

South32 Limited
(Incorporated in Australia under the *Corporations Act 2001* (Cth))
(ACN 093 732 597)
ASX / LSE / JSE Share Code: S32 ADR: SOUHY
SIN: AU000000S320
south32.net

4 September 2020

2020 ANNUAL REPORT

South32 Limited (ASX, JSE, LSE: S32; ADR: SOUHY) (South32) advises that the following documents have today been submitted to the National Storage Mechanism and will shortly be available for inspection at: www.morningstar.co.uk/uk/NSM.

- 2020 Annual Report
- 2020 Corporate Governance Statement
- Appendix 4G: Key to Disclosures – Corporate Governance Council Principles & Recommendations

These documents may be accessed via South32's website:

<https://www.south32.net/investors-media/investor-centre/annual-reporting-suite> or www.south32.net

Additional information

The following information is extracted from the 2020 Annual Report (page references are to pages in the Annual Report) and should be read in conjunction with South32's Financial Results and Outlook for the year ended 30 June 2020 announcement issued on 20 August 2020. Both documents can be found at www.south32.net 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 2020 Annual Report in full.

1. Principal risks and uncertainties

Risk management

Our approach to risk management is governed by our risk management framework, which has been in place since the inception of our company in 2015. The minimum mandatory requirements for the management of risks that have a material impact on our purpose, strategy and business plans are defined in our material risk management standard.

The framework and the standard are delivered through the System of Risk Management which is aligned to the principles of the International Standard for Risk Management AS/NZS ISO 31000:2018. This approach applies to all employees, Directors and contractors of the company and its subsidiaries. Our risks are regularly assessed and managed at both a company-wide strategic level and at a material tactical level for operations, functions and projects.

Material risks

Our System of Risk Management and assurance processes are based on the three lines of defence model and aim at managing our material risks. It enables us to:

- Provide stable and consistent processes, tools and routines to identify and regularly assess the most impactful risks and opportunities;
- Ensure predictable outcomes and prevent unforeseen events with material impacts;

- Ensure risks are well understood and managed at all levels of the organisation; and
- Eliminate risks where appropriate or improve our processes using a risk based approach.

Risks assessed as material are routinely reported to the South32 Lead Team and reviewed by the Risk and Audit Committee as well as the Sustainability Committee; assisting the Board to carry out its role in overseeing our risk management and assurance practices. Our reliance on data that supports the management of our material risks has been significantly improved, with the introduction of our new risk management tool, Global360.

This software connects data relating to the management of our risks, events, hazards and assurance actions, providing transparency of real-time status of our risks and controls and improving our rate of decision-making and responses. Aside from helping us manage our operations and functions, reliable data on material risks significantly contributes towards the management of our strategic risks. This provides insight into trends and emerging themes that can trigger a review of our business plans or inform a change in strategic direction.

Strategic risks

Our strategic risks and associated management response are evaluated every year. The review process is informed by external and internal events that could have a potential impact on our organisation, as well as emerging themes across our material risks. In FY20, we identified 13 strategic exposures that could influence our plans and the sustainability of our business. With the interruption of COVID-19 we have focused our response on three key areas - keeping our people safe and well, maintaining safe and reliable operations, and supporting our communities, all of which are critical to protecting the future of our business.

Ensuring that our people go home safe and well

Strategic Risk: A safe and healthy working environment is fundamental to living our values.

Opportunities: Ensuring that our people go home safe and well drives the culture we aspire to and meets societal expectations, as well as our expectations of each other.

Threats: The impact of not having a safe working environment can be devastating for our employees, contractors and communities. It can alter lives, impact shareholder returns, stakeholder confidence and ultimately our licence to operate.

Our response:

- In everything we do, we focus on the health and safety of our people, contractors and communities;
- We have a system of risk management, comprehensive health and safety policies, systems and standards with associated performance requirements designed to prevent and mitigate potential exposure to health and safety risks;
- We engage, develop and train our people to ensure our work is well designed and executed;
- We investigate actual and potential significant events, put controls in place, and share our learnings across the organisation - so that everyone can benefit;
- We continuously improve our work environment to make it safer and more productive for our people; and
- We have an independent assurance function that reviews our risk register and the associated controls, to test how effective they are.

Actions by government, political risks and/or tax authorities

Strategic Risk: When changes in legislation, regulation and/or policy impact our strategic goals and the way we work, we aim to effectively manage this uncertainty.

This includes uncertainty surrounding direct and indirect taxes, and royalties where we operate, as well as around broader policy decisions and regulatory changes, relating but not limited to:

- Nationalisation of mineral resources;
- Renegotiation or nullification of contracts;
- Leases, permits or agreements; and
- Environmental performance.

Opportunities: Proactive engagement leading to strong relationships with governments provides mutual understanding of drivers for decision-making. This increases clarity around policy and regulatory environments, enables appropriate and tailored responses to issues, and provides investment certainty.

Threats: Legislation adverse to our business and regulatory or policy decisions taken by governments can result in operational disruption, affect future planning or in extreme cases lead to cessation of operations.

Our response:

- We have the specialised knowledge we need through employment or consulting, including tax management capability, tax advice, and external relations advice;
- We monitor political activity in all jurisdictions we operate in;
- We engage with our key stakeholders in all jurisdictions where we operate and identify them through active mapping and developing engagement plans;
- We work through selected industry associations to influence how the industry is positioned;
- We monitor policy, legislative and regulatory changes and we also engage with relevant authorities; and
- We produce an annual Tax Transparency and Payments to Governments Report, which shows how we meet our regulatory tax obligations.

Portfolio composition

Strategic Risk: Our objective is to outperform by offering our shareholders exposure to high-quality operations in commodities with a strong and sustainable outlook, in jurisdictions where we believe we can operate into the future - in line with our values.

Opportunities: We invest for value in our preferred commodities and jurisdictions. We do this by progressing our internal development options, by acquiring exploration opportunities, development projects or existing operations and by divesting non-preferred exposures that we believe will not generate an acceptable shareholder return.

Threats: If we don't invest in a disciplined way or divest non-preferred exposures for value, we could reduce shareholder returns. Climate change, and the transition to a low-carbon economy, may present both risks and opportunities for our portfolio commodity composition. This is discussed under 'Climate change resilience' on page 30.

Our response:

- We keep our strategy front of mind as it informs the decisions we make about portfolio composition. We formally evaluate our strategic positioning annually with the Board and provide updates throughout the year;
- We have a dedicated greenfields exploration team focused on building a pipeline of low-cost, high-quality resource development options;
- We apply a rigorously developed and independently verified Commodity Price Protocol (CPP) process, to develop long-term views for our portfolio commodities and foreign exchange rates for the jurisdictions we operate in;
- We maintain a life of operations planning process. By evaluating the embedded options in our operations, we can progress with organic options at the right time;
- We follow strong due diligence processes for acquisitions and new business ventures;
- We apply a standardised valuation methodology with consistent key macroeconomic assumptions;
- We have a mature and independent peer review process, which we rigorously follow to inform key investment decisions; and
- We actively manage portfolio change with dedicated specialists to deliver integration and separation benefits.

Global economic uncertainty, volatility and liquidity

Strategic Risk: Our aim is to manage risks related to uncertain and changing macroeconomic conditions. We do the same when it comes to the volatility in commodity, currency and debt capital markets, given how much they can impact our earnings, balance sheet and growth goals.

Opportunities: We retain a strong balance sheet, investment grade credit rating and capital discipline to enhance our resilience through economic cycles. This approach also provides greater financial flexibility when market conditions are favourable, which in turn allows us to create strong competition for capital. By investing selectively in our existing operations and growth opportunities, or increasing returns to shareholders we aim to maximise total shareholder returns over time.

Threats: A significant deterioration in economic conditions, market demand and falling commodity prices, and/or an adverse movement in exchange rates has the potential to significantly reduce profitability, cash flow and total shareholder returns.

Our response:

- Our diverse portfolio strengthens our resilience to the disruption of any one commodity, geography or operation;
- We prioritise a strong balance sheet and an investment grade credit rating, so that we remain in control through economic cycles;
- We test our financial strength across a range of scenarios, including a depressed demand and pricing environment. We also maintain a minimum liquidity buffer;
- We adjust our capital management plans according to market conditions;
- We maintain strong relationships with high-quality customers and suppliers from all around the world;
- We mostly sell our products with reference to floating, market-based prices, which are broadly inversely correlated with floating global currency markets and the input costs we're exposed to; and
- We carry out an annual review of commodity prices, which we use to inform our operational plans.

Unexpected major events or natural catastrophes

Strategic Risk: Our operations and transport networks can be disrupted by events such as pandemics, unexpected natural disasters or major process failures.

Opportunities: Delivering an outstanding performance in health, safety, environment and communities enhances our operational and business resilience.

Threats: Failure to manage major unexpected events or natural catastrophes could result in a significant event or other long-term damage that could harm the Group's financial performance and/or licence to operate. The role of climate change in increasing the frequency and/or severity of natural catastrophes is also addressed under 'Climate change resilience' on page 30.

Our response:

- When facing potential catastrophes, we put safety and wellbeing at the heart of everything we do;
- We use a strong system of risk management in design, construction and operation phases, to analyse risks and design plans that prevent or limit business impacts;
- We have business continuity and disaster recovery plans in place with trigger action response scenarios. We've tested these to make sure we can respond rapidly to major events and safely restore our operations and protect the health of people and the communities in which we operate;
- We have governance functions independent of the operations that provide assurance against our own comprehensive internal standards including equipment integrity, tailings dams management and technical stewardship;
- We maintain insurance against many, but not all, potential losses or liabilities arising from operating risks (this may not fully cover all financial losses); and
- We work with external experts, relevant industry bodies and technology suppliers, to provide additional assurance and input.

Key talent identification, attraction and retention

Strategic Risk: Our ability to identify, attract and retain key talent and develop capabilities is fundamental to delivering our strategic priorities.

Opportunities: Defined talent management processes can help lift performance and better enable us to deliver on our strategy.

Threats: Failure to manage talent and develop the right capabilities within our business can ultimately erode shareholder value.

Our response:

- We focus on enhancing our offering to employees and potential employees to distinguish ourselves in the market through effective approaches to talent and recruitment management, remuneration, skills development and succession planning;
- We continually seek ways to better engage and empower our workforce, including leading flexibility policies and a focus on ensuring we maintain an inclusive workplace;
- Our dedication to 'making a difference' inspires our people;
- We identify key talent and provide them with experience and growth through time in critical roles;
- Our strategic planning process identifies capability requirements for the future;
- We work to strengthen our reputation and status in the community as an employer of choice through community engagement programs; and
- We continue to improve our long-term workforce planning and talent management program across the organisation.

Evolving culture of the organisation

Strategic Risk: We recognise the value of a strong culture as a critical enabler to how we deliver our purpose and strategy.

Opportunities: Proactively and deliberately shaping our culture will help us to deliver on our purpose and strategy while being guided by our values.

Threats: A misaligned culture can result in organisational underperformance, and financial and reputational damage.

Our response:

- We are working to better understand the gap between what our culture is and what we want it to be – and to have a clear approach to help us close any gaps;
- We continue to develop an inclusive and diverse workplace where our people reflect the countries and communities in which we operate;
- Our Board monitors and assesses culture through Operation visits; staff engagements; endorsement and tracking of inclusion and diversity metrics, employee engagement results, and Speak Up data;
- We are making sure our ways of working (systems, symbols and behaviours) are aligned to our aspired culture; and
- We identify and deploy effective levers to deliberately shape our culture in an ever-evolving world.

Predictable operational performance

Strategic Risk: Predictable operational performance improves our ability to keep our people safe, meet our regulatory and social obligations, reliably provide quality products to our customers and deliver shareholder returns.

Opportunities: We mature our operating system to control the operations and processes that deliver value. We spend capital annually to sustain our production capacity to create value and we invest in high-return projects and improve the reliability of our production capability.

Threats: If we can't safely achieve our production targets and mitigate rising unit costs, it will impact directly on our profits and cash flow, as well as our ability to meet our commitments to our stakeholders.

Our response:

- We carry out rigorous quality assurance programs over our operations, marketing and logistics;
- We review our asset health and integrity on a regular basis;
- We reconcile the performance of our Mineral Resource and Ore Reserve quality against production on an annual basis;
- We carry out rigorous modelling and reviews of our geotechnical drilling data;
- We operate within target inventory operating windows and regularly review our internal scheduling and operational planning;
- We monitor raw material supply contracts and implement early detection procedures at load ports;
- We utilise long-term and short-term planning, scheduling and verification processes;

- We carry out operational resource planning and regularly review our productivity metrics;
- We apply structured work design processes for critical or high value tasks; and
- We apply verification systems to ensure we're compliant with work standards.

Maintain competitiveness through innovation and technology

Strategic Risk: Technology and innovation are advancing at a rapid pace. Companies who are unable to effectively leverage technology and innovation will find themselves falling behind in shareholder returns.

Opportunities: To stay competitive, we will position our organisation to effectively identify, adopt and sustain technology and innovation that delivers shareholder returns.

Threats: Failure to keep pace with and leverage, advances in technology could result in reduced shareholder returns. Cyber security incidents could pose multiple risks including disruption to operations, theft, disclosure or corruption of information.

Our response:

- We are continuously improving our approach to innovation, improvement and technology;
- We are delivering specific programs focused on adoption and improvement of critical technology capabilities across multiple time horizons including cyber security, data science, automation and mobility;
- We have a clear, value-based, 'portfolio' approach to testing and scaling up innovation across the group;
- We have rigorous internal standards and processes (technology 'ways of working');
- We benchmark our digital operations' performance against industry best practice and have organised the coordination and integration of technology advances into South32's growth portfolio;
- We actively manage cyber security and data centre risks through our system of risk management and have increased our cyber security controls in response to COVID-19 and an increase in remote working;
- We monitor customer satisfaction and manage customer support; and
- We follow a rigorous assurance process for our approach to innovation, improvement and technology.

Security of supply of logistics chain and critical services

Strategic Risk: Together with our customers and suppliers we manage the inbound and outbound supply chains. Critical categories include raw materials, energy, water, gas, heavy mobile equipment, tyres and logistics (which includes road, rail, air and shipping).

Opportunities: By securing commercially competitive terms, we capitalise on market opportunities while supporting the safe and reliable performance of our operations.

Threats: Failure to secure commercially acceptable terms could disrupt our operations, increase operating costs and damage our reputation. Pandemic has potential to disrupt in and out bound supply chains. Climate change has potential to increase frequency and/or severity of extreme weather events which may threaten our supply chain, logistics and critical services. This is addressed under 'Climate change resilience' on page 30.

Our response:

- We have a business continuity plan that ensures we optimise existing supply chains and identify alternate sources for critical supplies;
- We build strong strategic partnerships with Tier 1 suppliers on a long-term, mutually beneficial basis;
- We have a clearly defined transformation strategy and enterprise and supplier development program in South Africa aimed at building and growing small and medium enterprises; and
- We actively review and manage payment terms to support small and local businesses in all jurisdictions.

Maintain, realise or enhance the value of our resources and reserves

Strategic Risk: We exist to realise the potential of the resources and reserves we are entrusted to develop.

We work to continually optimise our operations through sound technical and economic understanding of our resources and reserves.

Opportunities: We continue to enhance our understanding of our resources and reserves. We leverage this enhanced understanding through the annual business planning cycle to investigate additional opportunities to add value to our business.

Threats: If we fail to continually optimise our operations and projects, it will have a significant impact on shareholder returns and ultimately, the sustainability of the company.

Our response:

- We report Mineral Resources and Ore Reserves (including Coal Resources and Coal Reserves) in accordance with the JORC Code as required in Chapter 5 of the ASX Listing Rules;
- We apply an annual business planning standard and process, structured to maximise value throughout the life of our operations;
- Our capital prioritisation, capital allocation and planning processes prioritise the highest-value options across our portfolio;
- We apply a rigorous project development process that includes independent peer review of project risks and approval tollgates; and
- Our closure standard ensures that our full-life-of-operations value incorporates closure and rehabilitation liabilities.

Climate change resilience

Strategic Risk: South32 has been actively addressing risks associated with climate change for several years. By using climate change scenarios, we can identify opportunities and threats to our portfolio and operations.

We assess these risks through a framework that includes policy, market and physical factors.

Opportunities: We regularly assess our customer and broader stakeholder preferences, as well as developments in policy and competitive technologies, to ensure our products remain in demand and resilient. Our pipeline of development options and exploration programs include commodities with a favourable outlook in a low carbon future, with a bias to base metals.

Threats: Failure to build the resilience of our business to the physical impacts of climate change, reduce our emissions and respond to changes in policy and technology could negatively impact our supply chain, business continuity and access to key inputs (such as water), our communities, costs, legal exposure, demand for our products, stakeholder confidence and ultimately shareholder returns. Refer to related risks of 'Security of supply of logistics chain and critical services', 'Unexpected major events or natural catastrophes' and 'Portfolio composition'.

Our response:

- We seek to understand our portfolio performance in a range of future climate scenarios, considering both opportunities and threats;
- We identify potential controls in the short, medium and long-term to improve the climate change resilience of our portfolio;
- We support the Paris Agreement objectives and are committed to achieving net zero carbon emissions by 2050;
- We identify and implement greenhouse gas reduction projects and energy planning, with our emissions reduction targets linked to remuneration;
- We use climate modelling data to inform us of the level of risk to our operational plans;
- We prioritise our land management efforts to improve resilience, including minimising land disturbance and maximising rehabilitation efforts; and
- We're transparent in our disclosure of climate change-related opportunities and threats in our annual reporting, which is aligned to the recommendations of the Task Force on Climate-related Financial Disclosures. Further details on this risk and its management is detailed in our Sustainable Development Report.

Evolving stakeholder expectations

Strategic Risk: There are evolving expectations of mining and metals companies by employees, government, investors, lenders, host communities and broader society. Our stakeholders may have divergent views and wants.

We actively engage our stakeholders to understand and respond to their views and identify ways we can create social, environmental and economic value.

Opportunities: We undertake proactive, collaborative and transparent engagement with our stakeholders, to build relationships based on trust and shared understanding. Our ongoing licence to operate will be supported through recognition of our contribution to our stakeholders and broader society.

Threats: Failure to achieve stakeholder support could damage our reputation and negatively impact our licence to operate, limiting our ability to grow our business in existing and new jurisdictions, and impacting our ability to access funding for new or existing operations.

Our response:

- Our purpose and strategy expressly balance economic outcomes with social and environmental outcomes, now and into the future. In the decisions we take, we look to minimise impact and create enduring social, environmental and economic value for all our stakeholders;
- We undertake internal and external stakeholder analysis and engagement on a wide range of financial, environmental, social and governance (ESG) issues. Our approach is aligned with the ICMM Mining Principles and Global Reporting Initiative Sustainability Reporting Standards;
- We recognise that mineral resources are managed by governments on behalf of their citizens. We proactively engage with governments to keep public policymakers informed and we advocate for our positions. We monitor policy and political developments;
- We always aim to build strong, honest and meaningful relationships with local communities, so that we're ready to listen to their concerns. We regularly complete and review community perception surveys, social baseline studies and impact and opportunity assessments;
- We have a rigorous process to understand the expectations of our shareholders on a wide range of issues informed by regular engagement; and
- We transparently report on our risks, opportunities, regulatory obligations, commitments and areas where we're working that are relevant to our stakeholders.

2. Related party transactions

Extract from Note 28 'Key management personnel', page 135 of the 2020 Annual Report

Key management personnel compensation

US\$'000	FY20	FY19
Short-term employee benefits	5,759	6,504
Post-employment benefits	192	224
Other long-term benefits	268	285
Termination benefits	316	-
Share-based payments	6,664	6,154
Total	13,199	13,167

Transactions with key management personnel

There were no transactions with key management personnel during the year ended 30 June 2020 (FY19: nil).

Loans to key management personnel

There were no loans with key management personnel during the year ended 30 June 2020 (FY19: nil).

Transactions with key management personnel related entities

There were no transactions with entities controlled or jointly controlled by key management personnel and there were no outstanding amounts with those entities as at 30 June 2020 (FY19: nil).

Extract from Note 29 'Related party transactions', page 136 of the 2020 Annual Report

Transactions with related parties

US\$'000	Joint ventures		Associates	
	FY20	FY19	FY20	FY19
Sales of goods and services	205,880	232,472	3,126	2,711
Purchases of goods and services	-	154	80,887	91,071
Interest income	7,814	7,544	197	956
Dividend income	348,664	535,505	-	-
Interest expense	7,593	11,404	-	-
Increase/(decrease) in short-term financing arrangements with related parties	(14,855)	22,368	-	-
Increase/(decrease) in loans with related parties	35,965	84,027	(15,864)	(9,490)

Outstanding balances with related parties

US\$'000	Joint ventures		Associates	
	FY20	FY19	FY20	FY19
Trade amounts owing to related parties	549	77	161	940
Other amounts owing to related parties ⁽¹⁾	284,000	298,855	-	-
Trade amounts owing from related parties	57,901	46,428	422	223
Loan amounts owing from related parties ⁽²⁾	120,000	84,035	72,415	88,279

⁽¹⁾ Amounts owing to joint ventures relate to short-term deposits and cash managed by the Group on behalf of its equity accounted investments. Interest is paid based on the three month London Inter-Bank Offer Rate and the one month Johannesburg Inter-Bank Agreed Rate.

⁽²⁾ Amounts owing from associates include an interest free loan to Port Kembla Coal Terminal Ltd which is repayable by 30 June 2030.

Terms and conditions

Sales to, and purchases from, related parties of goods and services are transactions at market prices and on commercial terms.

Outstanding balances at year end are unsecured and settlement mostly occurs in cash.

No guarantees are provided or received for any related party receivables or payables.

A provision for expected credit losses of US\$1 million has been recognised in relation to outstanding balances. No expense has been recognised in respect of expected credit losses from related parties in FY20.

3. Directors' Responsibility Statement

The following statement was prepared for the purposes of the South32 Group's 2020 Annual Report and is repeated here for the purposes of complying with DTR 6.3.5. It relates to, and is extracted from, the South32 Group's 2020 Annual Report and is not connected to the extracted and summarised information presented in this announcement.

"The Directors state that to the best of their knowledge:

- a) The consolidated financial statements and notes on pages 89 to 137 were prepared in accordance with applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit and loss of the Group and the undertakings included in the consolidation taken as a whole; and
- b) The 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 they face.

This Directors' report and Responsibility statement is made in accordance with a resolution of the Board."

Karen Wood, Chair and Graham Kerr, Chief Executive Officer and Managing Director.

4. No Change Statement and Notice of Annual General Meeting

Shareholders are advised that the financial statements in the 2020 Annual Report do not contain any material changes to the South32's Financial Results and Outlook for the year ended 30 June 2020 announcement issued on 20 August 2020 on RNS and SENS.

Notice is hereby given that the Company's Annual General Meeting will be held at midday (12 noon AWST) on Thursday 29 October 2020 as a virtual meeting, with shareholders participating via an online platform, to transact the business as set out in the Notice of Annual General Meeting which will be available no later than 30 September 2020.

Entitlement for shareholders on the JSE to vote at the Meeting will be based on shareholders who appear in the Register of Members at 4.00pm (AWST) on Tuesday 27 October 2020. To be entitled to vote, the last day to trade is Thursday, 22 October 2020.

About South32

South32 is a globally diversified mining and metals company. 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. We produce bauxite, alumina, aluminium, energy and metallurgical coal, manganese, nickel, silver, lead and zinc at our operations in Australia, Southern Africa and South America. With a focus on growing our base metals exposure, we also have two development options in North America and several partnerships with junior explorers around the world.

Further Information

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Further information on South32 can be found at www.south32.net.

JSE Sponsor: UBS South Africa (Pty) Ltd
4 September 2020