



BHP GROUP PLC

<https://www.bhp.com/investors/annual-reporting>

Annual General Meeting

14th October 2021

Financial Year End: 30th June 2021

Proxies voted
Social Change Assistance Trust
The Ditikeni Trust

The Integrated Annual Report (Report) includes the Annual Financial Statements and auditors report although the latter is not in the index.

The nature of its business does not make climate change targets easy for BHP. However, they do provide details of their GHGs (Green House Gas emissions), energy consumption, water usage etc and these include three or five-year figures and long-term targets to meet the Paris Accord. It also appears that the company is divesting of some of its “dirtier” operations having reached agreements to separate its oil and gas operations and sell all coal operations other than metallurgical coal, this response may enable BHP to clean up but is not be ideal from an environmental perspective. A number of shareholder resolutions have again been put forward and the board does not support 2 of these resolutions although it does support the resolution regarding advocacy associations and the Paris Accord (number 22 below).

A tailings report is included with a link to more detailed tailings reporting. The financial statements and auditors report provide details on the continuing litigation and cost implications of the Samarco tailings dam failure in 2015. There does not seem to be a sense of urgency to resolve this.

The Report does note that the company has engaged with the community, government and others regarding the rock-fall and damage to the heritage site at Pilbara but falls short of acknowledging responsibility. This is hard to reconcile with their statement that the company does *respect the rights of Indigenous peoples and acknowledge their right to maintain their culture, identity, traditions and customs*.

Social responsibility spend is US\$ 174.84m which is approximately 1.3% of Profit after Tax of US\$ 13 451m which is below acceptable norms. The number of employees increased 9% in each of the last two years, a significant increase in employment, but the pay gap has widened per the Remuneration Report with the CEO earning approximately 129 times the median pay of an ordinary employee.

The Report includes hyperlinks and links to the company website. Despite that it is not easy to navigate with an inadequate index. It is laid in portrait format rather than landscape, the latter being easier to read on a computer screen. There are a number of double-page spreads which are impossible to read on even a wide laptop screen.

	Resolution	Rationale	Vote	Outcome of AGM
	Ordinary Resolution			
1	To receive the Financial Statements for BHP Group Plc and BHP Group Limited and the reports of the Directors and the Auditor for the year ended 30 June 2	The Annual Financial statements and auditors' reports are included in the Integrated Annual Report. The auditors are of the opinion that the Annual Financial Statements fairly present the results and financial position of the group.	FOR	FOR 99.9%
2	To reappoint Ernst & Young LLP as the auditor of BHP Group Plc	This is the second year in office of Ernst & Young who are one of the big 4 global audit firms. We support their reappointment.	FOR	FOR 99.7%
3	To authorise the Risk and Audit Committee to agree the remuneration of Ernst & Young LLP as the auditor of BHP Group Plc	Total audit fees declined 4.7% after an increase of 12.1% in 2020. The high increase in the audit fee in 2020 we put down to the fact that it was the first year in office of Ernst & Young. As such the drop in fees is reasonable and expected. We consider the fees reasonable and support the resolution.	FOR	FOR 99.9%
4	To authorise the Directors to allot shares in BHP Group Plc or to grant rights to subscribe for shares or to convert any security into shares	This resolution has been proposed in the past and is generally approved by shareholders. However, it is for US\$ 105.6m which we calculate at 10% of the issued shares. This could have a material impact on the shareholding of the company. We are not given any details of why or under what circumstances the directors may wish to exercise this right. Without proper information we cannot support a resolution which could materially affect shareholders.	AGAINST	FOR 98.4%
5	To authorise the Directors to allot equity securities for cash and/or to sell or transfer any equity securities	This resolution allows the directors to make a rights issue of no specified amount to existing shareholders or to issue shares or securities other than the right issue of up to US\$52.8m which we calculate as 5% of the issued shares. No reasons are provided for any such undertaking nor are the criteria which would trigger such an event explained. Again we note that we cannot support a resolutions such as this with insufficient information.	AGAINST	FOR 98.6%

	Resolution	Rationale	Vote	Outcome of AGM
6	To generally and unconditionally authorise BHP Group Plc to make market purchases of ordinary shares	<p>This resolution empowers the directors to make market purchases of shares up to 10% of the issued shares at a price which is no more than the higher of: 5% above average price or no higher than the bid price in the market.</p> <p>No reasons are provided for the repurchase of shares nor are shareholders given any indication at all of the circumstances which would trigger such repurchases.</p> <p>We do not support resolutions without reasons and effects and in general do not support share repurchases as these are often prejudicial to minority shareholders.</p>	AGAINST	FOR 97.7%
7	To approve the Remuneration Report for the year ended 30 June 2021 <u>other than</u> the Directors' remuneration <u>policy report</u>	<p>The Remuneration reporting has to comply with UK and Australian legislation which creates some complexity in reporting and resolutions. In terms of UK legislation, the Remuneration Policy must be approved every 3 years; this was done in 2019 so does not have to be approved this year.</p> <p>The remuneration reports have been very well supported for the past two years with approximately 96% support last year.</p> <p>The policy is to set the remuneration in US\$ although the executive and most of the board are resident in Australia. We are given no reason as to why the remuneration is set in US\$.</p> <p>Non-Executive Director (NED) fees remain unchanged. The only changes to these fees since 2011 are:</p> <ul style="list-style-type: none"> • A 6% reduction in fees other than the chairman in 2015; • A 13% reduction in the Chairman's fee in 2015 and a further 8% reduction in this fee in 2018. <p>We are told that fees are benchmarked annually. However, the 2014 Report stated that the NED and Chairman's fees were benchmarked yet these were reduced after that. This does bring into question the benchmarking of these fees.</p> <p>We favour an element of NED fees based on attendance or some other measure of performance.</p>	AGAINST	FOR 97.6%

	Resolution	Rationale	Vote	Outcome of AGM
		<p>The CEO is the only executive director and his base salary has remained unchanged since 2013 at US\$ 1.7m whilst his benefits have been reduced from 25% of base salary at that time to 10% of base salary.</p> <p>However, we find that benefits are in fact 11.2% with Pension set at 10% and other benefits making up the difference.</p> <p>No details are provided of basic increases for general staff. The pay ratio (GINI Coefficient) is provided of the CEO against the 25th percentile Median and 75th percentile of all employees and the respective ratios are: 189:1, 129:1, 106:1. Thus the CEO is paid approximately 129 times the median pay of an employee of BHP. This is a fairly large increase on the prior year when the CEO was paid approximately 81 times the median pay of an employee.</p> <p>As with NED fees, the annual benchmarking exercise does not fill us with confidence given the reduction in base salary.</p> <p>The CDP (Cash and Deferred Plan) is a short and medium-term incentive payable to the CEO. CDP metrics and targets are set by Remco (Remuneration Committee) and are made up of: financial targets 50%; personal targets 25%; and HSEC (Health, Safety, Environment and Community) targets 25%. Targets rely on Remco discretion.</p> <p>The financial target is ROCE (Return on Capital Employed) which is a limited test. HSEC is health & safety, climate change and tailings.</p> <p>Target performance allows for a cash award of 80% of base salary and a maximum or stretch award of 120%.</p> <p>In addition to the cash award there are 2 deferred share awards payable after 2 and 5 years. Each of the share awards is equal to the cash award. Thus, the target CDP is equivalent to <u>240%</u> of base salary (US\$ 4.08m) with a stretch award of <u>360%</u> of base salary (US\$ 6.12m).</p> <p>This is a high level of award.</p>		

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		<p>Actual award for 2021 was 276% of base salary. We are told that Remco did not need to exercise its discretion in the awarding of the CDP, and a detailed report card and evaluation is included. Remco has the discretion to ignore the metrics and achievement against target. We do not like this level of discretion. Malus and Clawback provisions do apply. This is as it should be.</p> <p>Long-Term The Long-Term Incentive (LTI) award is subject to performance conditions. The conditions are remaining in the employ of the company and Relative TSR (Total Shareholder Return) over a 5 year period. We favour the use of Relative TSR rather than TSR as this does take into account movements in the market which are beyond the control of the executives, and a 5 year period does remove any short term market movements.</p> <p>The companies used as a comparator group for the Relative TSR is named and appears to be appropriate. A graph is provided showing BHP TSR, ASX100 and FTSE TSR. Surprisingly this does not include the comparator groups TSR. BHP is outperformed by both exchanges. We note that the CDP above does include ESG (or as BHP call it HSEC) conditions but believe the LTI should also have ESG conditions applied.</p> <p>LTIP is limited to 200% of base salary but we were not able to fully understand how the actual award was arrived at.</p> <p>Prior to vesting shares do not receive dividends nor do they have voting rights which is as it should be.</p> <p>The number of shares vested may be <u>reduced</u> at the discretion of Remco <i>to ensure vesting is not simply driven by a formula or the passage of time that may give unexpected or unintended remuneration outcomes.</i> We are concerned that this discretion could be a disincentive.</p> <p>Remco considered the vesting of shares due in the current financial to be appropriate and did not exercise its discretion to reduce any of these shares. All awards therefore vested.</p>		

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		<p>Malus and Clawback provisions apply to the LTIP.</p> <p>The payment of executive and non-executive remuneration does appear to have been in accordance with the remuneration policy although the determination of LTIP was not clear to us.</p> <p>We do recognise that the NED and Executive remuneration have been reduced over a number of years by actual reductions as well as the policy of not awarding increases for the past decade and commend this effort to bring these under control. Nevertheless, we still consider these to be excessive and the pay gap is of concern.</p>		
8	To approve the Remuneration Report for the year ended 30 June 2021	<p>The remuneration policy and implementation are discussed above. That resolution, number 7, specifically excludes remuneration policy and is therefore effectively a vote on implementation of the remuneration policy only.</p> <p>This resolution looks at implementation and policy and therefore the only difference between the 2 could be on the evaluation of the policy. We have carefully considered the policy and whilst there are a number of factors which we favour as stated above, the key deciding factor in our decision on this resolution is the degree of discretion allowed to Remco on all matters pertaining to executive remuneration.</p> <p>The Report creates a clear link to financial returns, share price and HSEC but not to company strategy – their strategy may be interpreted by some as a rather warm and fuzzy statement rather than a strategy but the company has been changing and a clear and understandable link is considered a requirement.</p> <p>We were not clear on how the level of LTI was determined. We do not believe this level of discretion is appropriate nor does it provide for certainty.</p> <p>The link to company strategy was not clear to us, and given the significant changes the company is going through (disposing of dirty coal assets and separating oil assets) this is very concerning.</p>	AGAINST	FOR 97.1%

	Resolution	Rationale	Vote	Outcome of AGM
9	To approve the grant of awards to Executive Director, Mike Henry, under the Group's Cash and Deferred Plan (CDP) and Long-term Incentive Plan (LTIP)	<p>These awards are made in terms of resolutions 7 and 8 above both of which we have opposed.</p> <p>In particular we could not understand the basis of determining the LTIP awards as opposed to the vesting of those awards.</p> <p>Further, we are far from satisfied with the link between awards and company strategy.</p>	AGAINST	FOR 98.6%
		<p>Before considering the appointment of individual directors, we consider the overall composition of the board. The key factors which we consider are: Independence; Continuity; Skills; and Diversity.</p> <p>Last year we noted our concern at the rapid turnover of directors and so we are particularly anxious to see continuity of this board. It is therefore disappointing to see 2 directors step down at this meeting.</p> <p>Average tenure of non-executive directors is 3 years and the CEO has only been in that position for just over a year. The CEO did serve with the company for some time prior to that so he does have some institutional knowledge. Continuity remains a concern.</p> <p>We do not find independence to be a concern.</p> <p>The skills set is appropriate and good though we would like to see some skills specific to climate change challenges the company faces.</p> <p>Diversity is very poor with 80% of the board white men and only 1 person (10%) not white. The diversity of nationalities does not reflect the company's global footprint.</p>		
10	To re-elect Terry Bowen as a Director of BHP.	<p>Mr Bowen, 54, has been an independent director for 4 years and his attendance record for the past 2 years was impeccable.</p> <p>He is suitably skilled and experienced and chairs the Audit Committee.</p> <p>He does not appear to be overcommitted.</p>	FOR	FOR 97.5%
11	To re-elect Malcolm Broomhead as a Director of BHP	<p>Mr Broomhead, 69, has been a director for 11 years. He is classified as an independent director, we question this classification given that he has been a director for 11 years and he is Chairman of Orica which company has had significant business dealings with BHP according to media reports.</p> <p>Mr Broomhead is chairman of a listed company and we do not favour directors holding the position of chairman of other listed companies.</p>	AGAINST	FOR 98.1%

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12	To re-elect Xiaoqun Clever as a Director of BHP	Ms Clever, 51, has been a director for 1 year during which her attendance record was impeccable. She is suitably skilled and experienced and does not appear to be overcommitted.	FOR	FOR 98.0%
13	To re-elect Ian Cockerill as a Director of BHP	Mr Cockerill, 67, has been a director for 2 years and his attendance record for the past year was impeccable and prior to that it was good. He is the chairman of another listed company which we do not like but this in itself is insufficient to vote against him given our concerns for continuity of this board.	FOR	FOR 98.5%
14	Item 14 To re-elect Gary Goldberg as a Director of BHP	Mr Goldberg, 62, has been a director for 1 year and his attendance record was impeccable. He is suitably skilled and experienced and does not appear to be overcommitted.	FOR	FOR 98.2%
15	To re-elect Mike Henry as a Director of BHP	Mr Henry, 55, has been a director and CEO for just over a year having been in the employ of the company for many years. He is suitably skilled and experienced and his attendance record for the year is impeccable. He appears to be grappling with the climate challenges facing the company.	FOR	FOR 98.7%
16	To re-elect Ken MacKenzie as a Director of BHP	Mr MacKenzie, 57, has been a director for 5 years and is the independent chairman of the board, a position he has held for 4 years. He is suitably skilled and experienced and his attendance record for the past 2 years is impeccable.	FOR	FOR 95.1%
17	To re-elect John Mogford as a Director of BHP	Mr Mogford, 68, has been a director for 4 years and his attendance record for the past 2 years has been impeccable. He is suitably skilled and experienced and does not appear to be overcommitted.	FOR	FOR 98.2%
18	To re-elect Christine O'Reilly as a Director of BHP	Ms O'Reilly, 60, was first appointed to the board in October 2020 since which her attendance record has been impeccable. She is suitably skilled and experienced and does have a number of other commitments but they do not appear excessive at this stage.	FOR	FOR 98.0%

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19	To re-elect Dion Weisler as a Director of BHP	Mr Weisler, 54, has been a director for 1 year and his attendance record for the year was impeccable. He is suitably skilled and experienced and does not appear to be overcommitted.	FOR	FOR 98.6%
20	To approve the Climate Transition Action Plan	This resolution rather annoyingly provides no information and does not have a link or even a cross-reference to the plan. A link can be found in the Report and details can be found on the website at www.bhp.com/climate We find the plan is not sufficiently ambitious and would like to see faster action than that planned. Nevertheless, we support this as a step in the right direction.	FOR	FOR 84.9%
21	To amend the constitution to insert a new clause 46	This clause is proposed by shareholders and opposed by the board. A similar clause was proposed last year. The resolution provides for the right of shareholders to ask questions or question decisions of the board around material relevant issues. This could be a problem as it may be too vague based on the information we have. We do have reservations that this resolution may be open to misinterpretation but in general support the right of shareholders to ask questions and for the board to be obliged to answer those questions and thus we support the resolution.	FOR	AGAINST 88.2%
22	Where an industry association's record of advocacy is, on balance, inconsistent with the Paris Agreement's goals, shareholders recommend that our company suspend membership, for a period deemed suitable by the Board	This is another shareholder proposed resolution which was proposed at the last board meeting. This time the board are recommending that this resolution be supported. The resolution is self-explanatory and we support it.	FOR	Subject to 21 above being passed.

	Resolution	Rationale	Vote	Outcome of AGM
23	<p>Shareholders note the company's stated support for the goal of achieving net-zero emissions globally by 2050, along with the publication of the International Energy Agency's Net Zero Emissions by 2050 Scenario, and the Climate Action 100+ company assessment.</p> <p>Shareholders therefore request the company disclose, in subsequent annual reporting, the following information pertaining to its thermal coal, metallurgical coal, oil and gas assets:</p> <ul style="list-style-type: none"> – Details of how the company's capital allocation to thermal coal, metallurgical coal, oil and gas assets will align with a scenario in which global energy emissions reach net-zero by 2050, facilitating the efficient managing down of these assets; – Production guidance for the lifetime of thermal coal, metallurgical coal, oil and gas assets; – Plans and capital expenditure expectations for decommissioning and rehabilitating sites at the end of asset life; – Plans for how employees of the company will be informed of asset closures, and employee 	<p>This is the third shareholder proposed resolution. This resolution is opposed by the board.</p> <p>The resolution is self-explanatory and we support it.</p>	FOR	Subject to 21 above being passed.

	Resolution	Rationale	Vote	Outcome of AGM
	transition plans, including any compensation for job losses, training and support in seeking future employment; and – Details of how remaining value in the company’s thermal coal, metallurgical coal, oil and gas assets will be redeployed or returned to investors.			