



24 July 2023

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

HERMOSA PROJECT NON-CASH IMPAIRMENT

South32 Limited (ASX, LSE, JSE: S32, ADR: SOUHY) (South32) has undertaken a review as of 30 June 2023 of the carrying value of its assets in accordance with the Group's accounting policies and the accounting standards.

As a result of this review, we will recognise a non-cash impairment expense for our Hermosa project with our FY23 financial results.

At our Hermosa project, recently completed study work has confirmed that our Taylor zinc-lead-silver and Clark battery-grade manganese deposits can be developed independently, offering the potential for multiple long-life operations in critical minerals.

Given this, for accounting purposes, we are now required to separately assess the Taylor deposit, Clark deposit and regional exploration land package, which were previously considered a single area of interest for impairment indicators. As a result of this assessment, the Group's FY23 financial statements will include a non-cash impairment expense of ~US\$1,300M in relation to the Taylor deposit. The impairment expense will be excluded from FY23 Underlying earnings, in accordance with our accounting policies.

Following the impairment expense, the carrying value of the Hermosa project as at 30 June 2023 will be ~US\$1,001M, with ~US\$482M for the Taylor deposit¹. The carrying value of the Clark deposit and regional exploration land package is unchanged at ~US\$519M.

Since our acquisition of the Hermosa project, in August 2018, the following factors have negatively impacted the value of the Taylor deposit:

- COVID-19 related restrictions curtailed development activity during 2020 and 2021;
- Significant dewatering requirements to allow safe access to the orebody further delayed the timeline to first production and required an investment of ~US\$365M² for critical path orebody dewatering; and
- While the feasibility study is ongoing, we expect higher pre-production capital expenditure compared to pre-feasibility study estimates³. This reflects significant inflationary pressure in current estimates for key inputs including steel, cement and electrical components.

South32 Chief Executive Officer, Graham Kerr said: "The Hermosa project has the potential to sustainably produce commodities critical for a low-carbon future, from multiple development options, for decades to come.

"We are disappointed by the delays resulting from the impact of COVID, the significant dewatering requirements and current inflationary market conditions.

"We continue to see substantial opportunity to unlock additional value across Taylor, Clark and our highly prospective regional exploration package and that optionality is not included in today's impairment assessment.

"The feasibility study for Taylor remains on track, and will benefit from the 41 per cent increase in the Measured Mineral Resource announced today. The Taylor deposit remains open in several directions, offering the potential for further growth.

"Beyond Taylor, Clark is well positioned to supply high-purity manganese sulphate monohydrate (HPMSM) for the electric vehicle supply chain in North America, creating a second development option at Hermosa.

"In addition, we are encouraged by the exploration options across our regional land package, including our high priority Peake and Flux targets, with recent drilling at Peake delivering our best copper exploration results to date."

¹ The commodity prices used in the fair value determination were within the following ranges: Zinc \$2,700/t to \$3,200/t, Lead \$2,000/t to \$2,100/t, and Silver \$20/oz to \$22/oz (real, US dollars).

² Comprising direct capital expenditure ~US\$225M for a second water treatment plant and nine dewatering wells and a further ~US\$140M in indirect costs over two years.

³ Pre-production capital expenditure in the pre-feasibility study was US\$1.7 billion. Refer to market release "Hermosa Project Update", dated 17 January 2022.

The feasibility study for the Taylor deposit remains on-track for H1 FY24, as we complete additional engineering work to align the mine development schedule for a federal permitting process under FAST-41⁴ and incorporate current market cost estimates. Feasibility study work to date has validated the potential for a highly productive zinc-lead-silver underground mine and conventional processing plant with a nameplate processing rate of up to 4.3 million tonnes per annum.

Today, we released an updated Mineral Resource estimate for the Taylor deposit⁵ to 153Mt, averaging 3.53% zinc, 3.83% lead and 77g/t silver, which supports the ongoing feasibility study work. The upgrade includes a 41% increase in the Measured Mineral Resource, providing a compelling base to underpin future production.

We have confirmed the potential for our Clark deposit to supply HPMSM for the electric vehicle supply chain in North America and further study work is underway based on a preferred single option to produce up to 185ktpa⁴ of HPMSM.

Pilot plant production of HPMSM has also commenced, and we continue to engage with potential customers, supported by multiple non-binding, non-exclusive memorandums of understanding for the future potential supply of HPMSM.

Across the broader Hermosa land package, we are progressing multiple exploration programs targeting highly prospective areas for polymetallic and copper mineralisation.

Today, we released further exploration drilling results from our Peake copper-lead-zinc-silver prospect⁶. The results include our best intercept at Peake to date⁶, which we consider to be supportive of future exploration potential, with the Peake prospect remaining open in several directions. Further exploration drilling at Peake is planned in H1 FY24.

About us

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 commodities including bauxite, alumina, aluminium, copper, silver, lead, zinc, nickel, metallurgical coal and manganese from 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.

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

Approved for release to the market by Graham Kerr, Chief Executive Officer
JSE Sponsor: The Standard Bank of South Africa Limited
24 July 2023

⁴ Refer to market release "Hermosa Project Update", dated 9 May 2023.

⁵ Mineral Resource Estimate: The information in this announcement that relates to Mineral Resource estimate for Taylor deposit is extracted from the announcement entitled (Hermosa Project – Mineral Resource Estimate Update and Exploration Results) published on 24 July 2023 and is available to view on www.south32.net. The company confirms that it is not aware of any new information or data that materially affects the information included in the original market announcement and, that all material assumptions and technical parameters underpinning the estimates in the relevant market announcement continue to apply and have not materially changed. The company confirms that the form and context in which the Competent Person's findings are presented have not been materially modified from the original market announcement.

⁶ Peake Prospect Exploration Target: The information in this announcement that relates to Exploration Results for Peake prospect is extracted from the announcement entitled (Hermosa Project – Mineral Resource Estimate Update and Exploration Results) published on 24 July 2023 and is available to view on www.south32.net. The company confirms that it is not aware of any new information or data that materially affects the information included in the original market announcement. The company confirms that the form and context in which the Competent Person's findings are presented have not been materially modified from the original market announcement.