

QUARTERLY REPORT



SEPTEMBER 2015

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

- Quarterly production records achieved at GEMCO (Australia Manganese) and Illawarra Metallurgical Coal, and strong performance recorded across the Group:
 - a temporary increase in the average ore grade at Cannington delivered a 20% increase in silver production;
 - an improvement in plant availability and feed rates led to a 13% increase in Australia Manganese ore production; and
 - the completion of planned calciner maintenance in the prior quarter delivered an 11% increase in Worsley Alumina production as the operation processed stockpiled hydrate.
- FY16 production guidance remains unchanged for all upstream operations, with the exception of South Africa Manganese which is under review.
- The review of South Africa Manganese, announced on 24 August, is expected to be completed before the end of December 2015. The previously announced delay in the restart of three high-carbon ferromanganese furnaces at Metalloys will continue indefinitely and a decision on the future of the fourth furnace will be made on conclusion of this review. As part of this process, Samancor Manganese will also determine the optimal configuration and production profile for the South Africa Manganese mines to improve their competitiveness and sustainability through the cycle.
- Consistent with our commitment to reduce controllable costs by at least US\$350M by the end of FY18, we expect to deliver a 25% reduction in Group and Unallocated costs in FY16.
- Net debt declined by US\$206M to US\$196M during the September 2015 quarter.

“Our business is performing well and we are making excellent progress as we seek to optimise our operations, reduce costs and sustainably de-capitalise the business.

“We continue to take decisive action to maximise financial performance, rather than volume. The actions we have initiated at South Africa Manganese and South Africa Aluminium reflect this philosophy and will further strengthen the cash generating capacity of the Group.

“Our high quality and low-cost assets, motivated workforce and strong balance sheet remain a key point of differentiation. Group net debt declined by US\$206 million in the September quarter to US\$196 million.”

Graham Kerr, South32 CEO

Production summary							
South32's share	YTD FY15	YTD FY16	YoY	1Q15	4Q15	1Q16	QoQ
Alumina production (kt)	1,235	1,364	10%	1,235	1,266	1,364	8%
Aluminium production (kt)	261	244	(7%)	261	242	244	1%
Energy coal production (kt)	8,523	8,698	2%	8,523	8,914	8,698	(2%)
Metallurgical coal production (kt)	1,840	2,079	13%	1,840	1,983	2,079	5%
Manganese ore production (kt)	1,355	1,437	6%	1,355	1,253	1,437	15%
Manganese alloy production (kt)	102	65	(36%)	102	81	65	(20%)
Payable nickel production (kt)	10.7	8.7	(19%)	10.7	8.6	8.7	1%
Silver production (koz)	6,701	6,278	(6%)	6,701	5,236	6,278	20%
Lead production (kt)	49	49	0%	49	44	49	11%
Zinc production (kt)	20	20	0%	20	19	20	5%

Unless otherwise noted: percentage variance relates to the relative performance during the 2016 financial year to date compared with the 2015 financial year to date (YoY) or the September 2015 quarter compared with the June 2015 quarter (QoQ); production and sales volumes are reported on an attributable basis; and project budgets and capacities are reported on a 100% basis. All variance analysis relates to QoQ performance, as defined above.

CORPORATE UPDATE

- During the September 2015 quarter, South32 invested US\$3 million on exploration of which US\$1 million was capitalised. Our exploration activities focused on metallurgical coal and silver in Australia, and nickel in Colombia.
- Cash proceeds of US\$37M were received in the September 2015 quarter as South32 resolved two legacy tax disputes¹ outside of Australia. An additional US\$9M relating to these claims will be received in the December 2015 quarter.
- Net debt declined by US\$206M to US\$196M² during the September 2015 quarter. This included a US\$52M reduction in the Group's finance leases (US\$575M) as the Australian dollar and Rand depreciated against the US dollar. Recognising the Group's strong balance sheet, Standard and Poor's and Moody's reaffirmed their respective BBB+ and Baa1 credit ratings following recent annual reviews.
- Consistent with our commitment to embed a lean corporate centre and reduce controllable costs by at least US\$350M by the end of FY18, we are finalising an in-depth review of all functional support which is expected to deliver a 25% reduction (on a constant currency basis) in FY16 Group and Unallocated costs relative to prior guidance of US\$130M.
- South32's Underlying effective tax rate (ETR) will reflect the geographic distribution of the Group's profit. The corporate tax rates applicable to South32 include: Australia 30%; South Africa 28%; Colombia 39%; and Brazil 34%. Should current conditions prevail, the Group's Underlying ETR will exceed 30%.
- South32 capital expenditure was previously forecast to decline by 9% to US\$700M in FY16, predicated on several assumptions including an average AUD:USD exchange rate of 0.78 and average USD:ZAR exchange rate of 12.42. The rate of expenditure expressed in US dollars may decline further should recent weakness in those exchange rates persist.

Upstream production guidance (South32's share)	FY15	FY16e
Worsley Alumina		
Alumina production (kt)	3,819	3,950
Brazil Aluminium		
Alumina production (kt)	1,328	1,320
South Africa Energy Coal³		
Domestic coal production (kt)	18,123	16,650
Export coal production (kt)	16,150	15,300
Illawarra Metallurgical Coal		
Metallurgical coal production (kt)	7,455	7,200
Energy coal production (kt)	1,471	1,700
Australia Manganese		
Manganese ore production (kt)	2,942	3,050
South Africa Manganese		
Manganese ore production ⁴ (kt)	2,273	Under review
Cerro Matoso		
Payable nickel production (kt)	40.4	36.5
Cannington		
Payable silver production (koz)	22,601	21,650
Payable lead production (kt)	183	175
Payable zinc production (kt)	72	80

WORSLEY ALUMINA

(86% share)

South32's share	YTD FY15	YTD FY16	YoY	1Q15	4Q15	1Q16	1Q15 vs 1Q16	4Q15 vs 1Q16
Alumina production (kt)	893	1,031	15%	893	929	1,031	15%	11%
Alumina sales (kt)	875	930	6%	875	1,048	930	6%	(11%)

Worsley Alumina saleable production increased by 11% (or 102kt) to 1.03Mt in the September 2015 quarter as the refinery processed stockpiled alumina hydrate following the completion of planned calciner maintenance in the prior period. Conversely, the reduction in sales volumes simply reflected the scheduling of shipments during the quarter.

Calciner maintenance is planned for both the December 2015 and June 2016 quarters, consistent with the annual maintenance cycle. As noted in prior guidance, saleable production is expected to increase by 3% to 3.95Mt.

SOUTH AFRICA ALUMINIUM

(100%)

South32's share	YTD FY15	YTD FY16	YoY	1Q15	4Q15	1Q16	1Q15 vs 1Q16	4Q15 vs 1Q16
Aluminium production (kt)	180	178	(1%)	180	175	178	(1%)	2%
Aluminium sales (kt)	174	185	6%	174	177	185	6%	5%

South Africa Aluminium saleable production increased by 2% (or 3kt) to 178kt in the September 2015 quarter due to a reduction in the number of load-shedding events compared to the previous quarter.

In response to the recent deterioration in market conditions, 22 pots (equivalent to 3% of the total) were temporarily suspended during September 2015. This decision will deliver an incremental improvement in cash flow as planned pot relining activity is deferred. A production loss of 18kt is anticipated should the 22 pots remain offline for the remainder of FY16. In this context, production at South Africa Aluminium is now expected to decline marginally in FY16 should the current market conditions prevail. Electricity supply and the frequency of load-shedding events remains an ever present risk, notwithstanding the fact that load-shedding has remained within the permissible limits defined by our electricity supply agreements.

MOZAL ALUMINIUM

(47.1% share)

South32's share	YTD FY15	YTD FY16	YoY	1Q15	4Q15	1Q16	1Q15 vs 1Q16	4Q15 vs 1Q16
Aluminium production (kt)	68	66	(3%)	68	65	66	(3%)	2%
Aluminium sales (kt)	64	53	(17%)	64	70	53	(17%)	(24%)

Mozal Aluminium saleable production increased by 2% (or 1kt) to 66kt in the September 2015 quarter due to a reduction in the number of load-shedding events compared to the previous quarter. Conversely, the 24% decline in aluminium sales reflected the scheduling of shipments during the quarter.

Aluminium production is expected to remain broadly unchanged in FY16. Electricity supply and the frequency of load-shedding events remains an ever present risk, notwithstanding the fact that load-shedding has remained within the permissible limits defined by our electricity supply agreements.

BRAZIL ALUMINIUM

(Refinery 36% share, Smelter 40% share)

South32's share	YTD FY15	YTD FY16	YoY	1Q15	4Q15	1Q16	1Q15 vs 1Q16	4Q15 vs 1Q16
Alumina production (kt)	342	333	(3%)	342	337	333	(3%)	(1%)
Alumina sales (kt)	323	320	(1%)	323	330	320	(1%)	(3%)
Aluminium production (kt)	13	0	(100%)	13	2	0	(100%)	(100%)
Aluminium sales (kt)	12	0	(100%)	12	3	0	(100%)	(100%)

Brazil Aluminium saleable alumina production was largely unchanged in the September 2015 quarter. FY16 alumina production guidance of 1.32Mt remains unchanged.

All three potlines at the smelter remain temporarily suspended and subject to ongoing review. Excess power supplied by Eletronorte under long-term contract continues to be sold into the grid. These unhedged power sales are expected to generate Underlying EBIT of approximately BRL255M in FY16 (versus BRL300M FY15).

SOUTH AFRICA ENERGY COAL

(100%)

South32's share	YTD FY15	YTD FY16	YoY	1Q15	4Q15	1Q16	1Q15 vs 1Q16	4Q15 vs 1Q16
Energy coal production (kt)	8,026	8,292	3%	8,026	8,508	8,292	3%	(3%)
Domestic sales (kt)	4,403	4,246	(4%)	4,403	4,358	4,246	(4%)	(3%)
Export sales (kt)	3,739	4,132	11%	3,739	4,123	4,132	11%	0%

South Africa Energy Coal saleable production declined by 3% (or 216kt) to 8.29Mt in the September 2015 quarter, reflecting the impact of planned maintenance and the sequencing of activity at the Wolvekranz Middelburg Complex. Coal production in FY16 is expected to decline by 7% to 31.95Mt (16.65Mt exports, 15.30Mt domestic), as planned.

ILLAWARRA METALLURGICAL COAL

(100%)

South32's share	YTD FY15	YTD FY16	YoY	1Q15	4Q15	1Q16	1Q15 vs 1Q16	4Q15 vs 1Q16
Metallurgical coal production (kt)	1,840	2,079	13%	1,840	1,983	2,079	13%	5%
Metallurgical coal sales (kt)	1,617	1,999	24%	1,617	2,067	1,999	24%	(3%)
Energy coal production (kt)	497	406	(18%)	497	406	406	(18%)	0%
Energy coal sales (kt)	373	391	5%	373	307	391	5%	27%

Illawarra Metallurgical Coal saleable production increased by 4% (or 96kt) to a record 2.49Mt in the September 2015 quarter as a broad-based improvement in productivity more than offset the impact of industrial action at Dendrobium, which has since been resolved. FY16 production guidance of 8.90Mt (metallurgical coal 7.20Mt, energy coal 1.70Mt) remains unchanged. Three longwall moves are scheduled for the remainder of FY16, including one in the December 2015 quarter and two in the second half of FY16.

The Appin Area 9 project is 90% complete and ahead of schedule with commissioning now expected to start in the third quarter of FY16. The project, which sustains Illawarra Metallurgical Coal production capacity, is more than 20% below the original budget of US\$845 million.

AUSTRALIA MANGANESE

(60% share)

South32's share	YTD FY15	YTD FY16	YoY	1Q15	4Q15	1Q16	1Q15 vs 1Q16	4Q15 vs 1Q16
Manganese ore production (kt)	726	857	18%	726	761	857	18%	13%
Manganese ore sales (kt)	734	749	2%	734	700	749	2%	7%
Manganese alloy production (kt)	35	44	26%	35	43	44	26%	2%
Manganese alloy sales (kt)	34	38	12%	34	36	38	12%	6%

Australia Manganese saleable ore production increased by 13% (or 96kt) to a record 857kt in the September 2015 quarter as plant availability and feed rates improved at GEMCO. Manganese ore production guidance for FY16 of 3.05Mt remains unchanged as a higher strip ratio, planned maintenance and seasonal factors are expected to impact performance. While manganese ore inventory increased during the period, volumes are expected to normalise as planned maintenance is undertaken and productivity is affected by the wet season in Northern Australia. Manganese alloy production increased by 2% (or 1kt) to 44kt.

As announced on 22 September, the United States Department of Commerce issued notice of a preliminary anti-dumping determination, setting an 11.93% rate for imports of silicomanganese of Australian origin into the United States. This is not expected to have a material impact on South32.

The Premium Concentrate Ore (PC02) project increases GEMCO production capacity by 0.5Mt to 5.3Mtpa (100% basis). The project is on budget and scheduled to deliver first production in the June 2016 quarter.

SOUTH AFRICA MANGANESE

(60% share)

South32's share	YTD FY15	YTD FY16	YoY	1Q15	4Q15	1Q16	1Q15 vs 1Q16	4Q15 vs 1Q16
Manganese ore production (kt)	629	580	(8%)	629	492	580	(8%)	18%
Manganese ore sales (kt)	599	518	(14%)	599	407	518	(14%)	27%
Manganese alloy production (kt)	67	21	(69%)	67	38	21	(69%)	(45%)
Manganese alloy sales (kt)	69	25	(64%)	69	47	25	(64%)	(47%)

South Africa Manganese saleable ore production increased by 18% (or 88kt) to 580kt in the September 2015 quarter. Production in the prior period was affected by industrial action and planned maintenance.

The review of South Africa Manganese, announced on 24 August, is expected to be completed before the end of December 2015. As part of this process, Samancor Manganese will determine the optimal configuration and production profile for the South Africa Manganese mines to improve their competitiveness and sustainability through the cycle. We are consulting with employees and external stakeholders as the review progresses.

South Africa Manganese saleable alloy production declined by 45% (or 17kt) to 21kt as three out of the four high-carbon ferromanganese furnaces at Metalloys remained suspended. The suspension of these three furnaces will continue indefinitely and a decision on the future of the fourth furnace will be made on conclusion of the South Africa Manganese review.

CERRO MATOSO

(99.9% share)

South32's share	YTD FY15	YTD FY16	YoY	1Q15	4Q15	1Q16	1Q15 vs 1Q16	4Q15 vs 1Q16
Payable nickel production (kt)	10.7	8.7	(19%)	10.7	8.6	8.7	(19%)	1%
Payable nickel sales (kt)	10.5	8.7	(17%)	10.5	9.0	8.7	(17%)	(3%)

Cerro Matoso payable nickel production was largely unchanged in the September 2015 quarter as the average ore grade declined, consistent with the mine plan. The operation was affected by a 17 day illegal strike in the prior period. Production guidance for FY16 of 36.5kt remains unchanged.

The higher grade La Esmeralda deposit has the potential to deliver an uplift in the average ore grade between 2018 and 2022. The application process for a new social and environmental licence to allow access to the ore body is ongoing.

CANNINGTON

(100%)

South32's share	YTD FY15	YTD FY16	YoY	1Q15	4Q15	1Q16	1Q15 vs 1Q16	4Q15 vs 1Q16
Payable silver production (koz)	6,701	6,278	(6%)	6,701	5,236	6,278	(6%)	20%
Payable silver sales (koz)	7,084	6,203	(12%)	7,084	6,144	6,203	(12%)	1%
Payable lead production (kt)	49	49	0%	49	44	49	0%	11%
Payable lead sales (kt)	51	49	(4%)	51	49	49	(4%)	0%
Payable zinc production (kt)	20	20	0%	20	19	20	0%	5%
Payable zinc sales (kt)	15	19	27%	15	16	19	27%	19%

Cannington payable silver production increased by 20% (or 1.04Moz) to 6.28Moz in the September 2015 quarter as the average ore grade temporarily increased to 272g/t. Payable zinc sales increased by 19% following unplanned port maintenance in the June 2015 quarter. FY16 production guidance remains unchanged (payable silver 21.65Moz, payable lead 175kt, payable zinc 80kt) as the grade profile will deliver an increase in the ratio of zinc:lead concentrate over the remainder of the year.

Notes:

1. These cash proceeds will have no impact on the Group's Underlying ETR.
2. Unaudited net debt balance as at 30 September 2015.
3. 10% of South Africa Energy Coal is owned by an Employee Share Ownership Plan (ESOP) and a broad-based black economic empowerment (B-BBEE) consortium. The interests owned by the ESOP and 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%.
4. 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.
5. 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.
6. Figures in italics indicate that this figure has been adjusted since it was previously reported.
7. 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); thousand dry metric tonnes (kdmt); megawatt (MW); Australian Securities Exchange (ASX); London Stock Exchange (LSE); and Johannesburg Stock Exchange (JSE).

OPERATING PERFORMANCE

South32's share	YTD FY15	YTD FY16	1Q15	2Q15	3Q15	4Q15	1Q16
Worsley Alumina (86% share)							
Alumina hydrate production (kt)	980	1,514	980	976	931	987	1,514
Alumina production (kt)	893	1,031	893	1,060	937	929	1,031
Alumina sales (kt)	875	930	875	1,068	866	1,048	930
South Africa Aluminium (100%)							
Aluminium production (kt)	180	178	180	176	168	175	178
Aluminium sales (kt)	174	185	174	178	166	177	185
Mozal Aluminium (47.1% share)							
Aluminium production (kt)	68	66	68	67	65	65	66
Aluminium sales (kt)	64	53	64	73	66	70	53
Brazil Aluminium (alumina 36% share, aluminium 40% share)							
Alumina production (kt)	342	333	342	338	311	337	333
Alumina sales (kt)	323	320	323	371	285	330	320
Aluminium production (kt)	13	0	13	13	12	2	0
Aluminium sales (kt)	12	0	12	13	13	3	0
South Africa Energy Coal (100%)							
Energy coal production (kt)	8,026	8,292	8,026	8,499	9,240	8,508	8,292
Domestic sales (kt)	4,403	4,246	4,403	4,734	4,921	4,358	4,246
Export sales (kt)	3,739	4,132	3,739	4,174	4,354	4,123	4,132
Illawarra Metallurgical Coal (100%)							
Metallurgical coal production (kt)	1,840	2,079	1,840	2,018	1,614	1,983	2,079
Metallurgical coal sales (kt)	1,617	1,999	1,617	1,830	1,810	2,067	1,999
Energy coal production (kt)	497	406	497	383	185	406	406
Energy coal sales (kt)	373	391	373	426	272	307	391
Australia Manganese (60% share)							
Manganese ore production (kt)	726	857	726	773	682	761	857
Manganese ore sales (kt)	734	749	734	725	686	700	749
Manganese alloy production (kt)	35	44	35	48	41	43	44
Manganese alloy sales (kt)	34	38	34	43	26	36	38
South Africa Manganese (60% share)							
Manganese ore production (kt)	629	580	629	604	548	492	580
Manganese ore sales (kt)	599	518	599	590	614	407	518
Manganese alloy production (kt)	67	21	67	73	68	38	21
Manganese alloy sales (kt)	69	25	69	65	70	47	25

South32's share	YTD FY15	YTD FY16	1Q15	2Q15	3Q15	4Q15	1Q16
Cerro Matoso (99.9% share)							
Ore mined (kwmt)	1,512	1,531	1,512	1,827	1,826	1,156	1,531
Ore processed (kdmt)	657	639	657	678	698	596	639
Ore grade processed (% Ni)	1.76	1.55	1.76	1.69	1.63	1.59	1.55
Payable nickel production (kt)	10.7	8.7	10.7	10.5	10.6	8.6	8.7
Payable nickel sales (kt)	10.5	8.7	10.5	10.1	11.0	9.0	8.7
Cannington (100%)							
Ore mined (kt)	823	910	823	925	813	857	910
Ore processed (kt)	819	838	819	850	791	829	838
Payable silver ore grade processed (g/t, Ag)	301	272	301	246	247	235	272
Payable lead ore grade processed (% Pb)	7.1	6.9	7.1	7.0	6.3	6.4	6.9
Payable zinc ore grade processed (% Zn)	3.8	3.4	3.8	3.2	3.2	3.5	3.4
Payable silver production (koz)	6,701	6,278	6,701	5,534	5,130	5,236	6,278
Payable silver sales (koz)	7,084	6,203	7,084	5,631	4,972	6,144	6,203
Payable lead production (kt)	49	49	49	50	40	44	49
Payable lead sales (kt)	51	49	51	49	40	49	49
Payable zinc production (kt)	20	20	20	17	16	19	20
Payable zinc sales (kt)	15	19	15	18	17	16	19

FURTHER INFORMATION

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