

Speech by Simon Collins, Chief Development Officer, South32

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Good morning everyone.

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

I would also like to acknowledge former Prime Minister, the Honourable John Howard, and welcome all other dignitaries from near and far.

It is a pleasure to be here at Diggers & Dealers for the very first time.

Today I will be talking to you about how we are working to reshape and improve our portfolio.

But before we get into that, let me give you a brief overview of South32 and my role as Chief Development Officer.

South32 has operations and development projects spanning four continents.

We have a primary listing on the ASX, a secondary listing on the Johannesburg Stock Exchange and a standard listing on the London Stock Exchange.

We mine and produce bauxite, alumina, aluminium, thermal and metallurgical coal, manganese, nickel, silver, lead and zinc.

Globally, we have around 14,000 employees and 11,000 contractors working with us.

Here in Western Australia, we employ about 1900 people across our Perth headquarters and our Worsley Alumina operations in the state's South West.

Since South32 was formed in 2015, we have remained focussed on our purpose – to make a difference by developing natural resources, improving people's lives now and for generations to come.

I'm accountable for exploration, business development and acquisitions and divestments.

I also oversee our Brazil Alumina joint venture and the pre-feasibility phase of the Hermosa project, which I'll talk about shortly.

South32 is a global company with a pipeline of growth options all over the world.

Our way of working is scalable, allowing us to expand our footprint and invest in opportunities where we believe we can create value for our shareholders.

We have a Business Development team in Australia – where we have several options – and have recently set up an office in Vancouver – where I'll soon be relocating – in order to support our growing presence in the Americas.

More on that a little later.

At South32, we constantly review our portfolio to make sure it is optimised and that we are well positioned for the next phase of demand growth.

Growth focuses on increasing shareholder value – and ultimately free cash flow per share – not growing scale and complexity.

A big part of this is our work to create a pipeline of high quality development opportunities in commodities we believe will have strong fundamentals into the future.

We often talk to having a bias to base metals, but this is not to the exclusion of other commodities or exposures where we see value.

The last 18 months have been significant for us, having successfully identified new options to bring into the portfolio.

I'll start with Hermosa.

In August last year, we completed the acquisition of Arizona Mining which added the high grade zinc, lead and silver Hermosa development option to our portfolio.

About 80 kilometres south-east of Tucson, in Southern Arizona, Hermosa is one of the most exciting base metals projects in the industry.

It comprises the zinc-lead-silver sulphide Taylor Deposit, the zinc-manganese-silver oxide Clark Deposit and an extensive, highly prospective land package with potential for discovery of additional mineralisation.

Hermosa strongly complements our existing portfolio and provides the opportunity to leverage our capabilities from our underground Cannington silver-lead-zinc mine in North West Queensland.

The ongoing drilling program, and the resampling and relogging activity undertaken since our acquisition has significantly de-risked our investment, increased our confidence in the project and confirmed its ability to deliver strong returns to our shareholders over many decades.

In June, we reached a key milestone with the declaration of a Mineral Resource for the Taylor Deposit for the very first time.

It was reported in accordance with the JORC Code guidelines at 155 million tonnes, averaging 3.39 per cent zinc, 3.67 per cent lead and 69 grams per tonne silver, with a contained 5.3 million tonnes of zinc, 5.7 million tonnes of lead and 344 million ounces of silver.

We expect to conclude the pre-feasibility study before the end of this financial year.

Last year we also completed the acquisition of a 50 per cent interest in the Eagle Downs project in Queensland, giving us an option for a fully permitted, partially developed metallurgical coal mine, with a 1.1 billion tonne resource in the Bowen Basin.

The project had been under care and maintenance since late 2015 having received initial investment for site infrastructure, including water supply and high voltage systems, office buildings and water and sediment dams.

Dual 2km drifts are also approximately 40 per cent complete.

We have commenced studies on the underground longwall project and expect to make a final investment decision with our Joint Venture partner, Aquila Resources, during the first half of next financial year.

At Eagle Downs, subject to the outcome of the feasibility study, we see the potential to construct a multi-seam underground longwall mine and processing plant with a dedicated rail spur and train loadout facility.

This embeds another attractive development option in a commodity where we see strong long-term fundamentals.

Part of improving our portfolio means assessing our current operations against our view for the future.

Our view on thermal coal demand is that it will remain resilient in nations with relatively new coal power plants or those with planned additional capacity.

South Africa is one such location, and in 2018 we announced a process to divest our South Africa Energy Coal business and this process is ongoing.

Consistent with the South African government's transformation agenda, our intention is that this business becomes black-owned and operated, as we believe this will best support the long-term sustainability of the business.

We received bids during the June 2019 quarter which we are currently evaluating.

And expect to update the market during the December 2019 half year.

The divestment of these operations does not signal an exit from South Africa. We continue to have a significant presence with our manganese ore mines in the Kalahari, where our Wessels mine has a reserve life of more than 50 years, and our Hillside Aluminium smelter in KwaZulu-Natal.

Whilst we have a positive view on the outlook for manganese ore, we don't have the same view of manganese alloy and, in May, announced a review of our manganese alloy smelters in South Africa and Australia.

Over the life of these smelters, the manganese alloy industry has fundamentally changed.

Globally, China and India account for approximately 60 per cent of steel production and have developed significant domestic smelting capacity.

This means they are increasingly purchasing manganese ore rather than alloy.

We have also seen significant new capacity in Malaysia – where there is the advantage of access to cheap power coupled with a favourable location – both to receive raw materials, and to ship to end markets.

With the pressure of these external factors, and increasing operating challenges at both smelters, we are looking at options including divestment, care and maintenance, and closure.

A process like this is never easy and our people and communities are front of mind as we work through these options.

No final decision has been made on the way forward, and we plan to provide an update in the December quarter.

In terms of building longer dated options we strongly believe in growing value through the drill bit.

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 look for opportunities to partner and invest with junior miners and explorers globally.

This approach has served us well, allowing us to be out in the market at time when there was not a lot of risk capital being allocated.

Over the last four years, we have assessed over 200 opportunities.

And we now have over 20 active greenfield exploration projects in Australia, the Americas and Europe.

In particular...

Our strategic alliance with North Queensland Resources is appraising several early stage exploration opportunities targeting base and precious metal deposits in Queensland, Australia.

While our alliance with AusQuest aims to develop a pipeline of high-potential early stage exploration projects in Australia and Peru.

We have recently signed an earn-in agreement with Queensland based explorer Superior Resources, giving us access to a number of base metals targets at the company's Nicholson Project.

We are also seeing a lot of opportunities in the Americas, where we've made a sizable commitment through a number of exploration projects with partners in Alaska, Arizona, Mexico, Colombia and Peru.

These are attractive jurisdictions for us due to the known mineral endowment, quality of opportunities there, high residual prospectivity and in many cases the investor friendly policy environment.

In Alaska, we have maintained our option with Trilogy Metals for the third and final year of the agreement to potentially increase our interest in the Upper Kobuk Mineral projects.

We have the option to acquire a 50 per cent interest in an extensive land package which includes:

- Arctic, a high-grade polymetallic resource
- Bornite, a large Copper resource
- And a number of known targets along an 80-kilometre VMS belt.

We also believe there is potential for other discoveries in what is a large frontier mineral province.

Both Arctic and Bornite have existing foreign resource estimates with Trilogy completing a Preliminary Economic Assessment on Arctic in April 2018.

The option to earn a 50 per cent interest can be exercised by early 2020 by committing US\$150 million dollars to the joint venture.

In Mexico we have an option agreement with Silver Bull Resources, for the Sierra Mojada silver, lead, zinc project.

This is still in the early stages of exploration, with targets presently being drilled.

Also in Peru, we have an option agreement with Inca Minerals for their copper, gold and zinc Riqueza project.

So you can see the importance of the Americas for our future, and this is one of key reasons for our decision for me to relocate to Vancouver.

Going forward, we will continue this approach of partnering with juniors, and we will also build a portfolio of self-generated projects, starting in Queensland.

We also continue to explore around our existing operations to identify opportunities for life extensions.

I know Diggers & Dealers is often used as a platform for companies like South32 to express openness to potential partnerships with juniors.

So it will come as no surprise that we continue that theme here today.

We're open to hearing about opportunities that align with our ambition to develop a pipeline of growth options, as we reshape and improve our portfolio to meet future demand growth.

If you're interested in talking with us or if you want to find out more about what we're doing, some of my team will be at our booth this week, so please drop by and have a chat.

While I'd love to stay for the full three days, my assistant, who's from Kalgoorlie, only trusts me enough to stay in town for the day.

As you've heard this morning, we have a bias to base metals and we'll look at other commodities where we see value.

Our progress over a relatively short period demonstrates our ability to work quickly with our partners to identify growth opportunities, and to advance and cycle greenfield options.

This approach, coupled with our strong financial position, places us well to maintain this momentum. Thank you.

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