

Speech by Mike Fraser, President and COO Africa, South32

Mining Indaba

5 February 2018

Your Excellencies,
Honourable Ministers,
Distinguished guests,
Ladies and gentlemen,

Good morning.

I am Mike Fraser, South32's President and Chief Operating Officer for Africa. It is an honour for me to be here again to represent South32 at the 2018 Mining Indaba.

Before I start, I would like to take a moment to acknowledge the changes we are seeing in our political environment here in South Africa and to wish the newly elected leadership of the ANC well in their tenure.

I note that the new leadership is in the process of renewal and rebuilding the economy and enhancing the work done by their predecessors.

While the new road map and the desired impact is yet to become clear, we are seeing positive signals for the revitalisation of our industry.

I therefore look forward to constructive dialogue with all of our political stakeholders and contributing to building the South African economy.

Let me give you a brief overview of South32's business.

We have operations spanning three continents and we are listed on the Australian Securities Exchange, London Stock Exchange and the Johannesburg Stock Exchange.

Our operations are in Southern Africa, Australia and South America. More recently, we have invested in exploration opportunities in base metals in Australia and North and South America.

Here in Southern Africa we have sizeable energy coal, manganese and aluminium operations with over 8,500 employees.

Since South32 was formed via a demerger 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.

Whilst creating a safe workplace remains our priority, our strategy is to:

- Optimise our current operations,
- Unlock their potential by converting our high-quality resources into reserves, and
- Identify new investment opportunities beyond our portfolio.

Following a challenging commodities market in the 12 months post our demerger we emerged in a strong position, with the broad recovery in commodity prices being a welcome tailwind.

In the 2017 financial year, we paid over US\$160 million dollars in taxes and royalties in South Africa and Mozambique.

We also contributed US\$8.4 million dollars to our local community investment program which is focused on education, health and wellness, and poverty alleviation.

We strive to reach our goal of a safe working environment, where we can guarantee that everyone goes home safe and well every day, and to build a healthy inclusive culture across South32.

Our strong improvement in financial performance, and disciplined capital management, has enabled us to invest in our operations, create future optionality and substantially increase returns to shareholders.

In the 2017 financial year, improved pricing combined with our portfolio's operating leverage meant we significantly increased our return on invested capital to 11.4 per cent and increased free cash flow, including our Manganese joint venture, to US1.9 billion dollars¹.

While the global outlook for our industry was positive, 2017 was not without its challenges in South Africa.

Political, economic and regulatory uncertainty cast a shadow over the country's mining industry raising concerns about South Africa's ability to attract sorely needed foreign investment.

At the Mining Indaba last year, I spoke about how mining is a significant vehicle for creating shared value and contributing to South Africa's economic aspirations.

We recently announced changes to our South African business which we believe are aligned with this thinking.

In November last year, we announced the biggest capital investment that South32 has made in its 3-year history – a 4.3 billion Rand investment in the Klipspruit life extension project near eMalahleni here in South Africa. This is one of the larger investments by a resources company in South Africa in the last couple of years.

Aside from extending the life of the Klipspruit mine by at least 20 years, it will sustain employment for 740 people and create 4,000 jobs during construction.

¹ Including equity accounted investments

We are committed to the long-term sustainability of our coal business. Therefore, at the same time as announcing the Klipspruit investment, we announced that we would establish our South Africa Energy Coal business as a stand-alone business. And consistent with our objective to further transform our South African operations, we will commence a process to broaden the local ownership of South African Energy Coal.

Predictably this announcement led to speculation that this separation process, and the broadening of local ownership, marks the beginning of our exit from the country. I can assure you this is not the case.

Let me step back for a moment to explain how we think about the future of our business and how we arrived at this decision.

As part of our strategic planning process, we develop scenarios based on major variables such as the outlook for commodities, technology developments, the needs of societies and several other factors.

We use these scenarios to evaluate future opportunities and inform investment decisions. We have a strong balance sheet and a simple capital management framework where we:

- Maintain safe and reliable operations and an investment grade credit rating through the cycle
- Distribute a minimum 40 per cent of Underlying Earnings as ordinary dividends
- Consider how all internal and external opportunities compete for excess capital

With the latter, we conduct an analysis of the types of commodities that are likely to be required in a world constrained by carbon.

For example, we have undertaken not to develop any new greenfield energy coal basins. However, we have reached an option agreement with Trilogy Metals to fund testing the extension of a high-grade copper resource.

We also signed a strategic alliance with AusQuest where we are exploring for a number of base metals.

The decision we took with respect to our coal business takes into account our views on the uncertain long-term outlook for energy coal and is taken in the best interests of the business itself and what is required to ensure its sustainability.

In a scenario where there is a proactive and collaborative approach by governments, industry and society to reduce carbon emissions, there will be a decarbonisation of the global energy system resulting in a diversification of the energy mix away from energy coal – we are already witnessing this process in some geographies.

However, approximately 77 per cent of South Africa's primary energy needs are provided by coal and this is unlikely to change significantly in the near term given a relative lack of suitable alternatives to coal.

South Africa Energy Coal produces energy coal for both the domestic and export consumption.

It has a large resource base and existing coal processing and logistics infrastructure, which creates meaningful opportunities for the business.

Given the imperatives of operating in South Africa and the clear policy directives from Eskom and Government, in our view, many of these opportunities are best leveraged by a transformed business and, as such, the broadening of ownership of our South Africa Energy Coal business is an imperative.

When we talk about "transformed" I mean that we are embarking on a journey to establish a South African coal business that goes beyond the legislated broad based black economic empowerment criteria and Eskom's black ownership coal supply requirements.

The aim is to build a company that will reflect the demographics of the country in its workforce and create a company structure which allows black people to benefit

from the value generated by the operations through owning, managing and controlling productive operations.

Achieving these goals will enable black people to participate meaningfully in the economic mainstream, by enhancing market access opportunities for black-owned companies, access to the value chain for emerging entrepreneurs and creating sustainable jobs for local communities.

In addition, it will be a business which can meet its long-term contractual commitments and liabilities.

As I mentioned, transformation is a journey which started with our intention to broaden ownership. However, we first need to ensure that the business is robust and sustainable through the cycle and that it has, or can secure, the necessary investment to meet its existing contractual obligations.

Our approach to ensuring the future sustainability of this business supports our commitment to creating shared value and to South Africa's economic transformation and we firmly believe that this is the right thing to do for our South Africa Energy Coal business as well as for those whose lives and livelihoods depend on the operation.

I'd like to turn my attention to our other operations in Africa – our Hillside and Mozal aluminium smelters and our South Africa Manganese business.

Our Hillside and Mozal aluminium smelters are performing strongly. Mozal Aluminium recently set a new annual production record and our energy efficiency project will boost production with a gradual ramp up to a 5 per cent production increase between 2020 and 2024. The demand for light weight fuel efficient metals in transportation is expected to result in an increased demand for aluminium in the coming years and our smelters are well-positioned to benefit.

Our manganese business comprises two mines located in the Kalahari, the world's largest manganese basin with 80 per cent of the world's resource base and a smelter at Meyerton south of Johannesburg.

We have a strong position in South Africa with operations that are well-placed on the local cost curve and extensive resources.

Over the next few years, we expect South African manganese ore to displace higher cost lower quality domestic ore in China and elsewhere.

We have built flexibility into our manganese business that allows us to take advantage of strong market conditions by selling additional fine grained product when demand exists.

Ladies and gentlemen, in conclusion, I would like to leave you with this.

Our investment in the Klipspruit Extension project represents a significant investment in South Africa's resources industry and creates shared value through employment and business opportunities whilst allowing us to meet our commitments and sustaining the future of our coal business.

The establishment of South Africa Energy Coal as a standalone business and its transformation over time will allow the business to be sustainable and position it to take advantage of new opportunities.

Our South Africa manganese and aluminium businesses and the Mozal aluminium smelter in Mozambique are well-positioned to benefit from anticipated demand growth in their respective commodities and remain important businesses for South32.

We remain focused on setting up our South Africa Energy Coal business for success and realising the full potential of our aluminium and manganese operations.

Building a stronger and sustainable business is the key to success, and this is fundamental to creating shared value.

With that, the benefits will flow to our communities, our people and shareholders through the taxes and royalties we pay, our community investments, the jobs and business opportunities we create and returns to our shareholders.

Thank you.