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South32 Limited
(Incorporated in Australia under the *Corporations Act 2001* (Cth))
(ACN 093 732 597)
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SOUTH32 TO RESET ITS COST BASE IN AUSTRALIA AND COLOMBIA

South32 Limited (ASX, LSE, JSE: S32) ("South32") today announced a series of restructuring initiatives that will reset the cost base of its Worsley Alumina, Illawarra Metallurgical Coal, Australia Manganese and Cerro Matoso operations.

South32 Chief Executive Officer, Graham Kerr, said: "Our financial results highlight both the strength of our financial position and the opportunity that lies ahead. The initiatives that we have announced today across our Australian and Colombian operations are central to our strategy. The continued optimisation of our high quality operations will strengthen underlying cash flow in what remains a challenging environment.

"The refinement of our regional operating model allows us to remove additional layers of management while further aggregating functional support. As a result, we expect another significant increase in labour productivity and a corresponding reduction in cash costs. When combined with our broad-based focus on all procurement activities, we are well positioned to significantly exceed our costs savings target, both in terms of quantum and timing.

"Operating unit costs, including sustaining capital expenditure, will move sharply lower at our Illawarra Metallurgical Coal, Cerro Matoso and Worsley Alumina operations, mitigating cash outflows and solidifying their position at the low end of industry cost curves[1]. In addition, the reconfiguration of our leading Australia Manganese mine, GEMCO, will ensure that it becomes a positive contributor to free cash flow at current prices."

Worsley Alumina (86% share)

Operational performance at Worsley Alumina continues to be optimised following the completion of the US$3.2B (South32 share) Efficiency and Growth project in June 2011, which positioned the operation as one of the largest refineries in the industry. Incremental capacity creep is anticipated beyond the current rate of production[2], while a number of restructuring initiatives are being implemented to reduce operating unit costs, including sustaining capital expenditure, to approximately US$200/t[3] in FY17.

Note: In August 2015, we announced a commitment to reduce our annual controllable cost base, including equity accounted investments, by at least US$350M before end FY18.

[1] Illawarra Metallurgical Coal is at the high end of the industry margin curve to account for coal quality differentials.

[2] Production guidance increase to 4.61Mt in FY17 (100% basis).

[3] Projected operating unit costs are predicated on an alumina price of US$255/t for royalty calculations and an average AUD:USD exchange rate of 0.68.

These initiatives include:

- The fundamental reorganisation of mining and refining into two operations and the removal of layers of management and functional support;
- The reduction of approximately 390 employees and contractors before the end of FY16, equivalent to 15% of the employee and contractor headcount at the end of FY15;
- A circa 3% lift in refinery availability and utilisation;
- The continued aggregation of our procurement activities to the region, which is expected to deliver a circa US$65M (South32 share) saving in FY17;
- The continued optimisation of the coal to gas fuel mix in the co-generation power facility; and
- A 34%[4] reduction in sustaining capital expenditure to approximately US$41M[4] (South32 share) in FY17.

Pre-tax restructuring costs, including redundancies, of approximately US$15M (South32 share) are anticipated at Worsley Alumina in the June 2016 half year. These charges will be excluded from the Group's Underlying earnings measures.

Illawarra Metallurgical Coal (100%)

Over the 18 months to the end of December 2015, Illawarra Metallurgical Coal reduced its employee and contractor headcount by 100 and operating unit costs, including sustaining capital expenditure and underground development, by 34%[5]. To mitigate the impact of lower prices, a number of restructuring initiatives are being implemented in order to reduce operating unit costs, including sustaining capital expenditure and underground development, by 37%[6] to approximately US$66/t[6] in FY17.

These initiatives include:

- The fundamental reorganisation of the mining complex into two operations and the removal of layers of management and functional support;
- The reduction of at least 300 employees and contractors before the end of FY16, equivalent to 14% of the employee and contractor headcount at the end of FY15;
- An increase in longwall utilisation at the Appin and Dendrobium mines, and the completion of the Appin Area 9 project, which will increase production to approximately 9.5Mt in FY17;
- The continued aggregation of our procurement activities to the region, which is expected to deliver a circa US$50M saving in FY17; and
- A 58%[4] reduction in sustaining capital expenditure and underground development to approximately US$108M[4] in FY17.

The Appin Area 9 project will be completed in the March 2016 quarter, meaning that annualised capital expenditure, including deferred development of US$104M in the December 2015 half year will not carry forward beyond that point. Underground development (of approximately US$58Mpa) is not being compromised given a commitment to maximise long-term value, although we do retain the flexibility to curtail this activity in the future.

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[4] Compares projected capital expenditure in FY17 with FY15 and FY17 is predicated on an average AUD:USD exchange rate of 0.68.

[5] Compares operating unit costs in H1 FY16 with FY14.

[6] Compares projected operating unit costs in FY17 with FY15. Projected operating unit costs are predicated on an average blended coal price of US$65/t for royalty calculations and an average AUD:USD exchange rate of 0.68.

Pre-tax restructuring costs, including redundancies, of approximately US$10M are anticipated at Illawarra Metallurgical Coal in the June 2016 half year. These charges will be excluded from the Group's Underlying earnings measures.

Australia Manganese (60% share)

To ensure GEMCO retains its leading, low-cost position in the manganese industry, the operations' mining and processing plans are being reconfigured. As a result, guidance for manganese saleable ore production in FY17 is lowered by 4% to 5.2Mt (100% basis). At the same time, a double digit improvement in labour productivity and a substantial reduction in procurement costs are expected to more than offset a 27% increase in the mining strip ratio (from 3.0 to 3.8) between FY15 and FY17. Consequently, operating unit costs, including sustaining capital expenditure, are expected to decline by 43%[7] to approximately US$1.56/dmtu[7] in FY17.

Specific measures being taken to reposition GEMCO include:

- A revised ramp-up of the Premium Concentrate Ore (PC02) project following its completion in the June 2016 quarter;
- The reduction of approximately 82 employees and contractors before the end of FY16, equivalent to 8% of the employee and contractor headcount at the end of FY15, and the decision not to recruit an additional 55 roles largely related to the PC02 project;
- A targeted 6% increase in the productivity of the mining fleet;
- The continued aggregation of our procurement activities to the region, which is expected to deliver a circa US$10M (South32 share) saving in FY17; and
- A 56%[4] reduction in sustaining capital expenditure to approximately US$40M[4] (South32 share) in FY17.

Redundancy costs are not anticipated at GEMCO, despite the meaningful reduction in employees and contractors.

Cerro Matoso (99.9% share)

Cerro Matoso has been one of the industry's most successful ferro-nickel operations. To ensure Cerro Matoso remains competitive amidst declining ore grades and an increasing reliance on stockpiled ore, the operation must significantly increase labour productivity and reduce costs. In this regard, a series of restructuring initiatives are expected to deliver a 30%[8] reduction in operating unit costs, including sustaining capital expenditure, to approximately US$3.90/lb[8] in FY17.

These initiatives include:

- The reduction of at least 350 employees and contractors before the end of FY16, equivalent to 18% of the employee and contractor headcount at the end of FY15;
- The continued aggregation of our procurement activities to the region, which is expected to deliver a circa US$37M saving in FY17; and
- A 56%[9] reduction in sustaining capital expenditure to approximately US$16M[9] in FY17.

[7] Compares projected operating unit costs in FY17 with FY15. Projected operating unit costs are predicated on a manganese ore price of US$2.00/dmtu (44% manganese product) for royalty calculations and an average AUD:USD exchange rate of 0.68.
[8] Projected operating unit costs are predicated on a nickel price of US$3.75/lb for royalty calculations and an average USD:COP exchange rate 3,170.
[9] Compares projected capital expenditure in FY17 with FY15, and FY17 is predicated on an average USD:COP exchange rate of 3,170.

Pre-tax restructuring costs, including redundancies, of approximately US$2M are anticipated at Cerro Matoso in the June 2016 half year. These charges will be excluded from the Group's Underlying earnings measures.

About South32

South32 is a globally diversified mining and metals company with high quality operations in Australia, Southern Africa and South America. 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 have a simple strategy to maximise the potential of our assets and shareholder returns by optimising our existing operations, unlocking their potential and identifying new opportunities to compete for capital. Further information on South32 can be found at www.south32.net.

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