

QUARTERLY REPORT



DECEMBER 2016

South32 Limited
(Incorporated in Australia under the *Corporations Act 2001* (Cth))
(ACN 093 732 597)
ASX, LSE, JSE Share Code: S32
ISIN: AU000000S320

- Remain on track to achieve production guidance for the majority of our operations, despite a generally challenging quarter.
- Achieved record production at Brazil Alumina in the December 2016 quarter, while our African aluminium smelters continue to operate at benchmark levels of current efficiency.
- Increased manganese ore production by drawing down Wessels concentrate stockpiles in South Africa and ramping up PC02 ore production at GEMCO to full capacity.
- Lower production at South Africa Energy Coal reflects the prior closure of the North Plant at the Wolvekrans-Middelburg Complex, scheduled maintenance and the repositioning of draglines.
- Production guidance at Cannington remains unchanged and is predicated on the extraction of a high grade stope towards the end of FY17 following significantly weaker metal production in the December 2016 half year.
- Revised sales guidance for Illawarra Metallurgical Coal of 8.1Mt remains unchanged as Appin Area 7 has returned to full capacity and remediation work at Appin Area 9 is continuing as planned.
- Entered into an agreement to acquire Peabody's Metropolitan Colliery and associated 16.67% interest in the Port Kembla Coal Terminal for US\$200M.

"While stronger commodity prices and our significant operating leverage have enabled us to further strengthen our financial position, we continue to focus on the basics; the safety of our people and the optimisation of our operations."

"At Illawarra Metallurgical Coal we have addressed a number of operational challenges during the quarter and our remediation activities are tracking to plan."

"We have demonstrated the flexibility of our manganese business to respond to favourable market conditions by opportunistically increasing ore production."

"We entered into a binding agreement to purchase the Metropolitan Colliery, consistent with our strategy to invest in high quality mining operations where we can create value."

Graham Kerr, South32 CEO

Production summary							
South32's share	1H16	1H17	HoH	2Q16	1Q17	2Q17	QoQ
Alumina production (kt)	2,666	2,613	(2%)	1,302	1,293	1,320	2%
Aluminium production (kt)	485	492	1%	241	243	249	2%
Energy coal production (kt)	17,037	15,709	(8%)	8,339	8,191	7,518	(8%)
Metallurgical coal production (kt)	3,298	2,829	(14%)	1,219	1,437	1,392	(3%)
Manganese ore production (kwmt)	2,346	2,433	4%	909	1,180	1,253	6%
Manganese alloy production (kt)	131	115	(12%)	66	59	56	(5%)
Payable nickel production (kt)	17.5	17.7	1%	8.8	8.7	9.0	3%
Payable silver production (koz)	11,878	8,729	(27%)	5,600	4,694	4,035	(14%)
Payable lead production (kt)	97.5	73.9	(24%)	48.4	38.4	35.5	(8%)
Payable zinc production (kt)	41.8	42.1	1%	22.2	17.7	24.4	38%

Unless otherwise noted: percentage variance relates to performance during the half year ended December 2016 compared with the half year ended December 2015 (HoH) or the December 2016 quarter compared with the September 2016 quarter (QoQ); production and sales volumes are reported on an attributable basis.

CORPORATE UPDATE

- Our strong balance sheet and investment grade credit rating remain a priority. During the period, Standard & Poor's and Moody's reaffirmed their respective BBB+ and Baa1 credit ratings following their annual reviews. Our net cash position further benefitted from gross distributions totalling US\$137M (South32 share) from equity accounted investments in the December 2016 half year.
- In the December 2016 half year, we invested US\$8.2M in exploration of which US\$1.5M was capitalised. This includes an investment of US\$1.4M in exploration in our equity accounted investments of which US\$0.9M was capitalised. Within the footprint of our existing operations, we focussed on metallurgical coal, manganese and silver in Australia, and nickel in Colombia. Consistent with the terms of the option agreement signed with Northern Shield Resources, we will fund C\$1.3M of exploration in CY17 for Cu-Ni-PGE mineralisation at Huckleberry in the Labrador Trough, Canada. Completion of this funding will secure the right to acquire a 50% interest in the Huckleberry property.
- Our Underlying effective tax rate (ETR)¹, which excludes taxation associated with equity accounted investments, largely reflects the geographic distribution of the Group's profit. The corporate tax rates applicable to South32 include: Australia 30%; South Africa 28%; Colombia 40%; and Brazil 34%. Permanent differences have a disproportionate effect on the Group's tax rate when the Group's profit margins are compressed.
- In the December 2016 quarter, we entered into a binding agreement to acquire Peabody's Metropolitan Colliery and associated 16.67% interest in the Port Kembla Coal Terminal for a consideration of US\$200M². Subject to approval from the Australian Competition and Consumer Commission, completion is expected in the March 2017 quarter.

Upstream production and FY17 guidance (South32's share)	FY16	1H FY17	FY17e
Worsley Alumina			
Alumina production (kt)	3,961	1,940	3,965
Brazil Alumina			
Alumina production (kt)	1,335	673	1,320
South Africa Energy Coal³			
Domestic coal production (kt)	16,825	8,847	17,000
Export coal production (kt)	14,856	5,978	13,850
Illawarra Metallurgical Coal			
Metallurgical coal production (kt)	7,059	2,829	Revised ↓ 6,360
Energy coal production (kt)	1,307	884	Revised ↑ 1,540
Australia Manganese			
Manganese ore production (kwmt)	3,071	1,499	3,120
South Africa Manganese			
Manganese ore production ⁴ (kwmt)	1,711	934	Subject to demand
Cerro Matoso			
Payable nickel production (kt)	36.8	17.7	36.0
Cannington			
Payable silver production (koz)	21,393	8,729	19,050
Payable lead production (kt)	173	74	163
Payable zinc production (kt)	79	42	80

WORSLEY ALUMINA

(86% share)

South32's share	1H16	1H17	HoH	2Q16	1Q17	2Q17	2Q16 vs 2Q17	1Q17 vs 2Q17
Alumina production (kt)	1,993	1,940	(3%)	962	967	973	1%	1%
Alumina sales (kt)	1,898	1,909	1%	968	960	949	(2%)	(1%)

Worsley Alumina saleable production decreased by 3% (or 53kt) to 1.9Mt in the December 2016 half year. Hydrate production remained at an annualised rate of 4.5Mt (100% basis) and FY17 saleable alumina production guidance remains unchanged at 4.0Mt.

SOUTH AFRICA ALUMINIUM

(100%)

South32's share	1H16	1H17	HoH	2Q16	1Q17	2Q17	2Q16 vs 2Q17	1Q17 vs 2Q17
Aluminium production (kt)	352	356	1%	174	175	181	4%	3%
Aluminium sales (kt)	363	347	(4%)	178	178	169	(5%)	(5%)

South Africa Aluminium saleable production increased by 1% (or 4kt) to 356kt in the December 2016 half year as the smelter continued to operate at high levels of current efficiency, with fewer load-shedding events. Strong performance also reflected the recommencement of production in the 22 pots that were suspended in the September 2015 quarter.

MOZAL ALUMINIUM

(47.1% share)

South32's share	1H16	1H17	HoH	2Q16	1Q17	2Q17	2Q16 vs 2Q17	1Q17 vs 2Q17
Aluminium production (kt)	133	136	2%	67	68	68	1%	0%
Aluminium sales (kt)	121	134	11%	68	64	70	3%	9%

Mozal Aluminium saleable production increased by 2% (or 3kt) to 136kt in the December 2016 half year as current efficiency continued to improve and the operation experienced fewer load-shedding events. The 11% increase in sales reflects the timing of shipments between periods.

BRAZIL ALUMINA

(36%)

South32's share	1H16	1H17	HoH	2Q16	1Q17	2Q17	2Q16 vs 2Q17	1Q17 vs 2Q17
Alumina production (kt)	673	673	0%	340	326	347	2%	6%
Alumina sales (kt)	661	638	(3%)	341	299	339	(1%)	13%

Brazil Alumina saleable production remained unchanged in the December 2016 half year at 673kt as planned maintenance at the refinery and port in the September 2016 quarter was offset by record production in the December 2016 quarter. FY17 saleable alumina production guidance remains unchanged at 1.3Mt.

SOUTH AFRICA ENERGY COAL

(100%)

South32's share	1H16	1H17	HoH	2Q16	1Q17	2Q17	2Q16 vs 2Q17	1Q17 vs 2Q17
Energy coal production (kt)	16,379	14,825	(9%)	8,087	7,744	7,081	(12%)	(9%)
Domestic sales (kt)	9,080	8,918	(2%)	4,834	4,446	4,472	(7%)	1%
Export sales (kt)	8,021	5,856	(27%)	3,889	2,904	2,952	(24%)	2%

South Africa Energy Coal saleable production decreased by 9% (or 1.6Mt) to 14.8Mt in the December 2016 half year. The decline in production reflects the prior closure of the North Plant at the Wolvekrans-Middelburg Complex (WMC), scheduled maintenance and the repositioning of draglines. Export sales were also impacted by Transnet's annual rail maintenance cycle. FY17 saleable coal production guidance remains unchanged at 30.9Mt (domestic coal 17.0Mt, export coal 13.9Mt).

ILLAWARRA METALLURGICAL COAL

(100%)

South32's share	1H16	1H17	HoH	2Q16	1Q17	2Q17	2Q16 vs 2Q17	1Q17 vs 2Q17
Metallurgical coal production (kt)	3,298	2,829	(14%)	1,219	1,437	1,392	14%	(3%)
Metallurgical coal sales (kt)	3,132	2,788	(11%)	1,146	1,723	1,065	(7%)	(38%)
Energy coal production (kt)	658	884	34%	252	447	437	73%	(2%)
Energy coal sales (kt)	609	817	34%	218	470	347	59%	(26%)

Illawarra Metallurgical Coal saleable production decreased by 6% (or 243kt) to 3.7Mt in the December 2016 half year. The decline in production primarily reflected challenging ground conditions at Appin Area 9 and a moderation in mining rates at Appin Area 7 that ensured gas concentrations were maintained at safe levels. These impacts were partially offset by strong operating performance at Dendrobium. Consistent with our recent update, Illawarra Metallurgical Coal sales of 8.1Mt are expected in FY17 as Appin Area 7 has returned to full capacity and remediation work at Appin Area 9 is continuing as planned.

As a result of a carry-over shipment in December 2016 associated with the production challenges at Appin and our declaration of force majeure, our average realised price for metallurgical coal in the December 2016 half year will reflect a modest discount to the premium low-volatile hard coking coal index on a volume weighted M-1 basis⁵. Another carry-over shipment will occur in the June 2017 half year.

AUSTRALIA MANGANESE

(60% share)

South32's share	1H16	1H17	HoH	2Q16	1Q17	2Q17	2Q16 vs 2Q17	1Q17 vs 2Q17
Manganese ore production (kwmt)	1,589	1,499	(6%)	732	763	736	1%	(4%)
Manganese ore sales (kwmt)	1,457	1,500	3%	735	757	743	1%	(2%)
Manganese alloy production (kt)	85	78	(8%)	41	38	40	(2%)	5%
Manganese alloy sales (kt)	76	82	8%	38	54	28	(26%)	(48%)

Australia Manganese saleable ore production in the December 2016 half year decreased by 6% (or 90kwmt) from the prior period's record rate to 1.5Mwmt as lower yields and reduced plant availability resulted in lower production from the primary high grade circuit. This impact was partially offset by the opportunistic ramp-up of the Premium Concentrate ore (PC02) circuit to its annualised capacity of 500kwmt in the December 2016 quarter.

FY17 production guidance of 3.1Mwmt remains unchanged, albeit with an increased proportion of PC02 in the product mix. The share of PC02 product in H1 FY17 production was 5% (H1 FY16: Nil). Our PC02 fines product has a manganese content of approximately 40% which leads to both grade and product-type discounts when referenced to the high grade 44% manganese lump ore index.

Despite the greater contribution of the PC02 circuit in the December 2016 half year, our volume weighted average realised price for external sales will reflect a modest premium to the high grade 44% manganese lump ore index on an M-1 basis⁶. Internal sales continue to occur on a commercial basis.

Exploration drilling at GEMCO's Southern Areas commenced in the December 2016 quarter.

Saleable manganese alloy production decreased by 8% (or 7kt) to 78kt in the December 2016 half year as furnace instability impacted performance during the period. All four furnaces are expected to operate at full capacity once scheduled maintenance is completed in the March 2017 quarter.

SOUTH AFRICA MANGANESE

(60% share)

South32's share	1H16	1H17	HoH	2Q16	1Q17	2Q17	2Q16 vs 2Q17	1Q17 vs 2Q17
Manganese ore production (kwmt)	757	934	23%	177	417	517	192%	24%
Manganese ore sales (kwmt)	879	928	6%	361	417	511	42%	23%
Manganese alloy production (kt)	46	37	(20%)	25	21	16	(36%)	(24%)
Manganese alloy sales (kt)	50	40	(20%)	25	20	20	(20%)	0%

South Africa Manganese saleable ore production increased by 23% (or 177kwmt) to 934kwmt in the December 2016 half year as market conditions supported a drawdown of Wessels concentrate stockpiles and the use of higher cost trucking to access export opportunities. South Africa Manganese ore production will remain configured for an optimised rate of 2.9Mwmt pa (100% basis), although we will continue to act opportunistically when market fundamentals are supportive. The Wessels Central Block project remains on track to be completed in the March 2017 quarter.

Our Wessels concentrate product is fine grained, resulting in a substantial product discount when referenced to index prices. Our volume weighted average realised price for external sales will therefore reflect a discount of approximately 10% to the medium grade 37% manganese lump ore index on an M-1 basis⁷ as a result of the opportunistic drawdown of Wessels concentrate stockpiles. Wessels concentrate accounted for 15% of December 2016 half year external sales (H1 FY16: 4%). Internal sales continue to occur on a commercial basis.

Manganese alloy saleable production decreased by 20% (or 9kt) to 37kt in the December 2016 half year as a result of furnace instability. Metalloys continues to operate one of its four furnaces.

CERRO MATOSO

(99.9% share)

South32's share	1H16	1H17	HoH	2Q16	1Q17	2Q17	2Q16 vs 2Q17	1Q17 vs 2Q17
Payable nickel production (kt)	17.5	17.7	1%	8.8	8.7	9.0	2%	3%
Payable nickel sales (kt)	17.5	17.6	1%	8.8	8.2	9.4	7%	15%

Cerro Matoso payable nickel production remained largely unchanged at 17.7kt in the December 2016 half year as plant performance was further optimised and higher recoveries were achieved. FY17 payable nickel production guidance remains unchanged at 36kt.

CANNINGTON

(100%)

South32's share	1H16	1H17	HoH	2Q16	1Q17	2Q17	2Q16 vs 2Q17	1Q17 vs 2Q17
Payable silver production (koz)	11,878	8,729	(27%)	5,600	4,694	4,035	(28%)	(14%)
Payable silver sales (koz)	11,898	8,860	(26%)	5,695	5,063	3,797	(33%)	(25%)
Payable lead production (kt)	97.5	73.9	(24%)	48.4	38.4	35.5	(27%)	(8%)
Payable lead sales (kt)	95.5	73.3	(23%)	46.8	40.1	33.2	(29%)	(17%)
Payable zinc production (kt)	41.8	42.1	1%	22.2	17.7	24.4	10%	38%
Payable zinc sales (kt)	41.2	40.8	(1%)	22.2	18.5	22.3	0%	21%

Payable zinc production increased by 1% (or 0.3kt) to 42.1kt in the December 2016 half year, while payable silver and lead production decreased by 27% and 24%, respectively. Lower silver and lead ore grades were the primary contributors to the reduction in metal production.

Silver and lead grades are expected to increase significantly in the June 2017 half year as a higher grade stope in close proximity to the existing underground crusher chamber is scheduled to be extracted towards the end of FY17. The ability to achieve FY17 production guidance (Silver 19.05Moz, Lead 163kt, Zinc 80kt) is therefore predicated on the timing of stope extraction, while the development of the replacement underground crusher remains on schedule for commissioning in the December 2017 quarter.

Finalisation adjustments and the provisional pricing of Cannington concentrates will increase Underlying EBIT⁸ by US\$0.5M in the December 2016 half year (-US\$11M June 2016 financial year; -US\$19M December 2015 half year). Outstanding concentrate sales (containing 2Moz of silver, 25kt of lead and 12kt of zinc) were revalued at 31 December 2016. The final price of these sales will be determined in the June 2017 half year.

Notes:

- The ETR calculation excludes equity accounted investments as they are recorded on an after tax basis.
- Agreed offer includes fully funded, cash consideration of US\$200M (subject to customary working capital adjustments) and a mechanism whereby both companies will share commodity price upside in the first year of production, or on a minimum 1.3Mt, should metallurgical coal prices exceed an agreed forward curve. Should 1.3Mt of volume not be achieved in the 12 months post completion, this Contingent Value mechanism shall continue until 1.3Mt is achieved. In any event, the Contingent Value mechanism will cease by 31 December 2018.
- 8% of South Africa Energy Coal is owned by a Broad-Based Black Economic Empowerment (B-BBEE) consortium. The interests owned by the B-BBEE consortium were acquired using vendor finance, with the loans repayable to South32 via distributions attributable to these parties, pro rata to their share in South Africa Energy Coal. Until these loans are repaid, South32's interest in South Africa Energy Coal is accounted at 100%.
- Consistent with the presentation of South32's segment information, South Africa Manganese ore production and sales have been reported at 60%. The Group's financial statement will continue to reflect a 54.6% interest in South Africa Manganese ore.
- The quarterly sales volume weighted average of the premium low-volatile hard coking coal Platts index (FOB Australia) on the basis of a one month lag to published pricing (Month minus one or "M-1") was US\$156/t in the December 2016 half year.
- The quarterly external sales volume weighted average of the Metal Bulletin 44% manganese lump ore index (CIF Tianjin, China) on the basis of a one month lag to published pricing (Month minus one or "M-1") was US\$5.04/dmtu in the December 2016 half year.
- The quarterly external sales volume weighted average of the Metal Bulletin 37% manganese lump ore index (FOB Port Elizabeth, South Africa) on the basis of a one month lag to published pricing (Month minus one or "M-1") was US\$4.42/dmtu in the December 2016 half year.
- Underlying EBIT is earnings before net finance costs, taxation and any earnings adjustments. Underlying EBIT is reported net of South32's share of net finance costs and taxation of equity accounted investments. Underlying EBITDA is Underlying EBIT, before depreciation and amortisation.
- The following abbreviations have been used throughout this report: grams per tonne (g/t); tonnes (t); thousand tonnes (kt); thousand tonnes per annum (ktpa); million tonnes (Mt); million tonnes per annum (Mtpa); thousand ounces (koz); million ounces (Moz); thousand wet metric tonnes (kwmt); million wet metric tonnes (Mwmt); million wet metric tonnes per annum (Mwmt pa); thousand dry metric tonnes (kdmt); Australian Securities Exchange (ASX); London Stock Exchange (LSE); and Johannesburg Stock Exchange (JSE).

OPERATING PERFORMANCE

South32's share	1H16	1H17	2Q16	3Q16	4Q16	1Q17	2Q17
Worsley Alumina (86% share)							
Alumina hydrate production (kt)	1,970	1,946	980	989	946	980	966
Alumina production (kt)	1,993	1,940	962	1,008	960	967	973
Alumina sales (kt)	1,898	1,909	968	1,017	959	960	949
South Africa Aluminium (100%)							
Aluminium production (kt)	352	356	174	173	172	175	181
Aluminium sales (kt)	363	347	178	162	184	178	169
Mozal Aluminium (47.1% share)							
Aluminium production (kt)	133	136	67	67	66	68	68
Aluminium sales (kt)	121	134	68	64	69	64	70
Brazil Alumina (alumina 36% share, aluminium 40% share)							
Alumina production (kt)	673	673	340	326	336	326	347
Alumina sales (kt)	661	638	341	360	338	299	339
South Africa Energy Coal (100%)							
Energy coal production (kt)	16,379	14,825	8,087	7,692	7,610	7,744	7,081
Domestic sales (kt)	9,080	8,918	4,834	4,000	4,089	4,446	4,472
Export sales (kt)	8,021	5,856	3,889	3,575	3,561	2,904	2,952
Illawarra Metallurgical Coal (100%)							
Metallurgical coal production (kt)	3,298	2,829	1,219	1,642	2,119	1,437	1,392
Metallurgical coal sales (kt)	3,132	2,788	1,146	1,595	2,257	1,723	1,065
Energy coal production (kt)	658	884	252	238	411	447	437
Energy coal sales (kt)	609	817	218	364	360	470	347
Australia Manganese (60% share)							
Manganese ore production (kwmt)	1,589	1,499	732	743	739	763	736
Manganese ore sales (kwmt)	1,457	1,500	735	852	775	757	743
Ore grade sold (% Mn)	47.6	46.4	47.5	47.1	47.0	46.7	46.1
Manganese alloy production (kt)	85	78	41	26	22	38	40
Manganese alloy sales (kt)	76	82	38	44	30	54	28
South Africa Manganese (60% share)							
Manganese ore production (kwmt)	757	934	177	462	492	417	517
Manganese ore sales (kwmt)	879	928	361	466	489	417	511
Ore grade sold (% Mn)	40.1	40.3	39.9	40.4	39.2	39.7	40.8
Manganese alloy production (kt)	46	37	25	22	23	21	16
Manganese alloy sales (kt)	50	40	25	20	40	20	20

South32's share	1H16	1H17	2Q16	3Q16	4Q16	1Q17	2Q17
Cerro Matoso (99.9% share)							
Ore mined (kwmt)	3,017	2,347	1,486	1,512	1,480	1,238	1,109
Ore processed (kdmt)	1,312	1,289	673	704	683	645	644
Ore grade processed (% , Ni)	1.53	1.53	1.52	1.53	1.55	1.52	1.55
Payable nickel production (kt)	17.5	17.7	8.8	9.7	9.6	8.7	9.0
Payable nickel sales (kt)	17.5	17.6	8.8	9.3	10.0	8.2	9.4
Cannington (100%)							
Ore mined (kt)	1,743	1,639	833	727	819	780	859
Ore processed (kt)	1,657	1,669	819	673	819	828	841
Silver ore grade processed (g/t, Ag)	266	198	260	258	230	216	182
Lead ore grade processed (% , Pb)	7.0	5.5	7.1	6.7	5.9	5.7	5.2
Zinc ore grade processed (% , Zn)	3.7	3.7	4.0	4.1	3.6	3.2	4.2
Payable silver production (koz)	11,878	8,729	5,600	4,478	5,037	4,694	4,035
Payable silver sales (koz)	11,898	8,860	5,695	4,364	4,590	5,063	3,797
Payable lead production (kt)	97.5	73.9	48.4	36.9	38.8	38.4	35.5
Payable lead sales (kt)	95.5	73.3	46.8	37.0	37.2	40.1	33.2
Payable zinc production (kt)	41.8	42.1	22.2	18.5	18.7	17.7	24.4
Payable zinc sales (kt)	41.2	40.8	22.2	18.6	22.8	18.5	22.3

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.

FURTHER INFORMATION

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