

6 November 2019

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

AGREEMENT TO DIVEST SOUTH AFRICA ENERGY COAL

South32 Limited (ASX, LSE, JSE: S32; ADR: SOUHY) (South32) announces that we have entered into a binding conditional agreement for the sale of our 91.835% shareholding in South32 SA Coal Holdings Proprietary Limited (South Africa Energy Coal, SAEC) (the Transaction) to a wholly-owned subsidiary of Seriti Resources Holdings Proprietary Limited (Seriti) and two trusts which will acquire and hold equity on behalf of employees and communities (jointly referred to as the Purchasers).

The Transaction remains subject to a number of material conditions summarised below. Upon those conditions being satisfied, Seriti (on behalf of the Purchasers) will make an up-front cash payment of approximately 100 million South African Rand to acquire South32's shares in SAEC¹. The purchase price also includes a deferred consideration component where South32 will receive 49% of the free cash flow generated by SAEC for a period commencing at the date of completion to March 2024, with payment capped at a maximum of 1.5 billion South African Rand per annum.

South32 Chief Executive Officer, Graham Kerr said "I am pleased to announce we have entered into an agreement with Seriti, a black-owned and operated South African mining company. We ran an exhaustive and competitive process and we believe Seriti as an established operator is ideally positioned to unlock the potential of South Africa Energy Coal's existing domestic and export operations, including its significant untapped resource base.

"The sale of our interest in South Africa Energy Coal will enable the business to continue 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.

"For South32, this marks an important milestone as we continue to reshape our portfolio. Completion of this transaction will substantially reduce our capital intensity, strengthen our balance sheet and will improve the Group's operating margin."

Seriti Chief Executive Officer, Mike Teke said "This acquisition is a significant milestone for Seriti in our ambition to become a black-owned and controlled mining champion. The South Africa Energy Coal acquisition will enable us to offer further secured, long term coal supply solutions to Eskom as a demonstrable commitment to sustainably support South Africa's energy needs. The combination of our energy coal businesses will realise further operational and technical efficiencies enabling us to better service our customers by offering competitive energy solutions.

"We remain fully committed to all of our stakeholders and welcome the participation of the South Africa Energy Coal employees and communities in this acquisition."

¹ The up-front cash payment of approximately 100 million South African Rand is based on an enterprise value of 1.25 billion South African Rand adjusted for net debt and working capital.

The Purchasers

The Purchasers comprise Thabong Coal Proprietary Limited, a wholly-owned subsidiary of Seriti, a community trust and an employee trust, who will respectively acquire 81.835%, 5% and 5% of the shares in SAEC. The beneficiaries of the community trust will be the communities in close proximity to SAEC's operations and employees will benefit from the employee trust.

Seriti is a broad-based, 91% black-owned and controlled coal mining company. Seriti, through its operating subsidiary, Seriti Coal Proprietary Limited, currently operates three large-scale, opencast and underground thermal coal mines in South Africa namely, the New Vaal, New Denmark and Kriel collieries, and owns various resources with life extension potential and closed collieries.

Seriti supplies approximately 24Mtpa of thermal coal to Eskom SOC Limited's Lethabo, Tutuka and Kriel power stations. Seriti, together with its partners, also intends to develop the New Largo project into a large-scale, opencast coal mine capable of providing up to 12Mtpa over a 50 year period for the base load fuel requirements of the Kusile Power Station.

SAEC minority owners

The remaining 8.165% interest in SAEC is held by a Broad-Based Black Economic Empowerment (B-BBEE) consortium led by Phembani Group Proprietary Limited.

Accounting and tax

SAEC will continue to be reported in the Group's Underlying results. On completion of the Transaction South32's shareholding in SAEC, including all associated assets and liabilities, will transfer to the Purchasers.

Given the current tax base of SAEC, South32 does not anticipate reporting a taxable profit on the Transaction from either the upfront or deferred consideration.

Additional key transaction terms including material conditions

Completion is subject to a number of significant regulatory and third-party approvals, consents or confirmations being obtained or waived. These include:

- approval from South African and certain foreign competition authorities;
- approval from the South African Minister of Minerals and Energy under Section 11 of the Mineral and Petroleum Resources Development Act (No. 28 of 2002);
- approval from Richards Bay Coal Terminal Proprietary Limited;
- consent from Eskom SOC Limited (Eskom) for the change of control of SAEC;
- agreement by Eskom to the Duvha Coal Supply Agreement between Eskom and SAEC being amended or restated on terms acceptable to Seriti and South32; and
- confirmation from the South African Department of Mineral Resources and Energy that it will accept the substitution of rehabilitation guarantees provided by South32 with rehabilitation guarantees provided by Seriti.

Subject to the conditions being satisfied, the Transaction would be expected to close in 9 to 12 months.

Advisers

Morgan Stanley and Macquarie Capital are acting as joint lead financial advisers and Edward Nathan Sonnenbergs Inc. (ENSafrica) as legal adviser to South32.

About South32

South32 is a globally diversified mining and metals company. 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. We are also the owner of a high grade zinc, lead and silver development option in North America and have several partnerships with junior explorers with a focus on base metals. Our purpose is to make a difference by developing natural resources, improving people's lives now and for generations to come, and to be trusted by our owners and partners to realise the potential of their resources.

Further Information

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

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Forward-looking statements

This release contains forward-looking statements, including statements about currency exchange rates, commodity prices, production forecasts, plans, development decisions, exploration and capital expenditure. These forward-looking statements reflect expectations at the date of this release; however, they are not guarantees or predictions of future performance. They involve known and unknown risks, uncertainties and other factors, many of which are beyond our control, and which may cause actual results to differ materially from those expressed in the statements contained in this release. Readers are cautioned not to put undue reliance on forward-looking statements. Except as required by applicable laws or regulations, South32 Limited does not undertake to publicly update or review any forward-looking statements, whether as a result of new information or future events. Past performance cannot be relied on as a guide to future performance.

This announcement contains inside information.