Speech by Mike Fraser, Chief Operating Officer, South32

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Hello everyone, my name is Mike Fraser and I'm the Chief Operating Officer at South32. I'm very pleased to be able to join you at this year's Joburg Indaba and to introduce the topic of capital allocation in the 'new normal'.

Before I talk to you about South32's approach to capital allocation, let me give you a brief overview of our business.

South32 is a globally diversified mining and metals company. We operate in Australia, South America and here in Africa, where we produce aluminium in Kwa-Zulu Natal and Mozambique, manganese ore in the Northern Cape, and energy coal in Mpumalanga.

At South32, our purpose is to make a difference by developing natural resources, improving people's lives now and for generations to come. We are trusted by our owners and partners to realise the potential of their resources.

Our purpose is underpinned by a simple strategy of optimise, unlock and identify, which is unchanged 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 are actively reshaping and improving our portfolio by embedding high-quality growth options with a bias to base metals, where we expect to see growth as the world transitions to a lower carbon economy.

We are building our pipeline of development options by partnering with companies and funding early stage greenfield exploration opportunities in base metals, and we invested 15 million US dollars in the 2020 financial year.

An example of our approach is the exploration partnership we formed with Trilogy Metals in 2017 to advance both parties' geological understanding of the polymetallic Upper Kobuk Mineral Projects in Alaska.

Following a successful exploration partnership, we exercised our option to acquire a 50 per cent interest and we formed the Ambler Metals Joint Venture earlier this year.

After adding the Hermosa project in Arizona to the pipeline in 2018, we are progressing a pre-feasibility study for the zinc-silver-lead Taylor Deposit. We have commenced a scoping study for the Clark deposit assessing options for an integrated development with Taylor as well as for potential future exposure to emerging battery technology end-market opportunities. We have also identified further exploration targets in the broader land package.

We are on a pathway to exiting our lower returning businesses, including energy coal and manganese alloys.

The sale of our South Africa Energy Coal business to Seriti Resources is on track for completion, subject to the satisfaction of a number of material conditions.

Completion of the transaction will be an important milestone for South32, as it will substantially reduce our capital intensity, strengthen our balance sheet and improve the Group's operating margin.

It would also enable South Africa Energy Coal to operate safely and sustainably into the future for the benefit of its employees, customers and local communities, consistent with South Africa's transformation agenda.

South32 was established with a strong balance sheet and we have, over the course of the past five years, strengthened this further.

If we look back over the last five years, our portfolio has generated earnings and cash through the cycle.

We have been disciplined in how we have allocated that cash, including improving our portfolio, returning it to shareholders and building our balance sheet.

With net cash, no term debt and an undrawn revolving credit facility we currently have substantial liquidity to hand.

Our strategy is underpinned by our disciplined application of our capital management framework and our strong balance sheet.

Our disciplined approach extends to our capital management framework.

We hold strong to the belief 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 is to return a minimum of 40 percent of Underlying earnings to shareholders through our flexible dividend policy.

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

Our options can include further investment in new projects, acquisitions, greenfield exploration, share buy-backs or special dividends.

We have developed a strong track record of returning excess capital to shareholders including 1.3 billion US dollars through our flexible capital management program that was returned in the form of an on-market share buy-back and special dividends.

Combined with the 1.6 billion US dollars in ordinary dividends, we have returned approximately 40 percent of our current market capitalisation to shareholders over the past 5 years.

We have also invested in improving our portfolio through the addition of development options, including Hermosa and Ambler Metals which I spoke about earlier.

Ultimately the development decision for these opportunities would need to pass strict return profiles.

We overlay sovereign and operational risk in all our investment decisions. We also include a long-term global carbon price in all our capital allocation and investment evaluations, with local carbon prices applied as necessary.

This approach enables us to deliver on the intent of our framework which is to grow the Group's return on invested capital and value per share.

The combination of our strategy, disciplined approach to capital management and strong financial position means we're well-placed to navigate the potentially extended period of uncertainty caused by COVID-19.

From an operational perspective, 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've adapted our working practices at every site to protect our people and continue to supply our customers and we stopped all non-business critical work to focus on what matters most.

We're supporting our communities through the health and economic impacts of the pandemic, and committed 7 million US dollars for capacity-building and essential supplies.

We're managing our financial position to retain the right balance of flexibility, efficiency and prudence with our capital.

We've re-prioritised and re-scoped expenditure and we're pursuing cost efficiencies and further simplification across the Group.

We believe capital management requires discipline and balance. That's why we took the decision in March to suspend our on-market share buy-back with 121 million US dollars remaining.

We have extended the program by 12 months to September 2021, which gives us the flexibility to re-commence our on-market share buy-back as COVID-19 related operational risks subside and our financial performance improves.

There has been talk of 'the new normal' arising from COVID-19 but, for us, it's more of the same.

While we have had to reassess our company's near-term priorities, this crisis doesn't change our commitment to delivering on our strategy to fulfil our purpose. It also doesn't change how we think about our commitment to our shareholders and protecting our balance sheet.

Our disciplined approach to capital allocation and commitment to a strong balance sheet will support us through this volatile period and continue to guide our investment decisions.

And we will remain focused on creating long-term value for the benefit of all our stakeholders.

Thank you.

Check against delivery