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SOUTH32

DIGGERS & DEALERS MINING FORUM 2020

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It's great to be back in Kalgoorlie and presenting for the first time at Diggers and Dealers.

First, let me acknowledge the Traditional Owners of the land on which we meet today and pay my respects to their elders past, present and emerging.

Before we begin, I'll draw your attention to the important notices on Slide 2.

Kalgoorlie holds a special place in my memory as many years ago I worked for WMC Resources at St Ives Gold Mines and had regular trips up to Kal. While I was working in Kambalda, I also got my pilot's licence, receiving my wings from the Kalgoorlie Aero Club. More recently I have enjoyed an annual trip to the Kalgoorlie Open Tennis tournament with my family each June.

Thank you to all the people who have come along today, and also to those who are watching remotely. COVID-19 has seen us all change the way we think about how, when, and where we work. The pandemic is still affecting parts of the world in different ways and while here in WA we are able to enjoy relaxed restrictions, in other places, including at some of our operations, life looks very different.

So today I'd like to start by talking about our response to the COVID-19 pandemic, then cover our strategy and our progress in reshaping and improving our portfolio, and finally our Capital Management Framework that guides all of our financial decision making.

Let's begin with our response to the pandemic as we continue to adjust to its different phases around the world.

Our simple strategy, disciplined approach to capital management, and strong financial position, mean we are well placed to navigate the potentially extended period of uncertainty caused by COVID-19.

Our COVID-19 response is built around three areas – keeping our people safe and well; maintaining safe and reliable operations; and supporting our communities.

We have adapted our working practices at every site to protect our people, and continue to supply our customers. And we have stopped all non-business critical work to focus on what matters most.

We have also contributed US$7 million to our communities across the globe, helping to provide water, medical supplies, hygiene kits and assisting medical clinics to boost capacity in local health care systems.

To protect our strong financial position, we rapidly responded to adjust our capital expenditure priorities and suspended our on-market share buy-back.

As we navigate this unprecedented period, we have retained the flexibility to restart our buy-back program as risks from the pandemic subside and as our financial performance improves.

In this regard, the global outlook continues to be driven by the evolution of the pandemic, and the policy response on health and economic fronts. The initial, post-lockdown rebound in activity is easing as pent-up demand fades and virus outbreaks resurge. The extension of policy support will cushion, to some extent, a slowing recovery as we move into 2021, but the way the pandemic plays out, and US-China trade tensions, remain key risks to watch.

Our strategy of optimise, unlock and identify hasn't changed since day one and remains fit for purpose in these uncertain times.

We optimise by working safely, minimising our impact, consistently delivering stable and predictable performance, and continually improving our competitiveness.

We unlock value through our people, innovation, projects and technology.

And we identify opportunities to sustainably reshape our business for the future, and create enduring social, environmental and economic value.

We have a globally diversified portfolio with operations spanning Australia, Southern Africa and South America.

We are a large producer of manganese ore and alumina and have a pipeline of growth options across the world, with multiple projects progressing through study phase.

We continue to reshape and improve our portfolio, with a focus on our upstream businesses, adding development options and forming greenfield exploration partnerships with a bias to base metals.

This strategy is built on a positive outlook for these commodities, with growth in demand expected as the world transitions to a lower carbon economy, and new supply is required as existing resources are depleted.

We currently produce base metals at our silver-lead-zinc Cannington mine in Queensland, and want to grow this exposure, leveraging our existing capabilities through our development options at Hermosa and Ambler Metals in North America.

We are also progressing with our strategy of exiting lower returning businesses, including energy coal and manganese alloys.

I'll talk to our progress in these areas in a moment.

If we take a brief look at our existing operations, despite volatile conditions in commodity markets in recent times, they are performing well.

In the 2020 financial year we delivered record production at three operations, and lowered Operating unit costs at nine of our 10 operations across our global footprint.

Our zinc-lead-silver-manganese Hermosa project in Arizona comprises the Taylor and Clark deposits, as well as a broader land package, and we are continuing to unlock value across all three.

At Taylor, we've increased the size of our mineral resource estimate and have a pre-feasibility study underway.

In May this year, we declared our first mineral resource estimate for the Clark Deposit and we've commenced a scoping study assessing options for an integrated development with Taylor, as well as for potential future market exposure to emerging battery technology.

We also increased the size of our land holding during the year and we have identified 15 targets for investigation across the prospective regional land package.

At Ambler Metals in the remote northwest of Alaska in the United States, we have commenced a pre-feasibility study for the Arctic Deposit with our joint venture partner Trilogy Metals. Ambler is a high-grade development option and can be broken into three parts – first, the VMS style high-grade polymetallic Arctic deposit, second, the Bornite copper deposit, and third, an attractive regional exploration package.

Ambler sits behind Hermosa in terms of our project sequencing and is still at an early stage. The key here, is the access road, to unlock the region. In July, a Record of Decision by the United States Bureau of Land Management for the access road was signed. The Record of Decision approves the development of the northern, "A" route – a 344 kilometre-long gravel, private road, which will help provide access to the Ambler Mining District.

Looking forward, the focus of the joint venture will be on the development studies at the Arctic Deposit, with funding also approved for drill testing of regional prospects and further exploration at Bornite. Having said this, and consistent with our COVID-19 response to keep our people safe and well and support our communities, the Joint Venture took the decision to defer the Ambler exploration program for 2020.

A key step in transforming our portfolio towards a base metals bias, is our exit of low-returning businesses.

Our agreement to sell South Africa Energy Coal is on-track for completion, subject to meeting a number of material conditions.

In addition, we've placed our South African manganese alloy smelter under care and maintenance and entered into a binding agreement to divest our TEMCO manganese alloy smelter in Tasmania.

As you can see from the graphics on the slide, the successful exit from these businesses will significantly reduce our capital intensity, allow us to bring a greater focus to our remaining portfolio, and improve Group margins and return on invested capital.

Moving to exploration. From the outset we established a high-calibre business development team with extensive geoscience experience, and an in-depth knowledge of our target commodities and preferred mineralisation styles.

We continue to expand our global exploration footprint by partnering and investing with junior companies to fund early stage greenfield exploration opportunities in base metals.

Consistent with our disciplined approach to capital allocation, we don't simply fall in love with projects. All projects need to compete for capital and we will only advance those of higher quality, where we see value for our shareholders. A good example of this is Ambler Metals, which was originally identified through our exploration program.

In FY20, we invested US$15 million in greenfield exploration across our portfolio of more than 20 partnerships in Australia, Europe, North and South America.

Subject to our ability to safely and effectively operate in a COVID-19 world, we intend to invest a further US$18 million in FY21, with drilling scheduled at 12 of these projects across the globe.

Our strategy is underpinned by our disciplined application of our capital management framework and our strong balance sheet. We continue to believe that the combination of high operating leverage and undue financial leverage delivers a sub-optimal outcome for shareholders.

Our framework prioritises safe and reliable operations, and also our investment grade credit rating.

The next priority for our cashflows is to return a minimum of 40 per cent of Underlying earnings to shareholders through our flexible dividend policy.

Our framework is designed so that excess capital then competes for a home.

We've developed a strong track record of returning excess capital to shareholders, returning US$1.3 billion through our flexible capital management program in the form of an on-market share buy-back and special dividends.

Combined with the US$1.6 billion in ordinary dividends, we've returned US$2.9 billion or approximately 40 per cent of our current market capitalisation to shareholders over the past five years.

But we do believe capital management requires discipline and balance. And that's why in March we took the decision to suspend our on-market share buy-back in response to the unprecedented shock caused by COVID-19.

That's also why we've invested in improving our portfolio through the addition of development options including Hermosa and Ambler Metals.

Ultimately, the development decision for these opportunities will need to pass strict return hurdles so that we deliver on the intent of our framework, which is to grow the Group's return on invested capital and value per share.

While this year has had its ups and downs, mostly due to the challenges presented by COVID-19, we ended FY20 with our operations performing well, a strong balance sheet, a pathway to exit our lower returning businesses, and with progress made on our development options.

As we continue to navigate a period of potentially extended market volatility, we're focusing on keeping our people safe and well, sustainably improving our operating performance and reshaping and improving our portfolio, all of which is underpinned by a strong balance sheet and capital discipline that together will create value for all of our stakeholders.

Thank you, stay safe, and enjoy you're evening.

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