Speech by Mike Fraser, Chief Operating Officer, South32

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Good morning everyone. I'm pleased to be speaking at this year's Mining Indaba.

I'm Chief Operating Officer at South32, a global mining and metals company, listed on the Australian Securities Exchange, London Stock Exchange and the Johannesburg Stock Exchange. We have operations in Australia, Southern Africa and South America producing bauxite, alumina, aluminium, energy and metallurgical coal, manganese, nickel, silver, lead and zinc.

In addition to our operations, we are delivering on our strategy to reshape and improve our portfolio, by adding high-quality copper and other base metals development options.

We are progressing a pre-feasibility study at the Hermosa project, a zinc-silver-lead development option in Arizona.

At the Eagle Downs Metallurgical Coal project in Queensland, the feasibility study is underway with a final investment decision scheduled for the December 2020 half year.

In December, we exercised an option to acquire a 50% interest in a joint venture with Trilogy Metals to progress the Upper Kobuk Minerals Project in Alaska, which includes the high-grade polymetallic Arctic deposit and the Bornite copper deposit.

We have continued to invest in our portfolio of more than 20 exploration projects targeting base metals in prospective jurisdictions.

During the first half of the financial year, macro conditions have created headwinds for our key commodities as the global trade war has weighed on demand.

In response we have sharpened our focus on driving cost and operating performance across our portfolio, including at our South African operations where we reduced contractor activity in our coal business and stopped high cost trucking at our manganese business in the Northern Cape.

Despite these challenges, our disciplined approach to capital management allowed us to maintain our strong financial position and return a further US$331 million dollars to shareholders in the December 2019 half year while still prioritising a strong balance sheet.

No matter where we operate, our purpose remains at the forefront of all our activities – 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 achieve our purpose by operating in a sustainable manner that creates value for our host communities through job creation, business opportunities and through taxes and royalty payments.

In the 2019 financial year, we spent over 150 million South African Rand on the development of suppliers who are based in the communities in which we operate. We helped more than 30 local businesses through our enterprise and supplier development funding programs, which include the funding of assets, equipment, materials and tools as well as business mentorship and coaching programs.

Over US$11 million dollars of our community development investment in the 2019 financial year was spent in the communities around our operations in southern Africa, much of it to address immediate needs like the provision of housing and essential infrastructure.

In the last 12 months we've also progressed work on divesting our energy coal business and reviewing options for our manganese alloys smelters.

In 2017 we announced our vision for South Africa Energy Coal to become a stand-alone, sustainable and black-owned and operated business, in line with the South Africa's transformation agenda.

In November 2019, South32 entered into a binding conditional agreement to sell our shareholding in the company to Seriti Resources, an established black-owned and operated South African mining company.

We ran an exhaustive and competitive process and we believe Seriti, as an established operator and supplier to Eskom, is ideally positioned to ensure a reliable supply of coal from the business' existing domestic and export operations, including its significant untapped resource base.

A transition to a lower carbon economy is taking place globally, with several countries having established or considering decarbonisation targets, and there are calls for the transition to be accelerated.

South Africa's Integrated Resource Plan notes that coal will continue to play a significant role in domestic electricity generation for the foreseeable future due to the scale of the installed infrastructure and abundance of coal resources. Investment in clean coal technologies is proposed as a way to manage the environmental impact of the existing generating capacity.

Furthermore, the Plan recognises that the transition to a low carbon economy must be "in a manner that is socially just and sensitive to the potential impacts on jobs and local economies".

Our South Africa Energy Coal business is large and complex and plays a critical role as a significant supplier of coal to Eskom. It directly employs over 8,000 people and procures goods and services from local businesses which create many more indirect jobs.

Therefore, the long-term sustainability of South Africa Energy Coal has remained our primary objective over the last few years as we work towards transitioning that business to new ownership.

South32 will have invested 8.7 billion South African Rand of capital in SAEC in the 2018, 2019 and 2020 financial years while progressing the divestment process to ensure a long-term supply of coal.

The deal with Seriti has been structured to avoid burdening Seriti with a large upfront payment and includes a deferred consideration that will provide returns on previously invested capital in a scenario where the business is generating positive cashflows.

An employee trust and a community trust will each acquire an unencumbered 5% stake in the business to enable SAEC's employees and local communities to share in value generated by the business, with these acquisitions funded by Seriti.

The combination of the respective operations will unlock further operational and technical efficiencies based on synergies in resource, leases, equipment and infrastructure. We believe the combined business will be well-positioned to offer Eskom competitive coal supply solutions and help remedy some of the challenges around reliable, cost-effective coal for their power situation.

The sale is subject to a number of conditions, including approvals from the relevant competition authorities, Eskom and the Minister of Mineral Resources and Energy, and will complete once all the conditions are satisfied. We hope to complete the transaction in the second half of the calendar year.

We are also reviewing options for our manganese alloy smelters here in South Africa and in Tasmania. The options under consideration include looking for potential new owners for those operations who may be able to benefit from synergies with their existing businesses.

The Metalloys smelter in Gauteng is not immune to the challenges around cost and reliability of power supply which we have heard about in the ferrochrome industry in recent weeks.

In the last few years, we've seen new alloy smelting capacity emerging in Malaysia after producers were offered attractive power deals to incentivise development.

Our Hillside and Mozal aluminium smelters have experienced an increase in load shedding each year for the past three years.

In the 2019 financial year, Hillside was load shed 52 times, so once per week on average, and consistently throughout the year – not just in peak periods of system emergency that we see in the summer months.

Our power agreements with Eskom include a load shedding provision which allows for the smelters to be used as additional capacity when technical issues at generating plants put pressure on the system.

Therefore, we plan for load shedding and ensure the smelters are running at peak performance to minimise the impact of load shed events on production. We are also deploying new energy efficiency technology at the Mozal smelter that will boost production with no additional power consumption.

Hillside and Mozal are baseload customers, which means their demand can be met from lower cost baseload power generation plant without the need for significant transmission infrastructure.

Therefore, the rate paid by Hillside is reflective of the low cost to Eskom of delivering bulk power to the smelter. A stable baseload supports the reliable operation of the grid and Hillside plays a key role in Eskom's disaster management plans.

Cost of power remains a concern for all of South Africa's industrial sector. In our aluminium business, the smelters rely on a globally competitive power price over the long run and this is important to all industry in South Africa.

Hillside is the only primary aluminium smelter in South Africa and meets the vast majority of the demand for aluminium from the downstream industry. Approximately 29,000 jobs are linked to Hillside, including direct employment, suppliers of goods and services and the downstream industry.

With aluminium considered to be the metal of the future, there is scope to create jobs with the development of an aluminium hub in Richards Bay that would see more of Hillside's production diverted to the domestic market.

This scenario is only possible with a competitively-priced supply of power to Hillside and smaller players in the downstream industry.

South Africa is improving its credibility as a mining destination.

But there are urgent steps which can further boost South Africa's and the region's attractiveness to mining and industrial development:

Action is needed on fiscal policy to stabilise the fiscal deficit and state debt.

Regulatory and structural reforms that can revitalise South Africa's economy are needed. One example would be to encourage private investment in power generation, which the minister spoke about this morning, and enable access to the national grid, which is an important next step.

Stabilising our state-owned entities will mean that hard decisions need to be taken to close or sell those which are uncompetitive. State-owned enterprises that are key enablers of economic growth such as Transnet and Eskom must support competitive industry.

Urgent action to address Eskom's technical performance to ensure a low cost and reliable supply of coal will help stabilise the utility.

Reducing Eskom's primary fuel costs will not come from slashing the prices paid by long-term stable coal suppliers, but instead by procuring less from high cost suppliers.

Allowing for normal escalation in mining costs is critical to ensure long-term sustainability of coal supplies. Collaboration to develop inland terminals and move coal transportation off the roads and onto rail and conveyors should be prioritised.

For Africa to unlock the potential of its people and vast resources we need to develop access to competitive power and infrastructure through regional collaboration. Growth will come not only from resource extraction but transitioning through developmental states including the development of a competitive regional industrial economy that is creating jobs and generating growth.

Thank you for listening, and I hope you enjoy the rest of Mining Indaba.