

QUARTERLY REPORT



SEPTEMBER 2016

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

- Net cash position increased by US\$239M in the September 2016 quarter to US\$551M.
- Production and unit cost guidance remains unchanged for the majority of operations.
- Strong domestic demand underpinned a 2% increase in South Africa Energy Coal production, while an expected decline in ore grades and scheduled maintenance led to a 9%, 7% and 5% reduction in nickel, silver and zinc production, respectively.
- Restarted production in 22 pots at South Africa Aluminium as power availability continued to improve and the operation maintained leading rates of current efficiency.
- Illawarra Metallurgical Coal sales of 9.3Mt now expected in FY17 as the operation has recovered from challenging ground conditions at Appin and inventory has been reduced by 300kt.
- Illawarra Metallurgical Coal's unit cost guidance of US\$71/t (including sustaining capital expenditure) now expected to be achieved in the June 2017 half year, with costs to be US\$4/t higher in the December 2016 half year given the operation's high fixed cost base.
- South Africa Manganese mines now operating at the optimised 2.9Mwmt pa rate (100% basis) following the decision to stop work at the Wessels underground mine in June 2016.

"Stronger commodity prices and cost saving initiatives delivered a further US\$239M increase in our net cash position to US\$551M, despite the impact of annual payments that followed year end and the typical lag in commodity pricing."

"We entered into an agreement with Alcoa to access bauxite in close proximity to our Worsley Alumina mining infrastructure. While subject to government and regulatory approvals, this agreement has the potential to defer capital expenditure required to develop new mining areas."

"The combination of a strong balance sheet and operating leverage ensures we are well positioned to deliver superior performance as we optimise our operations, unlock their potential and identify opportunities beyond our current portfolio."

Graham Kerr, South32 CEO

Production summary

South32's share	YTD FY16	YTD FY17	YoY	1Q16	4Q16	1Q17	QoQ
Alumina production (kt)	1,364	1,293	(5%)	1,364	1,296	1,293	(0%)
Aluminium production (kt)	244	243	(0%)	244	238	243	2%
Energy coal production (kt)	8,698	8,191	(6%)	8,698	8,021	8,191	2%
Metallurgical coal production (kt)	2,079	1,437	(31%)	2,079	2,119	1,437	(32%)
Manganese ore production (kwmt)	1,437	1,180	(18%)	1,437	1,231	1,180	(4%)
Manganese alloy production (kt)	65	59	(9%)	65	45	59	31%
Payable nickel production (kt)	8.7	8.7	0%	8.7	9.6	8.7	(9%)
Payable silver production (koz)	6,278	4,694	(25%)	6,278	5,037	4,694	(7%)
Payable lead production (kt)	49.1	38.4	(22%)	49.1	38.8	38.4	(1%)
Payable zinc production (kt)	19.6	17.7	(10%)	19.6	18.7	17.7	(5%)

Unless otherwise noted: percentage variance relates to performance during the September 2016 quarter compared with the June 2016 quarter (QoQ); production and sales volumes are reported on an attributable basis.

CORPORATE UPDATE

- Net cash¹ increased by US\$239M to US\$551M in the September 2016 quarter, despite the impact of annual payments that followed year end, the typical lag in commodity pricing and a foreign exchange related increase in finance lease liabilities, which rose to US\$615M (US\$601M 30 June 2016).
- We remain on track to achieve unit cost guidance² for the majority of our upstream operations in FY17 should stated exchange rate assumptions and commodity prices prevail. The temporary disruption to production at Appin and the operation's high fixed cost base does, however, mean that Illawarra Metallurgical Coal unit cost guidance of US\$71/t (including sustaining capital)² will not be achieved until the June 2017 half year, with costs to be US\$4/t higher in the December 2016 half year.
- Guidance for capital expenditure³ of US\$450M in FY17 is predicated on several assumptions including an average AUD:USD exchange rate of 0.72 and an average USD:ZAR exchange rate of 16.57. The rate of expenditure expressed in US dollars therefore remains contingent on directional changes in US dollar cross rates.
- We have entered into an agreement with Alcoa of Australia Ltd. (Alcoa) to access ground directly to the west of our existing Marradong mining area at Worsley Alumina. This agreement, which is subject to government and regulatory approvals, has the potential to unlock value by deferring capital expenditure required to develop new mining areas. A final development decision remains subject to the delineation of a Mineral Resource with the characteristics of the refinery's existing feed.
- In the September 2016 quarter, we invested US\$2.5M in exploration of which US\$0.3M was capitalised. Exploration drilling for Cu-Ni-PGE mineralisation commenced at Huckleberry in the Labrador Trough, Canada, while our existing operations focussed on metallurgical coal and silver in Australia, and nickel in Colombia. Exploration for manganese, at GEMCO's Southern Areas, and bauxite, west of our existing Marradong mining area at Worsley Alumina, is expected to commence in the December 2016 quarter.
- Our Underlying effective tax rate (ETR)⁴ 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.

Upstream production and FY17 guidance (South32's share)	FY16	3M YTD17	FY17e
Worsley Alumina			
Alumina production (kt)	3,961	967	3,965
Brazil Alumina			
Alumina production (kt)	1,335	326	1,320
South Africa Energy Coal⁵			
Domestic coal production (kt)	16,825	4,424	17,000
Export coal production (kt)	14,856	3,320	13,850
Illawarra Metallurgical Coal			
Metallurgical coal production (kt)	7,059	1,437	Revised ↓ 7,550
Energy coal production (kt)	1,307	447	Revised ↑ 1,450
Australia Manganese			
Manganese ore production (kwmt)	3,071	763	3,120
South Africa Manganese			
Manganese ore production ⁶ (kwmt)	1,711	417	Subject to demand
Cerro Matoso			
Payable nickel production (kt)	36.8	8.7	36.0
Cannington			
Payable silver production (koz)	21,393	4,694	19,050
Payable lead production (kt)	173	38	163
Payable zinc production (kt)	79	18	80

WORSLEY ALUMINA

(86% share)

South32's share	YTD FY16	YTD FY17	YoY	1Q16	4Q16	1Q17	1Q16 vs 1Q17	4Q16 vs 1Q17
Alumina production (kt)	1,031	967	(6%)	1,031	960	967	(6%)	1%
Alumina sales (kt)	930	960	3%	930	959	960	3%	0%

Worsley Alumina saleable production remained steady in the September 2016 quarter at 967kt as hydrate production remained in excess of an annualised rate of 4.5Mt (100% basis). A calciner outage is scheduled for the December 2016 quarter and excess hydrate production will be converted into saleable alumina in the subsequent period. FY17 saleable alumina production guidance remains unchanged at 4.0Mt.

SOUTH AFRICA ALUMINIUM

(100%)

South32's share	YTD FY16	YTD FY17	YoY	1Q16	4Q16	1Q17	1Q16 vs 1Q17	4Q16 vs 1Q17
Aluminium production (kt)	178	175	(2%)	178	172	175	(2%)	2%
Aluminium sales (kt)	185	178	(4%)	185	184	178	(4%)	(3%)

South Africa Aluminium saleable production increased by 2% (or 3kt) to 175kt in the September 2016 quarter as the smelter continued to achieve leading rates of current efficiency and the prevalence of load-shedding events continued to decline. Given improved power availability, we have restarted production in the 22 pots that were suspended in September 2015 and will ramp-up to full production during the December 2016 quarter. The number of pots scheduled for relining in FY17 is unchanged at 72 (FY16: 183 pots).

MOZAL ALUMINIUM

(47.1% share)

South32's share	YTD FY16	YTD FY17	YoY	1Q16	4Q16	1Q17	1Q16 vs 1Q17	4Q16 vs 1Q17
Aluminium production (kt)	66	68	3%	66	66	68	3%	3%
Aluminium sales (kt)	53	64	21%	53	69	64	21%	(7%)

Mozal Aluminium saleable production increased by 3% (or 2kt) to 68kt in the September 2016 quarter as current efficiency continued to improve and the prevalence of load-shedding events continued to decline. The timing of shipments at the end of the quarter led to a marginal shortfall in sales volumes.

BRAZIL ALUMINA

(Refinery 36% share, Smelter 40% share)

South32's share	YTD FY16	YTD FY17	YoY	1Q16	4Q16	1Q17	1Q16 vs 1Q17	4Q16 vs 1Q17
Alumina production (kt)	333	326	(2%)	333	336	326	(2%)	(3%)
Alumina sales (kt)	320	299	(7%)	320	338	299	(7%)	(12%)

Brazil Alumina saleable production decreased by 3% (or 10kt) to 326kt in the September 2016 quarter as planned maintenance was undertaken at the refinery and port. This maintenance and timing differences led to a temporary reduction in sales volumes that will be recovered over the remainder of the year. FY17 saleable alumina production guidance remains unchanged at 1.3Mt.

SOUTH AFRICA ENERGY COAL

(100%)

South32's share	YTD FY16	YTD FY17	YoY	1Q16	4Q16	1Q17	1Q16 vs 1Q17	4Q16 vs 1Q17
Energy coal production (kt)	8,292	7,744	(7%)	8,292	7,610	7,744	(7%)	2%
Domestic sales (kt)	4,246	4,446	5%	4,246	4,089	4,446	5%	9%
Export sales (kt)	4,132	2,904	(30%)	4,132	3,561	2,904	(30%)	(18%)

South Africa Energy Coal saleable production increased by 2% (or 134kt) to 7.7Mt in the September 2016 quarter, underpinned by a 9% increase in domestic sales. The reduction in export sales coincided with 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	YTD FY16	YTD FY17	YoY	1Q16	4Q16	1Q17	1Q16 vs 1Q17	4Q16 vs 1Q17
Metallurgical coal production (kt)	2,079	1,437	(31%)	2,079	2,119	1,437	(31%)	(32%)
Metallurgical coal sales (kt)	1,986	1,723	(13%)	1,986	2,257	1,723	(13%)	(24%)
Energy coal production (kt)	406	447	10%	406	411	447	10%	9%
Energy coal sales (kt)	391	470	20%	391	360	470	20%	31%

Illawarra Metallurgical Coal saleable production decreased by 26% (or 646kt) to 1.9Mt in the September 2016 quarter as challenging geological conditions were encountered at the Appin Area 9 longwall and the step around at Appin Area 7 was extended by 22 days. No longwall moves are planned for the December 2016 quarter, with two moves scheduled for the March 2017 quarter.

Illawarra Metallurgical Coal sales of 9.3Mt are now expected in FY17 as the operation has recovered from challenging ground conditions at Appin and finished goods inventory has been reduced by 300kt. Accordingly, FY17 production guidance is reduced to 9.0Mt, with the operation expected to attain the previously targeted 9.5Mtpa rate across the remainder of the year.

Illawarra Metallurgical Coal's unit cost guidance of US\$71/t (including sustaining capital expenditure)² is now expected to be achieved in the June 2017 half year, with costs to be US\$4/t higher in the December 2016 half year given the operation's high fixed cost base.

AUSTRALIA MANGANESE

(60% share)

South32's share	YTD FY16	YTD FY17	YoY	1Q16	4Q16	1Q17	1Q16 vs 1Q17	4Q16 vs 1Q17
Manganese ore production (kwmt)	857	763	(11%)	857	739	763	(11%)	3%
Manganese ore sales (kwmt)	722	757	5%	722	775	757	5%	(2%)
Manganese alloy production (kt)	44	38	(14%)	44	22	38	(14%)	73%
Manganese alloy sales (kt)	38	54	42%	38	30	54	42%	80%

Australia Manganese saleable ore production increased by 3% (or 24kwmt) to 763kwmt in the September 2016 quarter. FY17 production guidance of 3.1Mwmt remains unchanged. Saleable manganese alloy production increased by 73% (or 16kt) to 38kt in the September 2016 quarter as power availability improved and the two suspended furnaces were brought back online.

SOUTH AFRICA MANGANESE

(60% share)

South32's share	YTD FY16	YTD FY17	YoY	1Q16	4Q16	1Q17	1Q16 vs 1Q17	4Q16 vs 1Q17
Manganese ore production (kwmt)	580	417	(28%)	580	492	417	(28%)	(15%)
Manganese ore sales (kwmt)	518	417	(19%)	518	489	417	(19%)	(15%)
Manganese alloy production (kt)	21	21	0%	21	23	21	0%	(9%)
Manganese alloy sales (kt)	25	20	(20%)	25	40	20	(20%)	(50%)

South Africa Manganese saleable ore production decreased by 15% (or 75kwmt) to 417kwmt in the September 2016 quarter. Our mines are now operating at the optimised 2.9Mwmt pa rate (100% basis) following the decision to stop work at the Wessels underground mine following a fatality on 6 June 2016. The Wessels Central Block project remains on track to be completed in the March 2017 quarter, consistent with the previously revised schedule.

Manganese alloy saleable production decreased by 9% (or 2kt) to 21kt in the September 2016 quarter as Metalloys continued to operate one of its four furnaces.

CERRO MATOSO

(99.9% share)

South32's share	YTD FY16	YTD FY17	YoY	1Q16	4Q16	1Q17	1Q16 vs 1Q17	4Q16 vs 1Q17
Payable nickel production (kt)	8.7	8.7	0%	8.7	9.6	8.7	0%	(9%)
Payable nickel sales (kt)	8.7	8.2	(6%)	8.7	10.0	8.2	(6%)	(18%)

Cerro Matoso payable nickel production decreased by 9% (or 0.9kt) to 8.7kt in the September 2016 quarter as ore grades declined, consistent with the mine plan, and processing rates were temporarily affected by scheduled maintenance. FY17 payable nickel production guidance remains unchanged at 36kt.

CANNINGTON

(100%)

South32's share	YTD FY16	YTD FY17	YoY	1Q16	4Q16	1Q17	1Q16 vs 1Q17	4Q16 vs 1Q17
Payable silver production (koz)	6,278	4,694	(25%)	6,278	5,037	4,694	(25%)	(7%)
Payable silver sales (koz)	6,203	5,063	(18%)	6,203	4,590	5,063	(18%)	10%
Payable lead production (kt)	49.1	38.4	(22%)	49.1	38.8	38.4	(22%)	(1%)
Payable lead sales (kt)	48.7	40.1	(18%)	48.7	37.2	40.1	(18%)	8%
Payable zinc production (kt)	19.6	17.7	(10%)	19.6	18.7	17.7	(10%)	(5%)
Payable zinc sales (kt)	19.0	18.5	(3%)	19.0	22.8	18.5	(3%)	(19%)

Payable silver and zinc production decreased by 7% and 5%, respectively, in the September 2016 quarter as ore grades and recoveries declined, consistent with the mine plan. A scheduled mill outage in August 2016 also affected production in the quarter. The next outage is scheduled for December 2016 in accordance with the mill relining cycle. FY17 payable silver, lead and zinc production guidance remains unchanged at 19.05Moz, 163kt and 80kt, respectively.

Notes:

- Provisional unaudited net cash balance as at 30 September 2016.
- Unit cost guidance as provided in the FY16 Financial Results and Outlook, 25 August 2016. Operating unit cost targets, including Sustaining capital expenditure, include royalties (where appropriate) and the influence of exchange rate assumptions, and are based on: an alumina price of US\$259/t; an average blended coal price of US\$83/t for Illawarra Metallurgical Coal; a manganese ore price of US\$3.23/dmt for 44% manganese product; a nickel price of US\$3.95/lb; a thermal coal price of US\$54/t (API4) for South Africa Energy Coal; a silver price of US\$17.50/troy oz; a lead price of US\$1,723/t; a zinc price of US\$1,907/t; an AUD:USD exchange rate of 0.72; a USD:ZAR exchange rate of 16.57; and a USD:COP exchange rate of 3,025; all of which reflect forward markets as at May 2016 or our internal expectations.
- Includes equity accounted investments capital expenditure, but excludes expenditure related to the purchase of intangibles and capitalised exploration expenditure.
- The ETR calculation excludes equity accounted investments as they are recorded on an after tax basis.
- 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.
- Figures in italics indicate that an adjustment has been made since the figures were previously reported.
- 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	YTD FY16	YTD FY17	1Q16	2Q16	3Q16	4Q16	1Q17
Worsley Alumina (86% share)							
Alumina hydrate production (kt)	990	980	990	980	989	946	980
Alumina production (kt)	1,031	967	1,031	962	1,008	960	967
Alumina sales (kt)	930	960	930	968	1,017	959	960
South Africa Aluminium (100%)							
Aluminium production (kt)	178	175	178	174	173	172	175
Aluminium sales (kt)	185	178	185	178	162	184	178
Mozal Aluminium (47.1% share)							
Aluminium production (kt)	66	68	66	67	67	66	68
Aluminium sales (kt)	53	64	53	68	64	69	64
Brazil Alumina (alumina 36% share, aluminium 40% share)							
Alumina production (kt)	333	326	333	340	326	336	326
Alumina sales (kt)	320	299	320	341	360	338	299
South Africa Energy Coal (100%)							
Energy coal production (kt)	8,292	7,744	8,292	8,087	7,692	7,610	7,744
Domestic sales (kt)	4,246	4,446	4,246	4,834	4,000	4,089	4,446
Export sales (kt)	4,132	2,904	4,132	3,889	3,575	3,561	2,904
Illawarra Metallurgical Coal (100%)							
Metallurgical coal production (kt)	2,079	1,437	2,079	1,219	1,642	2,119	1,437
Metallurgical coal sales (kt)	1,986	1,723	1,986	1,146	1,595	2,257	1,723
Energy coal production (kt)	406	447	406	252	238	411	447
Energy coal sales (kt)	391	470	391	218	364	360	470
Australia Manganese (60% share)							
Manganese ore production (kwmt)	857	763	857	732	743	739	763
Manganese ore sales (kwmt)	722	757	722	735	852	775	757
Ore grade sold (% Mn)	47.8	46.7	47.8	47.5	47.1	47.0	46.7
Manganese alloy production (kt)	44	38	44	41	26	22	38
Manganese alloy sales (kt)	38	54	38	38	44	30	54
South Africa Manganese (60% share)							
Manganese ore production (kwmt)	580	417	580	177	462	492	417
Manganese ore sales (kwmt)	518	417	518	361	466	489	417
Ore grade sold (% Mn)	40.2	39.7	40.2	39.9	40.4	39.2	39.7
Manganese alloy production (kt)	21	21	21	25	22	23	21
Manganese alloy sales (kt)	25	20	25	25	20	40	20

South32's share	YTD FY16	YTD FY17	1Q16	2Q16	3Q16	4Q16	1Q17
Cerro Matoso (99.9% share)							
Ore mined (kwmt)	1,531	1,238	1,531	1,486	1,512	1,480	1,238
Ore processed (kdmmt)	639	645	639	673	704	683	645
Ore grade processed (% Ni)	1.55	1.52	1.55	1.52	1.53	1.55	1.52
Payable nickel production (kt)	8.7	8.7	8.7	8.8	9.7	9.6	8.7
Payable nickel sales (kt)	8.7	8.2	8.7	8.8	9.3	10.0	8.2
Cannington (100%)							
Ore mined (kt)	910	780	910	833	727	819	780
Ore processed (kt)	838	828	838	819	673	819	828
Silver ore grade processed (g/t, Ag)	272	216	272	260	258	230	216
Lead ore grade processed (% Pb)	6.9	5.7	6.9	7.1	6.7	5.9	5.7
Zinc ore grade processed (% Zn)	3.4	3.2	3.4	4.0	4.1	3.6	3.2
Payable silver production (koz)	6,278	4,694	6,278	5,600	4,478	5,037	4,694
Payable silver sales (koz)	6,203	5,063	6,203	5,695	4,364	4,590	5,063
Payable lead production (kt)	49.1	38.4	49.1	48.4	36.9	38.8	38.4
Payable lead sales (kt)	48.7	40.1	48.7	46.8	37.0	37.2	40.1
Payable zinc production (kt)	19.6	17.7	19.6	22.2	18.5	18.7	17.7
Payable zinc sales (kt)	19.0	18.5	19.0	22.2	18.6	22.8	18.5

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

INVESTOR RELATIONS

Alex Volante

T +61 8 9324 9029

M +61 403 328 408

E Alex.Volante@south32.net

Rob Ward

T +61 8 9324 9340

M +61 431 596 831

E Robert.Ward@south32.net

MEDIA RELATIONS

Diana Wearing Smith

T +61 8 9324 9198

M +61 436 482 290

E Diana.Smith@south32.net

James Clothier

T +61 8 9324 9697

M +61 413 319 031

E James.Clothier@south32.net

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JSE Sponsor: UBS South Africa (Pty) Ltd