



29 February 2024

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

SALE OF ILLAWARRA METALLURGICAL COAL

South32 Limited (ASX / LSE / JSE: S32; ADR: SOUHY) (South32) has entered into a binding agreement to sell Illawarra Metallurgical Coal¹ (Transaction) to an entity owned by Golden Energy and Resources Pte Ltd (GEAR) and M Resources Pty Ltd (M Resources) (the Buyer).

The consideration for the Transaction is up to US\$1,650M comprising:

- Upfront cash consideration of US\$1,050M², payable at completion;
- Deferred cash consideration of US\$250M, payable in 2030; and
- Contingent price-linked cash consideration of up to US\$350M³.

The total consideration represents a multiple of approximately 7.2x average annual free cash flow for Illawarra Metallurgical Coal⁴.

The Transaction is expected to complete in H1 FY25, subject to the satisfaction of certain conditions including Foreign Investment Review Board approval, customary regulatory approvals and the waiver or non-exercise of pre-emption rights held by BlueScope Steel (AIS) Proprietary Limited (BlueScope).

The Buyer will assume economic and operating control of Illawarra Metallurgical Coal on completion of the Transaction, including all current and future liabilities.

South32 Chief Executive Officer, Graham Kerr said: “This Transaction will realise significant value for our shareholders and is consistent with our strategy to reshape our portfolio toward commodities critical in the transition to a low-carbon future.

“It will streamline our portfolio, strengthen our balance sheet and unlock capital to invest in our high-quality development projects in copper and zinc.

“The Transaction will also simplify our business and reduce our capital intensity.

“Illawarra Metallurgical Coal produces high-quality metallurgical coal, a key ingredient in the production of steel, which will be required until low-carbon steel becomes economically viable on a commercial scale.

“GEAR and M Resources are established participants in the Australian metallurgical coal industry, with a strong commitment to environmental and safety standards, who are well positioned to continue Illawarra Metallurgical Coal’s contribution to the local steel industry and the Illawarra and Macarthur regions.

“Our focus remains the safe and reliable operation of Illawarra Metallurgical Coal. Over the coming months we will work with the Buyer, our workforce, the local community, government, customers and suppliers to support a successful transition of ownership.”

¹ By way of the sale of subsidiary companies which hold South32’s 100% interest in Illawarra Metallurgical Coal, including the 16.67% shareholding in Port Kembla Coal Terminal Limited.

² Subject to customary working capital, net debt and capital expenditure adjustments.

³ The contingent price-linked cash consideration comprises up to US\$350M applicable for five years from the date of completion with no annual cap. The first two years will be calculated and paid on the second anniversary of completion and annually thereafter. The contingent price-linked consideration will be calculated as 50% of incremental metallurgical coal revenue from equity production, net of royalties, based on the following metallurgical coal price thresholds: Year 1: US\$200/t, Year 2: US\$200/t, Year 3: US\$190/t, Year 4: US\$180/t, Year 5: US\$180/t.

⁴ Illawarra Metallurgical Coal annual average free cash flow over the period FY16 to FY23 of approximately US\$229M. Calculated as Underlying earnings plus depreciation and amortisation less capital expenditure.

Transaction highlights

The Transaction will unlock significant value for our shareholders and is consistent with our strategy:

- Upfront and deferred cash consideration of US\$1,300M plus exposure to metallurgical coal price upside of up to US\$350M through contingent price-linked cash consideration;
- Simplifies our portfolio to focus on our operating positions and growth options in the aluminium value chain, base metals and manganese;
- Strengthens our balance sheet and unlocks capital to invest in our high-quality development projects in copper and zinc, which have the potential to underpin a ~45% increase in our base metals production⁵;
- Reduces our operating footprint and our functional support; and
- Reduces our capital intensity, with Illawarra Metallurgical Coal comprising ~35% of Group capital expenditure⁶.

Following completion, the proceeds from the Transaction will be allocated in accordance with our capital management framework and commitment to an investment grade credit rating. Our capital management framework is designed to support investment in our business and deliver returns to shareholders in the most efficient and value accretive manner.

Transaction details

The Transaction is subject to the waiver or non-exercise of pre-emption rights held by BlueScope, pursuant to a coal supply agreement between Illawarra Metallurgical Coal and BlueScope. If BlueScope exercises its pre-emption rights, the Transaction with the Buyer will not proceed and South32 will instead divest Illawarra Metallurgical Coal to BlueScope on the same commercial terms and conditions as agreed with the Buyer.

The Transaction is also subject to no material adverse change prior to completion, pursuant to which the Buyer may elect to terminate the Transaction if an uncured event occurs resulting in a significant reduction in coal output, net assets or reserves. The material adverse change definition is also subject to a number of customary exclusions.

The Transaction includes an upfront deposit of US\$40M payable to South32. The deposit will be refunded if the conditions precedent to the Transaction are not satisfied (with the exception of international merger clearances).

⁵ This figure represents the potential copper equivalent production growth from the development of the Taylor deposit at our Hermosa project and the fourth grinding line expansion project at Sierra Gorda, compared to FY23 production volumes from Cannington, Cerro Matoso and Sierra Gorda. Copper equivalent production was calculated using FY23 realised prices. Refer to the market announcement "2024 Half Year Financial Results Presentation" dated 15 February 2024 for further detail. The information in this announcement that refers to Production Target and forecast financial information for Taylor is based on Probable (61%) Ore Reserves and Measured (1%), Indicated (5%), Inferred (9%) Mineral Resources and Exploration Target (24%) for the Taylor deposit, and was originally disclosed in "Final Investment Approval to Develop Hermosa's Taylor Deposit" dated 15 February 2024. The Ore Reserves, Mineral Resources and Exploration Target underpinning the Production Target have been prepared by Competent Persons in accordance with the JORC Code. South32 confirms that all the material assumptions underpinning the Production Target in the initial public report referred to in ASX Listing Rule 5.16 continue to apply and have not materially changed. There is low level of geological confidence associated with Inferred Mineral Resources and there is no certainty that further exploration work will result in the determination of Indicated Mineral Resources or that the Production Target will be realised. The potential quantity and grade of the Exploration Target is conceptual in nature. In respect of Exploration Target used in the Production Target, there has been insufficient exploration to determine a Mineral Resource and there is no certainty that further exploration work will result in the determination of Mineral Resources or that the Production Target itself will be realised. The stated Production Target is based on South32's current expectations of future results or events and should not be solely relied upon by investors when making investment decisions. Further evaluation work and appropriate studies are required to establish sufficient confidence that this target will be met. South32 confirms that inclusion of 33% of tonnage (9% Inferred Mineral Resources and 24% Exploration Target) is not the determining factor of the project viability and the project forecasts a positive financial performance when using 67% tonnage (61% Probable Ore Reserves and 1% Measured and 5% Indicated Mineral Resources). South32 is satisfied, therefore, that the use of Inferred Mineral Resources and Exploration Target in the Production Target and forecast financial information reporting is reasonable.

⁶ Based on Group capital expenditure (including equity accounted investments) for the period FY16 to H1 FY24. Excludes South Africa Energy Coal, growth capital expenditure, intangibles, and capitalised exploration.

Accounting and tax

Illawarra Metallurgical Coal will be reported in the South32 Group's Underlying financial results as a discontinued operation until completion of the Transaction. Upon completion, South32's shareholding in Illawarra Metallurgical Coal, including all associated assets and liabilities, will be transferred to the Buyer.

As a result of the Transaction, the Group's FY24 financial statements will include a non-cash impairment reversal of up to ~US\$520M (~US\$370M post-tax). This income will be excluded from FY24 Underlying earnings, in accordance with the Group's accounting policies.

We do not expect a cash tax liability upon completion of the Transaction.

Advisers

BofA Securities is acting as a financial adviser and Herbert Smith Freehills as legal adviser to South32.

The Buyer

GEAR M Illawarra Met Coal Pty Ltd will acquire 100% of Illawarra Metallurgical Coal. Subsidiaries of GEAR and M Resources hold shares in GEAR M Illawarra Met Coal Pty Ltd of 70% and 30% respectively. The completion obligations of the Buyer are guaranteed by GEAR.

GEAR is an investment vehicle that is focused on resources in Asia Pacific. GEAR's current major investments include a 59% interest in Stanmore Resources Limited, an Australian domiciled and listed metallurgical coal producer with operations in the Bowen Basin in Queensland, and a 50% interest in Ravenswood Gold, a significant gold mining operation located in north-east Queensland.

M Resources is an investment and marketing company with a global market presence and offices in Australia, Singapore, Switzerland, UK, US, India, Latin America, and China. M Resources specialises in the trading of various metallurgical coal products for steel manufacturing. M Resources also has substantial investments across the mining value chain, including Stanmore Resources, One Rail, Metarock, and others.

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. We also have a portfolio of high-quality development projects and options, and exploration prospects, consistent with our strategy to reshape our portfolio toward commodities that are critical for a low-carbon future.

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

This announcement contains inside information.

Approved for release to the market by Graham Kerr, Chief Executive Officer
JSE Sponsor: The Standard Bank of South Africa Limited
29 February 2024

FORWARD-LOOKING STATEMENTS

This release contains forward-looking statements, including statements about trends in commodity prices and currency exchange rates; demand for commodities; production forecasts; plans, strategies and objectives of management; capital costs and scheduling; operating costs; anticipated productive lives of projects, mines and facilities; and provisions and contingent liabilities. 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, the South32 Group 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. South32 cautions against reliance on any forward-looking statements or guidance.