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BHP Group Plc – Annual Financial Report 2021

Financial Conduct Authority Submissions

The following documents have today been submitted to the FCA National Storage Mechanism and will shortly be available for inspection at:
https://data.fca.org.uk/#/nsm/nationalstoragemechanism

- Annual Report 2021
https://www.bhp.com/-/media/documents/investors/annual-reports/2021/210914_bhpannualreport2021.pdf

- Economic Contribution Report 2021
https://www.bhp.com/-/media/documents/investors/annual-reports/2021/210914_bhpeconomiccontributionreport2021.pdf

- Climate Transition Action Plan
https://www.bhp.com/-/media/documents/investors/annual-reports/2021/210914_bhpclimatetransitionactionplan2021.pdf

- XML format of the Economic Contribution Report 2021
https://www.bhp.com/-/media/documents/investors/annual-reports/2021/210914_bhpeconomiccontributionreport2021_xml.xml

- BHP Group Plc Notice of Meeting 2021
https://www.bhp.com/-/media/documents/investors/annual-reports/2021/bhpnoticeofmeetingplc2021.pdf?la=en

- BHP Group Plc Proxy Form (UK Principal Register)
https://www.bhp.com/plcagm

- BHP Group Plc Proxy Form (South Africa Branch Register)
https://www.bhp.com/plcagm

The documents may also be accessed via BHP's website - bhp.com - or using the web links above.

Additional Information

The following information is extracted from the Annual Report 2021 (section references are to sections of the Annual Report) and should be read in conjunction with the announcement of BHP's Results for the Year Ended 30 June 2021 issued on 17 August 2021. Both documents can be found at bhp.com and together, constitute the material required by DTR 6.3.5 to be communicated to the media in unedited full text through a Regulatory Information Service. This material is not a substitute for reading the Annual Report 2021 in full.

1. Principal risks and uncertainties

1.1 How we manage risk

Risk management helps us to protect and create value, and is central to achieving our purpose and strategic objectives. Our Risk Framework has four pillars: risk strategy, risk governance, risk process and risk intelligence.

Risk strategy

Risk classification
We classify all risks to which BHP is exposed using our Group Risk Architecture. This is a tool designed to identify, analyse, monitor and report risk, which provides a platform to understand and manage risks. Similar risks are considered together in groups and categories. This gives the Board and management visibility over the aggregate exposure to risks on a Group-wide basis and supports performance monitoring and reporting against BHP's risk appetite.

Risk appetite
BHP's Risk Appetite Statement is approved by the Board and is a foundational element of our Risk Framework. It provides guidance to management on the amount and type of risk we seek to take in pursuing our objectives.

Key risk indicators
Key risk indicators (KRIs) are set by management to help monitor performance against our risk appetite. They also support decision-making by providing management with information about financial and non-financial risk exposure at a Group level. Each KRI has a target, or optimal level of risk we seek to take, as well as upper and lower limits. Where either limit is exceeded, management will review potential causes to understand if BHP may be taking too little or too much risk and to identify whether further action is required.

Risk culture
Our risk management approach is underpinned by a risk culture that supports decision-making in accordance with BHP's values, objectives and risk appetite. We use a common foundation across BHP to build the tools and capabilities required to enable us to understand, monitor and manage our risk culture. These include tailored cultural assessments, Group-wide risk culture dashboards and the inclusion of behavioural auditing in our internal audit plan.

Strategic business decisions
Strategic business decisions and the pursuit of our strategic objectives can inform, create or affect risks to which BHP is exposed. These risks may represent opportunities as well as

threats. Our Risk Appetite Statement and KRIs assist in determining whether a proposed course of action is within BHP's risk appetite.

Our focus when managing risks associated with strategic business decisions is to enable the pursuit of high-reward strategies. Therefore, as well as having controls designed to protect BHP from threats, we seek to implement controls to enhance and/or increase the likelihood of opportunities being realised. For example, we might establish additional governance, oversight or reporting to help ensure new initiatives remain on track.

Risk governance

Three lines model

BHP uses the 'three lines model' of risk governance and management to define the role of different teams across the organisation in managing risk. This approach sets clear accountabilities for risk management and provides appropriate 'checks and balances' to support us in protecting and growing value.

The first line is provided by our frontline staff, operational management and people in functional roles – anyone who makes decisions, deploys resources or contributes to an outcome is responsible for identifying and managing the associated risks.

The Risk team and other second-line functions are responsible for providing expertise, support, monitoring and challenge on risk-related matters, including by defining Group-wide minimum standards.

The third line, our Internal Audit and Advisory team, is responsible for providing independent and objective assurance over the control environment (governance, risk management and internal controls) to the Board and Executive Leadership Team. Additional assurance may also be provided by external providers, such as our External Auditor.

BHP Board and Committees

The Board reviews and monitors the effectiveness of the Group's systems of financial and non-financial risk management and internal control. The broad range of skills, experience and knowledge of the Board assists in providing a diverse view on risk management. The Risk and Audit Committee (RAC) and Sustainability Committee assist the Board by reviewing and considering BHP's risk profile (covering operational, strategic and emerging risks) on a biannual basis.

For more information refer to sections 2.1.7, 2.1.10 and 2.1.11.

Performance against risk appetite is monitored and reported to the RAC, as well as the Sustainability Committee for HSEC matters, enabling the Board to challenge and hold management to account where necessary.

Second-line risk-based reviews are undertaken to provide greater oversight and enhance our understanding and management of the Group's most significant risks, with outcomes reported to management, the RAC and Sustainability Committee. These outcomes may be used to develop remediation plans, adjust BHP's Risk Appetite Statement or KRIs, enhance our Risk Framework or inform strategic decisions.

Additional information on risk management and internal controls is shared between the Board, the RAC and, for HSEC matters, the Sustainability Committee, and is provided by the Business Risk and Audit Committees (covering each business region), management committees, our Internal Audit and Advisory team and our External Auditor. For more information refer to section 2.1.

Risk process

Our Risk Framework requires identification and management of risks (both threats and opportunities) to be embedded in business activities through the following process:

- Risk identification – threats and opportunities are identified and each is assigned an owner, or accountable individual.
- Risk assessments – risks are assessed using appropriate and internationally recognised techniques to determine their potential impacts and likelihood, prioritise them and inform risk treatment options.
- Risk treatment – controls are implemented to prevent, reduce or mitigate threats, and enable or enhance opportunities.
- Monitoring and review – risks and controls are reviewed periodically and on an ad hoc basis (including where there are high-potential events or changes in the external environment) to evaluate performance.

Our Risk Framework includes requirements and guidance on the tools and process to manage current and emerging risks.

Current risks

Current risks are risks that could impact BHP today or in the near future, and comprise current operational risks (risks that have their origin inside BHP or occur as a result of our activities) and current strategic risks (risks that may enhance or impede the achievement of our strategic objectives).

Current risks include material and non-material risks (as defined by our Risk Framework). The materiality of a current risk is determined by estimating the maximum foreseeable loss (MFL) if that risk was to materialise. The MFL is the estimated impact to BHP in a worst-case scenario without regard to probability and assuming all risk controls, including insurance and hedging contracts, are ineffective.

Our principal risks are described in section 1.16.

Our focus for current risks is to prevent their occurrence or minimise their impact should they occur, but we also consider how to maximise possible benefits that might be associated with strategic risks (as described in the 'Risk strategy' section). Current material risks are required to be evaluated once a year at a minimum to determine whether our exposure to the risk is within our risk appetite.

Emerging risks

Emerging risks are newly developing or changing risks that are highly uncertain and difficult to quantify. They are generally driven by external influences and often cannot be prevented.

BHP maintains a 'watch list' of emerging themes that provides an evolving view of the changing external environment and how it might impact our business. We use the watch list to support the identification and management of emerging risks, as well as to inform and test our corporate strategy.

Once identified, our focus for emerging risks is on structured monitoring of the external environment, advocacy efforts to reduce the likelihood of the threats manifesting and identifying options to increase our resilience to these threats.

Risk intelligence

The Risk team provides the Board and senior management with insights on trends and aggregate exposure for our most significant risks, as well as performance against risk appetite. Risk reports may also provide an update on the Risk Framework, overview of (and material changes in) the risk profile and updates on emerging risk themes and risk culture. They are supported by an opinion from the Chief Risk Officer (or other relevant individual).

We maintain a risk insights dashboard designed to provide current, data-driven and actionable risk intelligence to our people at all levels of the business to support decision-making. This tool empowers the business to manage risks more effectively, with increased accuracy and transparency.

The Board also receives reports from other teams to support its robust assessment of BHP's emerging and principal risks, including internal audit reports, ethics and compliance reports and the Chief Executive Officer's report.

For information on our principal risks, robust risk assessment and viability statement, refer to section 1.16

1.2 Risk factors

Our principal risks are described below and may occur as a result of our activities globally, including in connection with our operated and non-operated assets, third parties engaged by BHP or through our value chain.

Our principal risks, individually or collectively, could threaten our viability, strategy, business model, future performance, solvency or liquidity and reputation. They could also materially and adversely affect the health and safety of our people or members of the public, the environment, the communities in which we or our third-party partners operate, or the interests of our stakeholders leading to litigation (including class actions) or a loss of stakeholder and/or investor confidence. References to 'financial performance' includes our financial condition and liquidity, including due to decreased profitability or increased operating costs, capital spend, remediation costs or contingent liabilities. While the risks described in this section represent our principal risks, BHP is also exposed to other risks that are not described in this section.

Each of our principal risks may present opportunities as well as threats. We take risk for strategic reward in the pursuit of our strategy and purpose, including to grow our asset portfolio and develop the right capabilities for the future of our business. Potential threats and opportunities associated with each of our principal risks are described below, along with the key controls to manage them. These controls are not exhaustive and many Group-wide controls (such as *Our Code of Conduct*, Risk Framework, mandatory minimum performance requirements for risk management, health, safety and other matters, dedicated non-operated joint venture teams and our Contractor Management Framework) help to support effective and efficient management of all risks in line with our risk appetite. While we implement preventative and/or mitigating controls designed to reduce the likelihood of a threat from occurring and minimise the impacts if it does, these may not be effective.

Key changes to our principal risks in FY2021 are the introduction of risks associated with inadequate business resilience and adopting technologies. The way in which we articulate our other principal risks has also changed since our FY2020 Annual Report. For example, risks associated with operational events have been consolidated into a single risk factor rather than being discussed across two risk factors. We have also disaggregated and combined elements of principal risks. For example, risks associated with third-party performance are embedded throughout our principal risks and climate change risks have been separated to provide a greater focus on transition risks, while risks associated with the potential physical impacts of climate change are addressed alongside other business resilience risks (as well as across other relevant principal risks). We have also simplified the presentation of our principal risks. These changes are designed to provide greater accessibility and value to stakeholders in understanding our principal risks.

With the exception of risks associated with operational events, exposure to all of our principal risks increased in FY2021. These increases were largely driven by uncertainties in the external environment, such as the continuing global impacts of the COVID-19 pandemic, heightened geopolitical tensions and societal and stakeholder expectations of business (including in relation to social, environmental and climate-related risks), and increasing frequency and sophistication of cyberattacks against companies in the resources industry and governments. While our influence over most of these aspects of our external environment is limited, we continue to monitor signals and review our control environment to improve management of associated risks

OPERATIONAL EVENTS

Risks associated with operational events in connection with our activities globally, resulting in significant adverse impacts on our people, communities, the environment or our business.

Why is this important to BHP?

We engage in activities that have the potential to cause harm to our people and assets, and/or communities and the environment, including serious injuries, illness and fatalities, loss of infrastructure, amenities and livelihood and damage to sites of cultural significance. An operational event at our operated or non-operated assets or through our value chain could also cause damage or disruptions to our assets and operations, impact our financial performance, result in litigation or class actions and cause long-term damage to our licence to operate and reputation. The potential physical impacts of climate change could increase the likelihood and/or severity of risks associated with operational events. Impacts of operational events may also be amplified if we fail to respond in a way that is consistent with our corporate values and stakeholder expectations.

Examples of potential threats

- An offshore well blow out, including at one of our assets in the US Gulf of Mexico, Australia, Trinidad and Tobago or Algeria, or at one of our appraisal and exploration options in Mexico, Trinidad and Tobago, Western and Central Gulf of Mexico or Australia.
- Failure of a water or tailings storage facility, such as the tragic failure of the Fundão dam at Samarco in 2015 or a failure at one of our facilities in Australia, Chile, Colombia, Peru, the United States, Canada or Brazil.
- Unplanned fire events or explosions (on the surface and underground).
- Geotechnical stability events (such as an unexpected and large fall of ground at our underground or open pit mines, or potential interaction between our mining activities and community infrastructure or natural systems), including at our underground mines in Australia, the United States and Canada.
- Air, land (road and rail) and marine transportation events (such as aircraft crashes or vessel collisions, groundings or hydrocarbon release) that occur while transporting people, supplies or products to exploration, operation or customer locations, which include remote and environmentally sensitive areas in Australia, South America, Asia and the United States.

- Critical infrastructure or hazardous materials containment failures, other occupational or process safety events, or workplace exposures.
- Operational events experienced by third parties, which may result in unavailability of shared critical infrastructure (such as railway lines or ports) or transportation routes (such as the Port Hedland channel in Western Australia).

Examples of potential opportunities

- Our focus on safety and the welfare of our people, communities and the environment may increase workforce and other stakeholder confidence, enhancing our ability to attract and retain talent and access (or lower the cost of) capital.
- Collaborating with industry peers and relevant organisations on minimum standards (such as the Global Industry Standard on Tailings Management and Large Open Pit Project guidelines on open-pit mining design and management) supports improvements to wider industry management of operational risks and may also identify opportunities to improve our own practices.

Key management actions

- Planning, designing, constructing, operating, maintaining and monitoring surface and underground mines, water and tailings storage facilities, wells and other infrastructure and equipment in a manner designed to maintain structural integrity, prevent incidents and protect our people, assets, communities, the environment and other stakeholders.
- Specifying minimum requirements and technical specifications, such as for transportation (including high-occupancy vehicles, aircraft and their operators), and compliance with operating specifications, industry codes and other relevant standards, including BHP’s mandatory minimum performance requirements.
- Defining key accountable roles, such as a dam owner (an internal BHP individual who is accountable for maintaining effective governance and integrity of each tailings storage facility), and providing training and qualifications for our people.
- Inspections, reviews, audits and other assurance activities, such as independent dam safety reviews and geotechnical review boards.
- Maintaining evacuation routes, supporting equipment, continuity plans and crisis and emergency response plans.
- Incorporating future climate projections into operational event risks through ongoing assessment of potential physical climate change risks.

FY2021 insights

While our overall exposure to risks associated with operational events remained relatively stable in FY2021, our risk profile has adapted to changes in our operating context. For example, a greater focus on exploration has increased our use of helicopters to conduct geophysical surveys and transport personnel. We have also had to adapt the way we transport people to and from work due to the COVID-19 pandemic (for example, more buses have been scheduled due to social distancing requirements).

Further information

- section 1.13.4 Safety
- section 1.13.15 Tailings storage facilities
- section 1.15 Samarco
- bhp.com/sustainability

ACCESSING KEY MARKETS

Risks associated with market concentration and our ability to sell and deliver products into existing and future key markets, impacting our economic efficiency.

Why is this important to BHP?

We rely on the sale and delivery of the commodities we produce to customers around the world. Changes to laws, international trade arrangements, contractual terms or other requirements and/or geopolitical developments could result in physical, logistical or other disruptions to our operations in, or the sale or delivery of our commodities to, key markets. These disruptions could affect sales volumes or prices obtained for our products, adversely impacting our financial performance, results of operations and growth prospects.

Examples of potential threats

- Government actions, including economic sanctions, tariffs or other trade restrictions, imposed by or on countries where we operate or into which we sell or deliver our products may prevent BHP from trading or make it more difficult for BHP to trade in key markets. For example, China has imposed import restrictions and tariffs on some Australian exports, including energy and metallurgical coal. The imposition of further tariffs or other restrictions on any of our other products could adversely affect our financial performance.
- Physical disruptions to the delivery of our products to customers in key markets including due to the disruption of shipping routes, closure or blockage of ports or land logistics (road or rail) or military conflict. In some cases, physical disruptions may be driven or intensified by weather, climate variability or climate change.
- Legal or regulatory changes (such as royalties or taxes, port or import restrictions or customs requirements, shipping/maritime regulatory changes, restrictions on movements or imposition of quarantines, or changing environmental restrictions or regulations, including measures with respect to carbon-intensive imports) and commercial changes (such as changes to the standards and requirements of customers) may adversely impact our ability to sell or deliver, or realise full market value for, our products.
- Failure to maintain strong relationships with customers, or changes to customer demands for our products (such as vertical integration), may reduce our market share or adversely impact our financial performance.
- Increasing geopolitical tensions may adversely affect our strategic and business planning decisions and/or increase the time it takes us to manage our access to key markets, particularly if we fail to detect or anticipate deviations in the geopolitical environment in a timely manner.

Examples of potential opportunities

- Monitoring macroeconomic, geopolitical and policy developments and trends may reveal new markets or identify opportunities to strengthen secondary markets for existing products.
- Leveraging the opportunity to create value by developing strategic partnerships and strong, mutually beneficial relationships with our customers.
- Building a deep understanding of the geopolitical risks faced by BHP and their potential impacts on our business could enhance our strategy, business planning and response, providing a potential competitive advantage.
- Identifying the potential for weather, climate variability or climate change to disrupt delivery of products and implementing management measures may increase the resilience of our operations and supply chain.
- Signal monitoring and building relationships with and understanding the perspectives of influential stakeholders may improve our ability to understand, respond to and manage any impacts from policy changes (such as trade policies).

Key management actions

- Monitoring and assessing our ability to access key markets, and maintaining sales plans, product placement and business resilience strategies and relationships with relevant

stakeholders (such as the Chinese, United States and Australian Governments, and our customers in China and elsewhere).
- Maintaining response plans for various scenarios (including physical disruptions of logistics) to mitigate disruptions to our ability to access key markets.
- Monitoring geopolitical and macroeconomic developments and trends, including through signal monitoring and our enterprise-level watch list of emerging themes, to provide an early indication of events that could impact our ability to access key markets.
- Identifying weather and/or climate-related vulnerabilities and implementing controls to mitigate disruptions to our ability to physically access key markets.
- Diversification of our asset and commodity portfolio, such as our ongoing investment in potash through the Jansen Potash Project, to reduce exposure to market concentration risks.

FY2021 insights

Exposure to risks associated with our access to key markets increased in FY2021 as a result of tensions between Australia, the United States and China, and import restrictions and tariffs imposed by China on some Australian exports (including energy and metallurgical coal). Although our influence over these aspects of our external environment is limited, adjustments to our portfolio may reduce exposure to market concentration risk in the longer term.

Further information

- section 4.10.2 Shareholder information – Markets

OPTIMISING PORTFOLIO RETURNS AND MANAGING COMMODITY PRICE MOVEMENTS

Risks associated with our ability to position our asset portfolio to generate returns and value for shareholders (including securing growth options in future facing commodities) and to manage adverse impacts of short- and long-term movements in commodity prices.

Why is this important to BHP?

We take decisions and actions in pursuit of our strategy to optimise our asset portfolio and to secure and create growth options in future facing commodities (such as copper, nickel and potash). A strategy that does not support BHP's objectives and/or ill-timed execution of our strategy (including as a result of not having sector-leading capabilities) or other circumstances, may lead to a loss of value that impacts our ability to deliver returns to shareholders and fund our investment and expansion opportunities. It may also result in our asset portfolio being less resilient to fluctuations in commodity prices, which are determined by or linked to prices in world markets. In the short term, this may reduce our cash flow, ability to access capital and our dividends. A failure to optimise our asset portfolio for structural movements in commodity prices over the long term may result in asset impairments and could adversely affect the results of our operations, our financial performance, and returns to investors.

Examples of potential threats

- Failure to optimise our portfolio through effective and efficient acquisitions, exploration, large project delivery, mergers, divestments or expansion of existing assets.
- Failure to identify potential changes in commodity attractiveness and missed entry or commodity exit opportunities, resulting in decreased return on capital spend for, or overpayment to acquire or invest in, new assets or projects, stranded assets or reduced divestment proceeds.

- Failure to achieve expected commercial objectives from assets or investments, such as cost savings, sales revenues or operational performance (including as a result of inaccurate commodity price assumptions or resources and reserves estimates), may result in returns that are lower than anticipated and loss of value (such as that experienced with US shale).
- Renegotiation or nullification of permits, increased royalties, or expropriation or nationalisation of our assets, or other legal, regulatory, political, judicial or fiscal or monetary policy instability may adversely impact our ability to achieve expected commercial objectives from assets or investments, access reserves, develop, maintain or operate our assets, or otherwise optimise our portfolio.
- Inability to predict long-term trends in the supply, demand and price of commodities and optimise our asset portfolio accordingly may restrict our ability to generate long-term returns from the portfolio.
- Commodity prices have historically been and may continue to be subject to significant volatility, including due to global economic and geopolitical factors, industrial activity, commodity supply and demand (including inventory levels), technological change, product substitution, tariffs and exchange rate fluctuations. Our usual policy and practice is to sell our products at prevailing market prices and as such fluctuations in commodity prices may affect our financial performance. For example, a US$1 per tonne decline in the average iron ore price and US$1 per barrel decline in the average oil price would have an estimated impact on FY2021 profit after taxation of US$163 million and US$24 million, respectively. Long-term price volatility or sustained low prices may adversely impact our financial performance as we do not generally have the ability to offset costs through price increases.

Examples of potential opportunities

- Acquisition of new resources in future facing commodities may strengthen our portfolio and protect and grow value over the long term.
- Ability to predict long-term commodity demand, supply and price trends may lead to BHP being able to identify and acquire new future facing commodities and assets ahead of our competitors or exit from declining commodities in a timely manner, strengthening our portfolio and leading to long-term portfolio returns.
- BHP may be perceived as a welcome and valued or preferred partner for the development of new resource opportunities, enabling us to secure new assets or exploration opportunities to create long-term optionality in the portfolio.

Key management actions

- Strategies, processes and frameworks to grow and protect our portfolio and to assist in delivering ongoing returns to shareholders include:
  - our exploration and business development programs, which focus on replenishing our resource base and enhancing our portfolio (including creating and securing more options in future facing commodities)
  - our long-term strategic outlook and ongoing strategic processes to assess our competitive advantage and enable the identification of threats to or opportunities for our portfolio through forecasting and scenario modelling
  - monitoring signals to interpret external events and trends, and designing commodity strategies and price protocols that are reviewed by management and the Board
  - our Capital Allocation Framework, corporate planning processes, investment approval processes and annual reviews (including resilience testing) of portfolio valuations
  - our balance sheet and liquidity framework, which is designed to maintain a robust balance sheet with sufficient liquidity and access to diverse sources of funding
- Pursuing a considered approach to new country entry, including development of capability to operate in higher-risk jurisdictions, in order to support portfolio opportunities in new jurisdictions.

- Further developing BHP's social value proposition to position BHP as a preferred partner for the development of resource opportunities in line with the expectations of local communities, host governments and other global stakeholders.
- Managing commodity price exposure through the diversity of commodities, markets, geographies and currencies provided by our portfolio, as well as our financial risk management practices in relation to our commercial activities.

FY2021 insights

Our exposure to risks associated with optimising our portfolio and managing commodity price movements increased in FY2021 as a result of volatility and uncertainty across global economies, including due to the continuing effects of the COVID-19 pandemic. We announced the sale of Cerrejón in June 2021 as part of our intention to consolidate our portfolio of coal assets to higher-quality metallurgical coal, and remain open to all options for BMC and NSWEC. Heightened societal expectations regarding the use of coal will continue to be a portfolio consideration. On 17 August 2021, we also announced our intention to merge our Petroleum assets with Woodside,(1) which is designed to unlock synergies and increase value and choice for BHP's shareholders.

Further information

- section 1.5 Positioning for future
- section 1.17 Performance by commodity
- note 23 'Financial risk management' in section 3

(1) On 17 August 2021, BHP announced it had entered into a merger commitment deed with Woodside to combine their respective oil and gas portfolios by an all-stock merger. Completion of the merger is subject to confirmatory due diligence, negotiation and execution of full form transaction documents, and satisfaction of conditions precedent including shareholder, regulatory and other approvals, and expected to occur in the second quarter of CY2022.

SIGNIFICANT SOCIAL OR ENVIRONMENTAL IMPACTS

Risks associated with significant impacts of our operations on and contributions to communities and environments throughout the life cycle of our assets and across our value chain.

Why is this important to BHP?

The long-term viability of our business is closely connected to the wellbeing of the communities and environments where we have a presence. At any stage of the asset life cycle, our activities and operations may have or be seen to have significant adverse impacts on communities and environments. In these circumstances, we may fail to meet the evolving expectations of our stakeholders (including investors, governments, employees, suppliers, customers and community members) whose support is needed to realise our strategy and purpose. This could lead to loss of stakeholder support or regulatory approvals, increased taxes and regulation, enforcement action, litigation or class actions, or otherwise impact our licence to operate and adversely affect our reputation, ability to attract and retain talent, operational continuity and financial performance.

Examples of potential threats

- Engaging in or being associated with activities (including through our non-operated joint ventures and value chain) that have or are perceived to have individual or cumulative adverse impacts on the environment, biodiversity and land management, water access and management, human rights or cultural heritage.
- Failing to meet stakeholder expectations in connection with our legal and regulatory obligations, relationships with Indigenous peoples, community wellbeing and the way we invest in communities.

- Political, regulatory and judicial developments (such as constitutional reform in Chile that could result in adjustments to water and other resource rights, or the Dasgupta Review in the United Kingdom that could result in government actions that impact the management of biodiversity and ecosystems) or changing stakeholder expectations could result in more stringent operating requirements on our business. For example, changes to regulations or stakeholder expectations may delay the timing or increase costs associated with closure and rehabilitation of assets, or expose BHP to unanticipated environmental or other legacy liabilities.
- Failing to identify and manage potential physical climate change risks to communities, biodiversity and ecosystems. For example, changes to species habitat or distribution as a result of sustained higher temperatures could result in land access restrictions or litigation, or limit our access to new opportunities.

Examples of potential opportunities
- Our support for responsible stewardship of natural resources may enhance the resilience of environments and communities to potential threats (including the potential physical impacts of climate change).
- Strong social performance, including sustainable mining and a focus on the wellbeing of communities, could generate competitive advantage in the jurisdictions where we operate.
- Our global social value strategy may improve stakeholder relations, build community trust and increase investor confidence and demand for our commodities.
- Greater clarity, transparency and standards associated with regulatory regimes that support and protect communities and the environment may increase requirements across our sector, generating competitive advantage for companies that have already invested in social performance.

Key management actions
- *Our Requirements for Community* and *Our Requirements for Environment and Climate Change* standards provide requirements and practices that are designed to strengthen our social, human rights and environmental performance. Our Human Rights Policy Statement, Water Stewardship Position Statement, Climate Change Position Statement and Indigenous Peoples Policy Statement set out our commitments and approach to these matters.
- Engaging in regular, open and honest dialogue with stakeholders to better understand their expectations, concerns and interests, and undertaking research to better understand stakeholder perceptions.
- Building social value into our decision-making process, along with financial considerations.
- Building stakeholder trust and contributing to environmental and community resilience, including through collaborating on shared challenges (such as climate change and water stewardship), enhanced external reporting of our operated assets' potential impacts on biodiversity and maximising the value of social investments through our social investment strategy.
- Conducting regular research and impact assessments for operated assets to better understand the social, environmental, human rights and economic context. This supports us to identify and analyse stakeholder, community and human rights impacts, including modern slavery risks and emerging issues. We also complete due diligence screening on suppliers through our Ethical Supply Chain and Transparency program.
- Integrating closure into our planning, decision-making and other activities through the life cycle of our operated assets, as set out in our mandatory minimum performance requirements for closure.

FY2021 insights

Our exposure to risks with potentially significant social or environmental impacts increased in FY2021 due to environmental, political and regulatory developments, and increasing societal expectations, including of regulators and other stakeholders on Indigenous peoples' rights and potential impacts of our operations throughout the asset life cycle. We believe the nexus between water, climate change, biodiversity and society is becoming increasingly clear as a driver of social expectations.

Further information

- section 1.12 People and culture
- section 1.13.8 Community
- section 1.13.10 Indigenous peoples
- section 1.13.11 Social investment
- section 1.13.12 Environment
- section 1.13.13 Water
- section 1.13.14 Land and biodiversity
- bhp.com/sustainability

LOW-CARBON TRANSITION

Risks associated with the transition to a low-carbon economy.

Why is this important to BHP?

Transition risks arise from policy, regulatory, legal, technological, market and other societal responses to the challenges posed by climate change and the transition to a low-carbon economy. As a world-leading resources company, BHP is exposed to a range of transition risks that could affect the execution of our strategy or our operational efficiency, asset values and growth options, resulting in a material adverse impact on our financial performance, share price or reputation, including litigation. The complex and pervasive nature of climate change means transition risks are interconnected with and may amplify our other principal risks. Additionally, the inherent uncertainty of potential societal responses to climate change may create a systemic risk to the global economy.

Examples of potential threats

- Introduction or improvement of low-carbon technologies or changes in customer preference for products that support the transition to a low-carbon economy may decrease demand for some of our products (which may be abrupt or unanticipated), increase our costs or decrease the availability of key inputs to production. For example:
  - 'Green steel' technologies may reduce demand for our metallurgical coal or iron ore, or electric vehicle penetration may reduce demand for our petroleum products.
  - Implementing low-carbon processes or new investments to respond to market demand for products that support a low-carbon economy (such as potential capital spend at our Jansen Potash Project to deliver fertiliser products or at our Nickel West asset to supply the battery market) may increase operating or development costs.
- Failure to address investor concerns on the potential impact of climate change on and from BHP's portfolio and operations may result in reduced investor confidence and/or investor actions seeking to influence BHP's climate strategy.
- Social concerns around climate change may result in investors divesting our securities, pressure on BHP to divest or close remaining fossil fuel assets and on financial institutions not to provide financing for our fossil fuel assets, or otherwise adversely impact our ability to optimise our portfolio.
- Perceived or actual misalignment of the resources industry's or BHP's climate actions (goals, targets and performance) with societal and investor expectations, or a failure to deliver our climate actions, may result in damage to our reputation, climate-related

litigation (including class actions) or give rise to other adverse regulatory, legal or market responses.
- Changes in laws, regulations, policies, obligations, government actions, and our ability to anticipate and respond to such changes (which may be abrupt or unanticipated), including emission targets, restrictive licencing, carbon taxes, border adjustments or the addition or removal of subsidies, may give rise to adverse regulatory, legal or market responses.

Examples of potential opportunities
- Our copper, nickel, iron ore and metallurgical coal provide essential building blocks for renewable power generation and electric vehicles, and can play an important part in the transition to a low-carbon economy.
- Our potash fertiliser options can promote more efficient and more profitable agriculture and alleviate the increased competition for arable land.
- Increased collaboration with customers and original equipment manufacturers, such as BHP's partnerships with each of China Baowu, JFE and HBIS for research and development of steel decarbonisation pathways, can provide opportunities for development of new products and markets.

Key management actions
- Establishing public views and commitments on, and mandatory minimum performance requirements for managing, climate change threats and opportunities, which are set out in our Climate Change Position Statement, our Climate Change Report 2020, our Climate Transition Action Plan 2021 and the *Our Requirements for Environment and Climate Change* standard.
- Using climate-related scenarios, themes and signposts (such as monitoring policy, regulatory, legal, technological, market and other societal developments) to evaluate the resilience of our portfolio and inform our strategy.
- Considering transition risks (including carbon prices) when making capital expenditure decisions or allocating capital through our Capital Allocation Framework, supporting the prioritisation of capital and investment approval processes.
- Seeking to mitigate our exposure to risks arising from policy and regulation in our operating jurisdictions and markets by reducing our operational emissions and taking a product stewardship approach to emissions in our value chain.
- Advocating for the introduction of an effective, long-term policy framework that can deliver a measured transition to a low-carbon economy.

FY2021 insights

Our exposure to transition risks increased in FY2021 due primarily to political developments – with the Biden administration renewing the United States' focus on climate and net zero goals set by China, Japan and the European Union – and greater investor and other stakeholder interest in understanding how climate change might impact our strategy and portfolio. Stakeholder expectations of BHP regarding disclosure of climate change-related information have grown accordingly (for example, Climate Action 100+ requested information from BHP to conduct its first net zero company benchmark in FY2021). Actions by investors and proxy advisers seeking to hold companies accountable for their climate strategies also accelerated during FY2021. We anticipate these and potentially other factors will continue to affect transition risks in FY2022, following publication in August 2021 of the

Further information
- section 1.5 Positioning for future
- section 1.13.7 Climate change and portfolio resilience
- BHP Climate Change Report 2020
- BHP Climate Transition Action Plan 2021
- bhp.com/climate

first part of the Intergovernmental Panel on Climate Change's Sixth Assessment Report, Climate Change 2021: The Physical Science Basis. However, our recent proposed portfolio changes would, subject to their completion, reduce our exposure to certain transition risks.

Sensitivity of our portfolio to demand for fossil fuels

We acknowledge there is a range of possible energy transition scenarios, including those aligned with the Paris goals, that may indicate different outcomes for our individual commodities. Our most recent portfolio analysis published in our Climate Change Report 2020 demonstrates the Group can continue to thrive over the next 30 years, as the global community takes action to decarbonise, even under our Paris-aligned 1.5°C trajectory.[(2)] There are inherent limitations with scenario analysis and it is difficult to predict which, if any, of the scenarios might eventuate and none of the scenarios considered constitutes a definitive outcome for the Group.

The long-term commodity price outlooks under our 1.5°C Paris-aligned scenario are either largely consistent with or favourable to, the price outlooks in our current planning cases, with the exception of energy coal, oil and natural gas.

The long-term commodity price outlooks under our 1.5°C Paris-aligned scenario, excluding energy coal, oil and natural gas, reflect:

- copper and nickel benefiting from the dramatic pace of electrification over and above our current planning cases
- iron ore growth underpinned by the benefit to steel demand from the construction of renewables, particularly wind power.
- potash growth reflecting the potential for greater penetration of biofuels
- metallurgical coal supported by the limited alternatives in steelmaking over the scenario timeframe

Given these positive long-term price outlooks, a material adverse change is not expected under our 1.5°C Paris-aligned scenario to the carrying values of our assets and liabilities related to these commodities, including property, plant and equipment and closure and rehabilitation provisions.

For energy coal, oil and natural gas, long-term commodity price outlooks under our 1.5°C Paris-aligned scenario are unfavourable compared to the price outlooks in our current planning cases. Price outlooks for these commodities published in the International Energy Agency's (IEA) *Net Zero by 2050: A Roadmap for the Global Energy Sector* Special Report (May 2021) (IEA NZE) are also unfavourable to the price outlooks in our current planning cases.

Despite recent progress, all 1.5°C pathways to 2050 represent a major departure from today's global trajectory and we do not believe the technological, regulatory, or economic foundations for a rapid transition to net zero emissions are currently in place. Therefore, a 1.5°C Paris-aligned scenario is currently not an input into our planning cases. This is consistent with the IAE's acknowledgement that the window for its Net Zero by 2050 roadmap is narrow, albeit still achievable.

While the price outlooks under the IEA NZE and our 1.5°C Paris-aligned scenario are unfavourable compared to the price outlooks in our current planning cases, recent portfolio announcements and impairments recognised in FY2021 limit the exposure of the carrying value of our assets to long-term commodity prices for energy coal, oil and natural gas, as:

- On 17 August 2021, we announced the proposed merger of our Petroleum assets with Woodside. The merger is subject to confirmatory due diligence, negotiation and execution of full form transaction documents, and satisfaction of conditions precedent, including shareholder, regulatory and other approvals. The preliminary terms of the merger did not provide an indicator of impairment for our Petroleum assets at 30 June 2021. The merger is expected to be completed during the first half of CY2022, following which, the Group's revenue would no longer be directly exposed to long-term oil and gas prices, including those under 1.5°C scenarios.
- In June 2021, we entered into a Sale and Purchase Agreement to divest our 33.3 per cent interest in the Cerrejón energy coal joint venture in Colombia, subject to the satisfaction of customary competition and regulatory requirements. The divestment is expected to complete in the second half of FY2022.
- Following the write downs taken by the Group in FY2021, the carrying value of our NSWEC assets is no longer material. Further, the profitability and cash flow of NSWEC assets is immaterial to the Group in FY2021.

In relation to New South Wales Energy Coal (NSWEC), regulatory approvals required to continue operations post FY2026 would be inconsistent with the IEA NZE scenario, which assumes no new coal mine extensions are approved beyond CY2021. In isolation, and without considering the impact of changes management would make to operating and investment plans, bringing forward the majority of rehabilitation activities by one year could increase the closure and rehabilitation provision at NSWEC by approximately US$10 million.

(2) This scenario aligns with the Paris Agreement goals and requires steep global annual emissions reductions, sustained for decades, to stay within a 1.5°C carbon budget. Refer to the BHP Climate Change Report 2020 available at bhp.com/climate for information about the assumptions, outputs and limitations of our 1.5°C Paris-aligned scenario. 1.5°C is above pre-industrial levels.

ADOPTING TECHNOLOGIES AND MAINTAINING DIGITAL SECURITY

Risks associated with adopting and implementing new technologies, and maintaining the effectiveness of our existing digital landscape (including cyber defences) across our value chain.

Why is this important to BHP?

Our business and operational processes across our value chain are dependent on the effective application of technology, which we use as a lever to deliver on our current and future operational, financial and social objectives. This exposes BHP to risks originating from adopting or implementing new technologies, or failing to take appropriate action to position BHP for the digital future, which may impact the capabilities we require, the effectiveness and efficiency of our operations and our ability to compete effectively. We may also fail to maintain the effectiveness of our existing and future digital landscape, including cyber defences, exposing us to technology availability, reliability and cybersecurity risks. These could lead to operational events, commercial disruption (such as an inability to process or ship our products), corruption or loss of system data, a misappropriation or loss of funds, unintended disclosure of commercial or personal information, enforcement action or litigation. An inability to adequately implement new technology, or any sustained disruption to our existing technology, may also adversely affect our licence to operate, reputation, results of operations and financial performance. As we continue to leverage technology to improve productivity and safety, we expect the importance of safe, secure and reliable technology to our business will continue to grow.

Examples of potential threats

- Failure to achieve efficiencies through our investment in technologies, or to keep pace with advancements in technology, resulting in an inability to access systems or digital infrastructure required to support our operations or customers' and other stakeholders' evolving expectations. For example, delays, costs and failures to achieve efficiencies arising from difficulties in integrating new technologies with existing technologies, or from failures of new technology to perform as expected.

- Failing to identify, access and secure necessary infrastructure and key inputs (including electricity, internet bandwidth, data, software, licences or other rights in intellectual property, hardware and talent) to support new technology innovations and advanced technologies may adversely affect our ability to operate or adopt those technologies. This includes artificial intelligence and machine learning, process automation, robotics, data analytics, cloud computing, smart devices and remote working. For example, adopting new technology to reduce emissions through the use of alternative energy sources may require new infrastructure (such as at our mines and ports), and effective implementation of new digital technologies will be heavily dependent on access to relevant data.
- Failure or outage of our existing or future information and operating technology systems.
- Cyber events or attacks (including ransomware, state-sponsored and other cyberattacks) on our existing or future information and operating technology systems, including on third-party partners and suppliers (such as our cloud service providers). For example, a cyberattack on our autonomous systems for haulage and drilling may reduce operational productivity and/or adversely impact safety.

Examples of potential opportunities

- Application of digital solutions across our operations and value chain may unlock greater productivity and safety performance. For example, using predictive analytics to enable operations to identify asset condition and efficiencies may improve safety, production and equipment availability, and reduce maintenance and other costs.
- Technology solutions to reduce emissions may support BHP and our suppliers and customers in achieving climate action targets. For example, BHP is collaborating with other miners and suppliers to develop new technology to electrify haul trucks.
- Developing and applying artificial intelligence in mine planning, remote operation and advanced robotic technologies may identify or provide access to previously unknown or inaccessible deposits and development of end-to-end autonomous mining systems.
- Using digital simulations and predictive trend modelling may enable us to optimise the deployment of new technologies, such as automation and electrification, support early identification of process variances and faults, and support the marketing of our products to customers.

Key management actions

- Our assets, functions and projects are responsible for managing localised or project-specific exposure to technology risks. Enterprise-level risks that are specific to technology, such as those that pose a greater threat to our wider business and strategic opportunities, are generally managed by our global Technology team and other relevant stakeholders to support delivery of our technology strategy.
- We collaborate with industry and research partners to develop technological solutions.
- Our Technology Risk Committee oversees the management and improvement of technology risks and controls, and supports the embedment of a sustainable risk culture in our Technology team.
- We employ a number of measures designed to protect against, detect and respond to cyber events or attacks, including BHP's mandatory minimum performance requirements for technology and cybersecurity, cybersecurity performance requirements for suppliers, cybersecurity strategy and resilience programs, an enterprise security framework and cybersecurity standards, cybersecurity awareness plans and training, security assessments and monitoring, restricted physical access to hardware and crisis management plans.

FY2021 insights

Risks associated with technology and the pace of technological innovation continue to evolve rapidly. The Group's exposure to technology risks increased in FY2021 due primarily to an increase in the frequency and sophistication of cyberattacks against companies in the resources industry and governments. BHP continues to leverage technology to deliver value while taking actions to manage associated risks and strengthening cyber capabilities. During FY2021, we implemented programs to enable rapid technology development, improve operational performance and to create new analytic capabilities.

Further information

- section 1.6.2 How we deliver value – Technology

ETHICAL MISCONDUCT

Risks associated with actual or alleged deviation from societal or business expectations of ethical behaviour (including breaches of laws or regulations) and wider or cumulative organisational cultural failings, resulting in significant reputational impacts.

Why is this important to BHP?

The conduct of BHP or our people or third-party partners could result in an actual or alleged deviation from expectations of ethical behaviour or breaches of laws and regulations. This may include fraud, corruption, anti-competitive behaviour, money laundering, breaching trade or financial sanctions, market manipulation, privacy breaches, ethical misconduct and wider organisational cultural failings. A failure to act ethically or legally may result in negative publicity (including on social media), investigations, public inquiries, regulatory enforcement action (including fines), litigation or other civil or criminal proceedings, or increased regulation. It could also threaten the validity of our tenements or permits, or adversely impact our reputation, results of operations, financial performance or share price. Impacts may be amplified if our senior leaders fail to uphold BHP's values or address actual or alleged misconduct in a way that is consistent with societal and stakeholder expectations, and our workplace culture may also be eroded, adversely affecting our ability to attract and retain talent. Ethical misconduct risks and impacts are heightened by the complex and continuously evolving legal and regulatory frameworks that apply to the jurisdictions where we operate and potentially conflicting obligations under different national laws.

Examples of potential threats

- Failing to prevent breaches of international standards, laws, regulations or other legal, regulatory, ethical, environmental, governance or compliance obligations, such as external misstatements, inaccurate financial or operational reporting or a breach of our continuous disclosure obligations.
- Corruption (particularly in high-risk or less economically developed jurisdictions), market conduct or anti-competitive behaviour, including in relation to our joint venture operations.
- Failing to comply with trade or financial sanctions (which are subject to rapid change and may potentially result in conflicting obligations), health, safety and environmental laws and regulations, native title and other land right or tax or royalty obligations.
- Failing to protect our people from harm (including to mental and physical health) due to the misconduct of others that takes place in connection with their work, such as discrimination or sexual harassment and assault.

Examples of potential opportunities

- Our capability to manage ethical misconduct risks may expand portfolio growth options by providing greater assurance that we can operate legally and ethically in high-risk jurisdictions.
- Managing ethical risks in line with societal and stakeholder expectations may distinguish BHP from competitors and enhance our ability to raise capital, attract and retain talent, obtain permits, partner with external organisations or suppliers, or market our products to customers.

Key management actions

- Setting the 'tone from the top' through *Our Charter*, which is central to our business and describes our purpose, values and how we measure success.
- Implementing internal policies, standards, systems and processes for governance and compliance to support an appropriate culture at BHP, including:
  - *Our Code of Conduct* and BHP's mandatory minimum performance requirements for business conduct, market disclosure and other matters
  - training on *Our Code of Conduct* and in relation to anti-corruption, market conduct and competition
  - ring fencing protocols to separate potentially competitive businesses within BHP
  - governance and compliance processes, including classification of sensitive transactions, as well as accounting, procurement and other internal controls, and tailored monitoring of control effectiveness
  - oversight and engagement with high-risk areas by our Ethics and Compliance function, Internal Audit and Advisory team and the Disclosure Committee
  - review and endorsement by our Ethics and Compliance function of the highest-risk transactions, such as gifts and hospitality, engagement of third parties, community donations and sponsorships above defined thresholds
  - automated counterparty and transaction screening against lists of entities subject to trade sanctions
  - our EthicsPoint anonymous reporting service, supported by an ethics and investigations framework and central investigations team
- Continuing to enforce *Our Code of Conduct* via appropriate investigations and responses including disciplinary action, in addition to deployment of appropriate safety controls to prevent harm.

FY2021 insights

Our exposure to ethical misconduct risks increased in FY2021, including due to continued exploration of potential growth options in high-risk or less economically developed jurisdictions and escalating trade sanctions or equivalent measures (in particular, among China and Australia and the United States). Societal expectations have also increased – stakeholder dissatisfaction in response to other companies' executive misconduct and failures to uphold corporate or societal values demonstrate the importance of implementing and maintaining effective preventative controls and responding to inappropriate conduct in a timely manner.

Further information

- *Our Charter* and *Our Code of Conduct*
- section 2.1.15 Our conduct – EthicsPoint
- section 2.1 Corporate Governance Statement
- section 1.13.5 Health – Sexual assault and sexual harassment
- section 1.13.6 Ethics and business conduct

INADEQUATE BUSINESS RESILIENCE

Risks associated with unanticipated or unforeseeable adverse events and a failure of planning and preparedness to respond to, manage and recover from adverse events (including potential physical impacts of climate change).

Why is this important to BHP?

In addition to the threats described in our other risk factors, our business could experience unanticipated, unforeseeable or other adverse events (internal or external) that could harm our people, disrupt our operations or value chain, or damage our assets or corporate offices, including our non-operated assets over which BHP has less control. A failure to identify or understand exposure, adequately prepare for these events (including maintaining business continuity plans) or build wider organisational resilience may inhibit our (or our third-party partners') ability to respond and recover in an effective and efficient manner. This could cause material adverse impacts on our business, such as reduced ability to access resources, markets and the operational or other inputs required by our business, reduced production or sales of commodities, or increased regulation, which could adversely impact our financial performance, share price or reputation, and could lead to litigation or class actions.

Examples of potential threats

- Geopolitical, global economic, regional or local developments or adverse events, such as social unrest, strikes, work stoppages, labour disruptions, social activism, terrorism, bomb threats, economic slowdown, acts of war or other significant disruptions in areas where we operate or have interests (for example, in FY2020, stoppages associated with social unrest in Chile impacted copper production at Escondida).
- Natural events, including earthquakes, tsunamis, hurricanes, cyclones, fires, solar flares and pandemics (for example, earthquakes may affect the Andes region in South America where we undertake exploration activities and have operated and non-operated assets).
- Potential physical impacts of climate change, such as acute risks that are event-driven (including increased severity of extreme weather events) and chronic risks resulting from longer-term changes in climate patterns. Hazards and impacts may include changes in precipitation patterns, water shortages, rising sea levels, increased storm intensity, prolonged extreme temperatures and increased drought, fire and tidal flooding.
- Failure by suppliers, contractors or joint venture partners to perform existing contracts or obligations (including due to insolvency), such as construction of large projects or supply of key inputs to our business (for example, consumables for our mining equipment).
- Failure of our risk management or other processes (including controls) to prepare for or manage any of the risks discussed in this 'Risk factors' section may inhibit our (or our third party partners') ability to manage any resulting adverse events and may disrupt our operations or adversely impact our financial performance or reputation.

Examples of potential opportunities

- Risk identification and management supports proactive, focused and prioritised deployment of resources to reduce exposure to adverse events. It may be used to inform priorities and strategies across BHP, supporting a proportionate and cost-effective response, which could provide a competitive advantage at a regional or global level.
- Building wider organisational resilience may help us to mitigate the impacts of unforeseeable adverse events. For example, processes may be redesigned to enhance resilience to adverse events, such as pandemics.
- Adapting to climate change across our operations and value chain could position BHP as a supplier of choice and provide competitive advantage (for example, by fulfilling our commitment to security of supply). Support for climate vulnerable communities and ecosystems may also improve our social value proposition.

Key management actions

- Implementing Group-wide controls to enhance business resilience, including BHP's mandatory minimum performance requirements for security, crisis and emergency management and business continuity plans.
- Monitoring our current state of readiness (preparedness, redundancy and resilience), including through scenario analysis, to respond to and recover from adverse events to support organisational capability in our operations, functions and senior management to effectively and efficiently respond to events should they materialise.
- Monitoring the external environment, including political and economic factors through signal monitoring, our geopolitical monitoring and public policy frameworks and our enterprise-level watch list of emerging themes, to support early identification of policy changes or adverse events for which we may need to increase preparedness.
- Identifying security threats that could directly or indirectly impact our operations and people in countries of interest to BHP. For example, a review of BHP's global security program was undertaken in FY2021 to better understand our security position and identify potential improvements.
- Implementing our Climate Change Adaptation Strategy, including requiring operated assets and functions to identify and progressively assess potential physical climate change risks (including to our value chain) and build climate change adaptation into their plans, activities and investments.

FY2021 insights

Our exposure to risks associated with inadequate business resilience grew in FY2021 due to the increasing frequency and scale of crisis events, such as extreme temperatures and weather events being experienced globally and the continuing global impacts of the COVID-19 pandemic. While the impacts on BHP have been relatively minor to date, sustained or increased geopolitical tensions, the pandemic and nationalist sentiment may exacerbate the drivers of conflict, instability and unrest, including existing inequality within and between nations. This could increase the likelihood of more significant events that can have a greater impact on our business, such as social unrest and conflict (including war and terrorism).

Further information

- section 1.16 Risk factors – Robust risk assessment and viability statement
- bhp.com/climate

Robust risk assessment and viability statement

The Board has carried out a robust assessment of BHP's emerging and principal risks, including those that could result in events or circumstances that might threaten BHP's business model, future performance, solvency or liquidity and reputation.
The Board has assessed the prospects of BHP over the next three years, taking into account our current position and principal risks.

The Board believes a three-year viability assessment period is appropriate for the following reasons. BHP has a two-year budget, a five-year plan and a longer-term life of asset outlook. As highlighted in the 'Risk factors' section, there is considerable uncertainty in the external environment (which has been amplified by the COVID-19 pandemic), including due to political and policy uncertainty, evolving stakeholder expectations (for example, in relation to the environment, climate change and human rights), civil unrest or reform in some countries in which we operate, continued market volatility and geopolitical tensions that could affect our ability to access key markets.

This could lead to changes to our regulatory environment and stakeholder expectations of our business, increase the risk of commodity price volatility and also affect the longer-term supply, demand and price of our commodities. These factors result in variability in plans and budgets. A three-year period strikes an appropriate balance between long and short-term influences on performance.

The viability assessment took into account, among other things:

- BHP's commodity price protocols
- the latest funding and liquidity update
- the long-dated maturity profile of BHP's debt and the maximum debt maturing in any one year
- the flexibility in BHP's capital and exploration expenditure programs under the Capital Allocation Framework
- the reserve life of BHP's minerals assets and the reserves-to-production life of BHP's oil and gas assets
- the Group-level material risk profile (including climate-related risks) and the mitigating actions available should particular risks materialise
- any actual and further anticipated impacts of the COVID-19 pandemic on BHP's two-year budget and five-year plan

The Board's assessment also took into account reverse stress testing of the Group's balance sheet to determine the additional levels of debt it could support on forecast commodity prices, as well as the cyclical low price case used in monthly balance sheet stress testing. Results were compared against assessed financial impacts for all material risks recorded on the Group's risk profile, enabling the Board to consider the resilience of the balance sheet in the context of identified threats.

In addition, the balance sheet was stress tested against three hypothetical scenarios. Each scenario modelled two or three hypothetical events, based on our principal risks, occurring simultaneously towards the start of FY2022. Scenarios were designed without regard to the effectiveness of preventative controls and reflect market, operational, and a combination of market and operational risks. The simultaneous occurrence of all four events was not considered plausible. Further details are set out in the table below.

Principal risk	Hypothetical event	Scenario A	Scenario B	Scenario C
Operational events	Offshore well blow out involving a drilling rig that we operate in the US Gulf of Mexico		●	●
	Catastrophic failure of a tailings storage facility at an operated asset in Australia		●	
Accessing key markets	Temporary physical or logistical disruption of access to key markets preventing the sale or delivery of commodities to Asia	●		●
Optimising portfolio returns and managing commodity price movements	Low commodity price environment for two years, commencing at the start of the second half of FY2022, followed by a gradual recovery by the end of the first half of FY2026	●		●

A number of our other principal risks may have impacts that are embedded in these scenarios. For example, a cyber event or attack may lead to an operational event, while responses of governments and other stakeholders to a pandemic may result in an economic slowdown and low commodity price environment. For further information on our principal risks, see the 'Risk factors' section.

While scenario modelling was undertaken for the duration of BHP's five-year plan, confidence is higher in the first three years. Stress testing demonstrated the Group's balance sheet was put under the greatest stress by Scenario C, which reflects both market and operational risks, with net debt expected to increase to approximately US$48 billion over FY2022 to FY2024 (assuming dividends would be suspended in accordance with our Capital Allocation Framework). In such circumstances, the Board considered that the Group would have a number of further mitigating actions available to it which would be expected to allow the Group to limit net debt to approximately US$30 billion over that period, including deferral of discretionary capital expenditure and divestment of certain assets. BHP would also have access to US$5.5 billion of credit through its revolving credit facility. These mitigating actions would be expected to be sufficient to support minimum investment-grade credit ratings over FY2022 to FY2024.

For the purposes of stress testing, the Board made certain key assumptions regarding management of the portfolio, the alignment of production, capital expenditure and operating expenditure with five-year plan forecasts and the alignment of prices with the cyclical low price case used in monthly balance sheet stress testing.

In making this viability statement, the Board was also mindful of other relevant factors, including key risk indicator performance, monthly balance sheet stress testing against the cyclical low price case, the assessment of the Group's portfolio against scenarios as part of BHP's strategy and corporate planning processes, a Board-level risk identification session to help identify key uncertainties facing the Group, and the proposed changes to the Group's portfolio which are currently expected to complete in FY2022.(3)

Taking account of these matters (including the assumptions) and our current position and principal risks, the Board has a reasonable expectation that BHP will be able to continue in operation and meet its liabilities as they fall due over the next three years.

(3) Refer section 1.5 Positioning for the future, Petroleum business merger proposal and Update on our non-core coal divestment process.

2. Related party transactions

There have been no related party transactions that have taken place during the year ended 30 June 2021 that have materially affected the financial position or the performance of the BHP Group during that period. Details of the related party transactions that have taken place during the year ended 30 June 2021 are set out in notes 24 'Key management personnel' and 33 'Related party transactions' to the Financial Statements set out below.

24 Key management personnel

Key management personnel compensation comprises:

	2021 US$	2020 US$	2019 US$
Short-term employee benefits	**14,081,625**	12,564,637	11,557,506
Post-employment benefits	**744,951**	1,172,727	1,490,716
Share-based payments	**11,601,866**	13,514,588	15,821,972
Total	**26,428,442**	27,251,952	28,870,194

Key Management Personnel (KMP) includes the roles which have the authority and responsibility for planning, directing and controlling the activities of BHP. These are Non-executive Directors, the CEO, the Chief Financial Officer, the President Minerals Australia, the President Minerals Americas and the President Petroleum.

Transactions and outstanding loans/amounts with key management personnel

There were no purchases by key management personnel from the Group during FY2021 (2020: US$ nil; 2019: US$ nil).

There were no amounts payable by key management personnel at 30 June 2021 (2020: US$ nil; 2019: US$ nil).

There were no loans receivable from or payable to key management personnel at 30 June 2021 (2020: US$ nil; 2019: US$ nil).

Transactions with personally related entities

A number of Directors of the Group hold or have held positions in other companies (personally related entities) where it is considered they control or significantly influence the financial or operating policies of those entities. There were no reportable transactions with those entities and no amounts were owed by the Group to personally related entities at 30 June 2021 (2020: US$ nil; 2019: US$ nil).

For more information on remuneration and transactions with key management personnel, refer to section 2.2.

33 Related party transactions

The Group's related parties are predominantly subsidiaries, associates and joint ventures and key management personnel of the Group. Disclosures relating to key management personnel are set out in note 24 'Key management personnel'. Transactions between each parent company and its subsidiaries are eliminated on consolidation and are not disclosed in this note.

- All transactions to/ from related parties are made at arm's length, i.e. at normal market prices and rates and on normal commercial terms.
- Outstanding balances at year-end are unsecured and settlement occurs in cash. Loan amounts owing from related parties represent secured loans made to associates and joint ventures under co-funding arrangements. Such loans are made on an arm's length basis.
- No guarantees are provided or received for any related party receivables or payables.
- No provision for expected credit losses has been recognised in relation to any outstanding balances and no expense has been recognised in respect of expected credit losses due from related parties.
- There were no other related party transactions in the year ended 30 June 2021 (2020: US$ nil), other than those with post-employment benefit plans for the benefit of Group employees. These are shown in note 27 'Pension and other post-retirement obligations'.
- Related party transactions with Samarco are described in note 4 'Significant events – Samarco dam failure'.

Further disclosures related to related party transactions are as follows:

Transactions with related parties

	Joint ventures		**Associates**	
	2021	2020	**2021**	2020
	US$M	US$M	**US$M**	US$M

Sales of goods/services	**–**	–	**–**	–
Purchases of goods/services	**–**	–	**1,564.073**	967.276
Interest income	**–**	–	**2.241**	2.370
Interest expense	**–**	–	**–**	–
Dividends received	**–**	–	**737.250**	126.187
Net loans (repayments from)/made to related parties	**–**	–	**(12.108)**	12.273

Outstanding balances with related parties

	Joint ventures		Associates	
	2021 US$M	2020 US$M	**2021 US$M**	2020 US$M
Trade amounts owing to related parties	**–**	–	**316.269**	69.490
Loan amounts owing to related parties	**–**	–	**17.097**	5.097
Trade amounts owing from related parties	**–**	–	**0.004**	0.473
Loan amounts owing from related parties	**–**	–	**40.651**	40.759

3. Directors' Responsibility Statement

The following statement which was prepared for the purposes of the Annual Report 2021 is repeated here for the purposes of complying with DTR 6.3.5. It relates to and is extracted from the Annual Report 2021 and is not connected to the extracted and summarised information presented in this announcement.
"In accordance with a resolution of the Directors of BHP Group Limited and BHP Group Plc, the Directors declare that:

(a) in the Directors' opinion and to the best of their knowledge the Financial Statements and notes, set out in sections 3.1 and 3.2, are in accordance with the UK Companies Act 2006 and the Australian Corporations Act 2001, including:

(i) complying with the applicable Accounting Standards

(ii) giving a true and fair view of the assets, liabilities, financial position and profit or loss of each of BHP Group Limited, BHP Group Plc, the Group and the undertakings included in the consolidation taken as a whole as at 30 June 2021 and of their performance for the year ended 30 June 2021

(b) the Financial Statements also comply with International Financial Reporting Standards, as disclosed in section 3.1

(c) to the best of the Directors' knowledge, the management report (comprising the Strategic Report and Directors' Report) includes a fair review of the development and performance of the business and the position of the Group and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that the Group faces

[Paragraphs related to Australian regulatory requirements have been omitted.]

Signed in accordance with a resolution of the Board of Directors.

Ken MacKenzie
Chair

Mike Henry
Chief Executive Officer

Dated this 2nd day of September 2021."

Sponsor: UBS South Africa (Pty) Limited

BHP Group Plc Registration number 3196209
LEI 549300C116EOWV835768
Registered in England and Wales
Registered Office: Nova South, 160 Victoria Street, London SW1E 5LB United Kingdom

A member of the BHP Group which is headquartered in Australia