP has received three requisitioned resolutions organised by the Australasian Centre for Corporate Responsibility, or ACCR.
- They are supported by 176 shareholders representing around 0.008% of our issued share capital.
- The first resolution seeks to amend the constitution and must be approved by at least 75% of shareholders voting.
- The proposed amendment would allow “advisory” resolutions, which are not generally possible under Australian law.¹
- **We do not support the proposed amendment to the constitution for the following reasons:**
 1. Australia does not have a regulatory framework or thresholds to govern advisory resolutions (such as found in the US).
 2. We believe law reform would be the right way to consider introducing advisory resolutions into Australia.
- One of the key investor groups, the Australian Council of Superannuation Investors (ACSI), agrees that this matter is best addressed through law reform rather than company-by-company constitutional amendments.²

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BHP

Stefanie Wilkinson, Group Company Secretary

This year, BHP has received three requisitioned resolutions organised by the Australasian Centre for Corporate Responsibility, or ACCR.

They are supported by 176 shareholders representing around 0.008% of our issued share capital.

The resolutions have taken the same structure as previous years.

The first resolution (AGM Item 13) seeks to amend BHP’s constitution to enable advisory resolutions to be put at BHP AGMs. To be passed, Item 13 must be approved by at least 75% of shareholders voting.

The second and third resolutions are advisory resolutions and contingent on the constitutional amendment passing.

This structure was devised to allow shareholders to put resolutions that would otherwise not be valid under Australian law. BHP’s Board does not support Item 13, the proposed amendment to the constitution.

There are several reasons for this.

First, shareholders have several avenues available to them to express their opinions about the management of BHP and request information from BHP, through a range of channels. Shareholders also already have a right under the Australian Corporations Act to put resolutions.

Under Australian law, 100 shareholders (with shareholdings of any size) can request a resolution be put to shareholders at a BHP Group Limited general meeting. This is slightly different to the UK Companies Act, which requires a minimum shareholding value.

Second, the proposed amendment to the constitution would allow advisory resolutions to be put forward without any regulatory oversight or the thresholds required in other jurisdictions.

For example:

- in the United States, shareholder resolutions are regulated. This is to prevent, for example, duplicate resolutions, resolutions designed to redress a personal grievance against the company and resolutions dealing with a matter that the company has already substantially implemented.
- in the United Kingdom, under widely used constitutional provisions, shareholder resolutions must be structured as special resolutions (requiring a 75 per cent majority vote) and must be ‘directive’ rather than ‘advisory’.

Finally, there has been some discussion of introducing advisory ordinary resolutions into Australian corporate governance.

Shareholder resolutions: Background / technical aspects (continued)

BHP's Board considers that any change relating to shareholder resolutions is a matter for Parliament rather than to be addressed company-by-company through constitutional amendments.

Addressing the matter through law reform would have the benefit of ensuring that an appropriate weighing of considerations occurs, appropriate thresholds and oversight mechanisms are in place, and all Australian public companies are subject to the same requirement.

One of the key investor groups, 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.

I'll now hand back to Fiona for an overview of the other shareholder resolutions.

Shareholder resolution: Climate policy advocacy



Shareholder event
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1. We believe AGM Item 14 is unnecessary

- BHP publicly supports the Paris Agreement.
- BHP already advocates in a manner that is supportive of the objectives of the Paris Agreement.

2. It is logical for us to advocate in support of the aims of the Paris Agreement

- Our scenario analysis indicates a positive impact on our portfolio if the world were to pursue accelerated decarbonisation based on our 1.5°C scenario (described in our Climate Change Report 2020, available at [bhp.com](https://www.bhp.com)).
- The reshaping of our portfolio is helping maximise the Company's exposure to opportunities arising from an acceleration of global progress towards a 1.5°C outcome.
- However, the Board and management must retain the flexibility to assess each policy idea on its merits.

3. The resolution is too broad and ambiguous and overreaches into the management of the Company

- We focus on policies where we can make an impact.
- Proactively lobbying for everything, regardless of its materiality, lessens this.
- The resolution would require Board to assess every direct and indirect climate policy proposal and justify whether BHP's advocacy (or decision not to advocate) was aligned to the aims of the Paris Agreement.

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Fiona Wild, Group Climate & Sustainability Officer

We don't support the second resolution (AGM Item 14) for several reasons.

Firstly, we believe it is unnecessary. BHP has publicly supported the Paris Agreement since the time it was adopted.

We advocate in a manner that is supportive of the aims of the Paris Agreement and we intend to continue to do so as seen, for example, in our recent submission to the Australian Government's review of the Safeguard Mechanism.

We take policy advocacy seriously – with respect to climate and other areas. In considering where and how we advocate, we focus on policies where we have a voice, where an issue is material to BHP and where we believe our advocacy can have an impact.

But not every policy idea is necessarily a good one, and not every policy which purports to be aligned to the aims of the Paris Agreement requires our input. The resolution cuts across the Board's and management's ability to assess and respond to future climate policy developments.

Secondly, we have conducted scenario analysis that indicates a positive impact on our portfolio if the world were to pursue accelerated decarbonisation based on our 1.5 degree scenario.

It is therefore logical for us to support the aims of the Paris Agreement because the reshaping of our portfolio over the past two years, towards future facing commodities that support the energy transition, is helping maximise the Group's exposure to opportunities arising from an acceleration of global progress towards limiting warming to 1.5 degrees Celsius.

However, the Board and management must retain the flexibility to assess each policy idea on its merits.

Thirdly, the resolution overreaches into the management of the Company.

While benign sounding at first glance, there are a number of practical issues to consider due to the broad and ambiguous nature of the resolution.

For example, the Board would need to assess every direct and indirect climate policy proposal and justify whether the Company's advocacy (or decision not to advocate) was aligned to the aims of the Paris Agreement. This is simply impractical.

We focus on policies where we have a voice and can make an impact.

Proactively lobbying for everything, regardless of its materiality to BHP, lessens our impact, and uses time and resources.

In effect, this resolution asks the Board to commit to proactively lobby for future climate policies where we don't know what those policies may be. That is the opposite of good governance.

The Board and management need to retain the flexibility to assess policy as it arises and consider how any policy would apply to the business and affairs of the Group at that time, and the form of advocacy it adopts. This is what is expected of a prudent company.

There is also a clear legal risk for the Board to commit to any future, forward-looking, positive actions – particularly where it is so open-ended - without understanding the implications and having a plan to meet them.

There are also risks with respect to greenwashing, for example if we were not 'proactive enough' according to some ill-defined standard; if we did not advocate where we thought it inappropriate to do so; or if we did not advocate in the right forums, or to the right people, or often enough.

Each of these would have brought with it the potential for litigation from shareholders, NGOs or even corporate regulators such as ASIC. It would be inappropriate for us to wilfully accept these risks – notwithstanding our broad and public support for the world pursuing the aims of the Paris Agreement.

Shareholder resolution: Climate accounting & audit



Shareholder event
20 October 2022

- BHP appreciates the strong investor interest in the financial impacts of a 1.5°C scenario on our portfolio.
 - IIGCC's "Paris-aligned accounts" initiative³ received in-depth consideration in the preparation of our accounts, including at BHP's Risk and Audit Committee.
 - We introduced new qualitative disclosures related to our 1.5°C scenario into the Basis of preparation of our financials in 2021, and continued that reporting in 2022.⁴
 - Those disclosures were subject to audit.
- The resolution requests BHP to disclose the quantitative impact of climate sensitivity analysis on *all commodities*, which includes those that stand to gain in our 1.5°C scenario.
- **We don't support the resolution because doing so would be in conflict with the accounting standards applicable to BHP.**
 - Our 1.5°C scenario indicates a positive impact on the value of the majority of our assets (copper and nickel-producing assets, for example);
 - For our assets,⁵ we report in line with "historical cost" accounting principles (not "mark-to-market" or "fair value" principles); and
 - The accounting standards do not permit a remeasurement above historical cost.
- Building on our disclosures over the past two years, we are considering opportunities to disclose in greater detail the impacts to our portfolio under one or more 1.5°C scenarios in our 2023 Annual Report.

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Fiona Wild, Group Climate & Sustainability Officer

And finally, we do not support the third resolution (AGM Item 15), which is related to climate-related disclosures in our financial statements.

We appreciate the strong investor interest in the financial impacts of a 1.5 degree scenario on our portfolio, but this resolution has been drafted in a way that made it impossible for the Board to support.

The November 2020 letter from the Institutional Investor Group on Climate Change (IIGCC) to FTSE audit committee chairs calling for 'Paris-aligned accounts' received in-depth consideration received in-depth consideration, including at BHP's Risk and Audit Committee.

Following the IIGCC letter and other direct engagement with investors, we introduced new disclosures into the Basis of preparation of our financial statements in 2021. This included qualitative disclosures regarding the possible impact of our 1.5 degree scenario on the carrying value of our assets and liabilities. We continued this type of disclosure in our 2022 Annual Report (pages 132 to 133).

Importantly, these disclosures were subject to external audit.

The financial statements are a critical part of our annual reporting. While we may have discretion in other parts of our sustainability disclosures, this is restricted in the financial statements. They are subject to strict rules about what is included and the basis of preparation.

The resolution asks BHP to commit to include information in our financial statements which would conflict with the accounting standards applicable to BHP. As I mentioned a moment ago, we already include a qualitative sensitivity analysis in the notes to our financial statements.

However, the resolution requests BHP to disclose the quantitative impact of climate sensitivity analysis on all commodities. This is a critical difference.

BHP could not do that without being in conflict with the accounting standards because:

- Our 1.5 degree scenario indicates a positive impact on the majority of our assets (copper and nickel assets, for example);
- We report in line with "historical cost" accounting principles, rather than "mark-to-market" or "fair value" principles;
- The accounting standards do not permit a remeasurement above historical cost, which would occur where there is a positive impact on the value of the asset.

Shareholder resolution: Climate policy advocacy (continued)

But, while it is not possible for the Board to support this resolution, we recognise the importance to shareholders of being able to understand the potential impacts on BHP's financial position from risks and opportunities arising from climate change. We are generally in favour of more decision-useful disclosure. But only where more disclosure would be not in fact be misleading.

The resolution asks us to commit to include information in our financial statements which conflicts with the accounting standards. We explained this to the ACCR and sought a withdrawal of the resolution. They disagreed.

Building on our disclosures over the past two years, we are considering opportunities to disclose in greater detail the impacts to our portfolio under one or more 1.5 degree scenarios in our 2023 Annual Report.

Endnotes

1. Slide 5: The filing threshold for shareholder resolutions looks similar on paper in Australia and the UK, but in practice can be significantly easier to satisfy in Australia. While both the UK Companies Act 2006 (section 338(3)) and the Australian Corporations Act (section 249N(1)(a)) give members with at least 5% of the voting rights the right to file a shareholder resolution, the other threshold, commonly referred to as the 100 members test, is framed differently in the two statutes. UK Companies Act, section 338(3)(b), confers the right to file on "at least 100 members who have a right to vote on the resolution ... and hold shares in the company on which there has been paid up an average sum, per member, of at least £100". In contrast, Australian Corporations Act, section 249N(1)(b), confers the right to file on "at least 100 members who are entitled to vote at a general meeting"; no minimum value of shareholding is required.
2. Slide 5: ACSI, *Towards Better Corporate Accountability*, 2019: <https://acsi.org.au/wp-content/uploads/2020/02/ACSI-Towards-Better-Corporate-Accountability-April-2019.pdf>.
3. Slide 7: Institutional Investors Group on Climate Change (IIGCC), *Investor Expectations for Paris-aligned Accounts*, 2020: <https://www.iigcc.org/download/investor-expectations-for-paris-aligned-accounts/?wpdmdl=4001&masterkey=5fabcd4d15595d>.
4. Slide 7: BHP Annual Report 2021, pages 135 to 136; BHP Annual Report 2022, pages 132 to 133.
5. Slide 7: 'Assets' refers to property, plant and equipment.

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