

QUARTERLY REPORT



SEPTEMBER 2017

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

- Stronger commodity markets delivered a US\$33M increase in our net cash position to US\$1.7B despite an increase in working capital, the continuation of our capital management program and the prepayment that will increase our stake in Arizona Mining.
- Maintained annual production guidance for our operations and confirmed that we will operate one longwall at the Illawarra Metallurgical Coal Appin mine across the remainder of FY18.
- Achieved record quarterly production at Mozal Aluminium and robust performance at our alumina refineries despite bauxite supply being impacted by adverse weather in Western Australia and Brazil.
- Increased payable nickel production at Cerro Matoso by 21% as scheduled maintenance was deferred and the average ore grade benefitted from the ramp-up of La Esmeralda.
- Continued to take advantage of strong market conditions by maintaining South Africa Manganese ore sales at an annualised rate of 3.5Mwmt pa (100% basis).
- Successfully replaced shaft haulage with additional trucking capacity following the decommissioning of the underground crusher at Cannington, with processing rates to increase as run-of-mine stocks are rebuilt and the new crusher chamber is commissioned in the March 2018 quarter.

“Our key commodity markets continue to benefit from strong demand and a steepening of industry cost curves. This supportive dynamic has further bolstered our net cash position despite the continuation of our capital management program and the prepayment that will increase our interest in Arizona Mining.”

“Annual production guidance is maintained for our operations following generally strong performance across our supply chain. Mozal aluminium achieved another production record, payable nickel production rose sharply at Cerro Matoso and we continued to optimise our manganese operations to benefit from elevated prices.”

“We have also commenced a measured ramp-up of longwall mining activity at the Appin mine that will allow us to reset the operation’s culture, re-establish minimum performance criteria and drive productivity towards a more acceptable level.”

Graham Kerr, South32 CEO

Production summary

South32's share	YTD FY17	YTD FY18	YoY
Alumina production (kt)	1,293	1,279	(1%)
Aluminium production (kt)	243	249	2%
Energy coal production (kt)	8,191	7,014	(14%)
Metallurgical coal production (kt)	1,437	494	(66%)
Manganese ore production (kwmt)	1,180	1,304	11%
Manganese alloy production (kt)	59	56	(5%)
Payable nickel production (kt)	8.7	11.7	34%
Payable silver production (koz)	4,694	2,763	(41%)
Payable lead production (kt)	38.4	25.8	(33%)
Payable zinc production (kt)	17.7	11.0	(38%)

	1Q17	4Q17	1Q18	QoQ
Alumina production (kt)	1,293	1,320	1,279	(3%)
Aluminium production (kt)	243	248	249	0%
Energy coal production (kt)	8,191	7,722	7,014	(9%)
Metallurgical coal production (kt)	1,437	1,437	494	(66%)
Manganese ore production (kwmt)	1,180	1,314	1,304	(1%)
Manganese alloy production (kt)	59	58	56	(3%)
Payable nickel production (kt)	8.7	9.7	11.7	21%
Payable silver production (koz)	4,694	3,326	2,763	(17%)
Payable lead production (kt)	38.4	26.9	25.8	(4%)
Payable zinc production (kt)	17.7	13.2	11.0	(17%)

Unless otherwise noted, percentage variance relates to performance during the September 2017 quarter compared with the June 2017 quarter (QoQ); production and sales volumes are reported on an attributable basis.

CORPORATE UPDATE

- Industry cost curves continue to steepen as a result of US dollar weakness, rising raw material input costs and the environmental policy response in China. While our unit costs are tracking to plan on the basis of previously disclosed exchange rate and commodity price assumptions¹, we will experience additional cost inflation should these external pressures persist across the remainder of the year.
- Exploration remains a key pillar of our strategy. We invested US\$6.8M in greenfield and brownfield activity in the September 2017 quarter (US\$0.5M capitalised), including US\$0.5M in our equity accounted investments (US\$0.2M capitalised). Our exploration budget for FY18 remains unchanged at US\$30M.
- On 14 September, we entered into an over-the-counter equity forward contract to acquire up to an additional 15 million shares in Arizona Mining Incorporated (TSX: AZ) (Arizona Mining), equivalent to 4.9 per cent of the Common Shares on issue. South32 settled the contract in full before the program commenced².
- Our net cash balance increased by US\$33M to US\$1,673M in the September 2017 quarter despite a rise in working capital and the prepayment that will increase our interest in Arizona Mining. With the continuation of our capital management program, we also purchased 19M shares for a cash consideration of US\$47M during the September 2017 quarter. To 30 September 2017, we had completed 35% of our approved US\$750M capital management program at an average price of AUD\$2.73 per share. On 12 October, we paid our first fully-franked dividend, with the US\$333M distribution representing 50% of Underlying earnings in respect of the June 2017 half year.
- While Australia Manganese paid US\$99M (100% share) in royalties in respect of the prior 6 month period, strong prices allowed our manganese equity accounted investments to distribute a net US\$85M³ (South32 share) during the period.
- Our Underlying Effective Tax Rate, which excludes tax associated with equity accounted investments, largely reflects the geographic distribution of the Group's profit. The corporate tax rates applicable to the Group include: Australia 30%, South Africa 28%, Colombia 39% and Brazil 34%. A payment of approximately US\$100M will be made to the Australian Taxation Office in December 2017 in respect of earnings generated in FY17.

Production guidance (South32's share)	FY17	3M YTD18	FY18e
Worsley Alumina			
Alumina production (kt)	3,892	942	3,975
South Africa Aluminium			
Aluminium production (kt)	714	180	720
Mozal Aluminium			
Aluminium production (kt)	271	69	269
Brazil Alumina			
Alumina production (kt)	1,329	337	1,345
South Africa Energy Coal⁴			
Energy coal production (kt)	28,913	6,689	27,500
Domestic coal production (kt)	16,717	3,867	16,000
Export coal production (kt)	12,196	2,822	11,500
Illawarra Metallurgical Coal			
Total coal production (kt)	7,073	819	N/A
Metallurgical coal production (kt)	5,697	494	N/A
Energy coal production (kt)	1,376	325	N/A
Australia Manganese			
Manganese ore production (kwmt)	2,994	808	3,125
South Africa Manganese			
Manganese ore production ⁵ (kwmt)	2,038	496	1,885
Cerro Matoso			
Payable nickel production (kt)	36.5	11.7	41.6
Cannington			
Payable silver production (koz)	15,603	2,763	14,360
Payable lead production (kt)	132	26	115
Payable zinc production (kt)	70	11	45

WORSLEY ALUMINA

(86% share)

South32's share	YTD FY17	YTD FY18	YoY	1Q17	4Q17	1Q18	1Q17 vs 1Q18	4Q17 vs 1Q18
Alumina production (kt)	967	942	(3%)	967	988	942	(3%)	(5%)
Alumina sales (kt)	960	966	1%	960	920	966	1%	5%

Worsley Alumina saleable production decreased by 5% (or 46kt) to 942kt in the September 2017 quarter as calciner maintenance was undertaken and heavy rainfall temporarily affected bauxite supply from the Boddington mine. Alumina sales were 3% higher than production following the deferral of shipments in the prior period. FY18 production guidance remains unchanged at 4.0Mt with additional calciner outages scheduled for the December 2017 and March 2018 quarters.

SOUTH AFRICA ALUMINIUM

(100%)

South32's share	YTD FY17	YTD FY18	YoY	1Q17	4Q17	1Q18	1Q17 vs 1Q18	4Q17 vs 1Q18
Aluminium production (kt)	175	180	3%	175	180	180	3%	0%
Aluminium sales (kt)	178	162	(9%)	178	203	162	(9%)	(20%)

South Africa Aluminium saleable production was unchanged at 180kt in the September 2017 quarter as the smelter continued to achieve benchmark levels of current efficiency and pot line amperage. The decrease in quarterly sales reflects the scheduling of shipments between periods. Our FY18 production guidance remains unchanged at 720kt.

MOZAL ALUMINIUM

(47.1% share)

South32's share	YTD FY17	YTD FY18	YoY	1Q17	4Q17	1Q18	1Q17 vs 1Q18	4Q17 vs 1Q18
Aluminium production (kt)	68	69	1%	68	68	69	1%	1%
Aluminium sales (kt)	64	65	2%	64	73	65	2%	(11%)

Mozal Aluminium achieved record performance in the September 2017 quarter, increasing production by 1% (or 1kt) to 69kt as the smelter continued to optimise performance and test its maximum technical capability. Our FY18 production guidance remains unchanged at 269kt.

The US\$38M (100% share) AP3XLE energy efficiency project was approved during the September 2017 quarter. This project is expected to deliver a circa 5% (or 10ktpa) increase in annual production with no associated increase in power consumption. First production is anticipated in FY20, with the full benefit to be realised in FY24.

BRAZIL ALUMINA

(36% share)

South32's share	YTD FY17	YTD FY18	YoY	1Q17	4Q17	1Q18	1Q17 vs 1Q18	4Q17 vs 1Q18
Alumina production (kt)	326	337	3%	326	332	337	3%	2%
Alumina sales (kt)	299	333	11%	299	322	333	11%	3%

Brazil Alumina saleable production increased by 2% (or 5kt) in the September 2017 quarter as the refinery continued to operate at its capacity. While severe drought conditions in the Porto Trombetas region of Brazil have impacted bauxite supply from the MRN mine (14.8% South32 share), we have successfully mitigated the impact across the remainder of the calendar year and our FY18 production guidance for the Alumar refinery remains unchanged at 1.3Mt.

SOUTH AFRICA ENERGY COAL

(100%)

South32's share	YTD FY17	YTD FY18	YoY	1Q17	4Q17	1Q18	1Q17 vs 1Q18	4Q17 vs 1Q18
Energy coal production (kt)	7,744	6,689	(14%)	7,744	7,413	6,689	(14%)	(10%)
Domestic sales (kt)	4,446	3,788	(15%)	4,446	3,948	3,788	(15%)	(4%)
Export sales (kt)	2,904	2,748	(5%)	2,904	3,068	2,748	(5%)	(10%)

South Africa Energy Coal saleable production decreased by 10% (or 724kt) to 6,689kt in the September 2017 quarter as we completed planned dragline maintenance, relocated critical mobile equipment at the Wolvekrans-Middelburg Complex (WMC) and continued to deplete existing pits. Following prior weather related delays, the development of new mining areas at the WMC is proceeding according to plan and our FY18 production guidance remains unchanged at 27.5Mt. Export sales were sequentially lower as congestion at the Richards Bay Coal Terminal was not fully cleared in the September 2017 quarter. Final approval of the Klipspruit Life Extension project is expected in the December 2017 quarter.

ILLAWARRA METALLURGICAL COAL

(100%)

South32's share	YTD FY17	YTD FY18	YoY	1Q17	4Q17	1Q18	1Q17 vs 1Q18	4Q17 vs 1Q18
Total coal production (kt)	1,884	819	(57%)	1,884	1,746	819	(57%)	(53%)
Total coal sales (kt)	2,193	778	(65%)	2,193	1,711	778	(65%)	(55%)
Metallurgical coal production (kt)	1,437	494	(66%)	1,437	1,437	494	(66%)	(66%)
Metallurgical coal sales (kt)	1,723	403	(77%)	1,723	1,470	403	(77%)	(73%)
Energy coal production (kt)	447	325	(27%)	447	309	325	(27%)	5%
Energy coal sales (kt)	470	375	(20%)	470	241	375	(20%)	56%

Total saleable production for Illawarra Metallurgical Coal decreased by 53% (or 927kt) as the Appin mine remained suspended during the September 2017 quarter. While the Dendrobium mine continued to perform well during the period, production was impacted by geological conditions, consistent with the mine plan. The Dendrobium longwall is expected to pass through a fault zone in the December 2017 quarter and a longwall move is scheduled to commence at Dendrobium in the March 2018 quarter.

Production recommenced at Longwall 707 on 13 October following the completion of the necessary remedial action at the Appin mine. We will operate a single longwall at the Appin mine across the remainder of FY18 as part of a staged ramp-up of activities, before returning to a two longwall configuration in the December 2018 quarter. Longwall 707 is expected to be completed in the June 2018 quarter, at which point we will commence production at Longwall 902. FY18 production guidance for Illawarra Metallurgical Coal will be provided in due course and will be informed by the performance of Longwall 707 and other ramp-up activities at the Appin mine.

AUSTRALIA MANGANESE

(60% share)

South32's share	YTD FY17	YTD FY18	YoY	1Q17	4Q17	1Q18	1Q17 vs 1Q18	4Q17 vs 1Q18
Manganese ore production (kwmt)	763	808	6%	763	776	808	6%	4%
Manganese ore sales (kwmt)	757	790	4%	757	838	790	4%	(6%)
Manganese alloy production (kt)	38	39	3%	38	41	39	3%	(5%)
Manganese alloy sales (kt)	54	36	(33%)	54	36	36	(33%)	0%

Australia Manganese saleable ore production increased by 4% (or 32kwmt) to 808kwmt in the September 2017 quarter as performance improved in the primary higher grade circuit and the contribution of the PC02 circuit reduced to 7% of total ore production. Our FY18 production guidance remains unchanged at 3,125kwmt with preparation underway for the upcoming wet season.

Saleable manganese alloy production decreased by 5% (or 2kt) to 39kt in the September 2017 quarter.

SOUTH AFRICA MANGANESE

(60% share)

South32's share	YTD FY17	YTD FY18	YoY	1Q17	4Q17	1Q18	1Q17 vs 1Q18	4Q17 vs 1Q18
Manganese ore production (kwmt)	417	496	19%	417	538	496	19%	(8%)
Manganese ore sales (kwmt)	417	528	27%	417	542	528	27%	(3%)
Manganese alloy production (kt)	21	17	(19%)	21	17	17	(19%)	0%
Manganese alloy sales (kt)	20	14	(30%)	20	20	14	(30%)	(30%)

South Africa Manganese saleable ore production decreased by 8% (or 42kwmt) to 496kwmt in the September 2017 quarter, while sales were maintained at an annualised rate of 3.5Mwmt pa as strong market demand enabled us to sell Wessels concentrate and utilise higher cost trucking during the period. FY18 production guidance remains unchanged at 1,885kwmt.

Manganese alloy saleable production was unchanged in the September 2017 quarter. Metalloys continues to operate one of its four furnaces.

CERRO MATOSO

(99.9% share)

South32's share	YTD FY17	YTD FY18	YoY	1Q17	4Q17	1Q18	1Q17 vs 1Q18	4Q17 vs 1Q18
Payable nickel production (kt)	8.7	11.7	34%	8.7	9.7	11.7	34%	21%
Payable nickel sales (kt)	8.2	11.4	39%	8.2	9.8	11.4	39%	16%

Cerro Matoso payable nickel production increased by 21% (or 2kt) in the September 2017 quarter as scheduled maintenance was deferred into the December quarter and the average ore grade benefitted from the ramp-up of La Esmerelda. Our FY18 production guidance remains unchanged at 41.6kt.

CANNINGTON

(100%)

South32's share	YTD FY17	YTD FY18	YoY	1Q17	4Q17	1Q18	1Q17 vs 1Q18	4Q17 vs 1Q18
Payable silver production (koz)	4,694	2,763	(41%)	4,694	3,326	2,763	(41%)	(17%)
Payable silver sales (koz)	5,063	2,926	(42%)	5,063	3,866	2,926	(42%)	(24%)
Payable lead production (kt)	38.4	25.8	(33%)	38.4	26.9	25.8	(33%)	(4%)
Payable lead sales (kt)	40.1	25.9	(35%)	40.1	32.3	25.9	(35%)	(20%)
Payable zinc production (kt)	17.7	11.0	(38%)	17.7	13.2	11.0	(38%)	(17%)
Payable zinc sales (kt)	18.5	13.6	(26%)	18.5	9.8	13.6	(26%)	39%

Cannington silver, lead and zinc payable production decreased by 17%, 4% and 17%, respectively in the September 2017 quarter as we successfully replaced shaft haulage with additional trucking capacity following the decommissioning of the underground crusher on 11 September 2017. Our FY18 production guidance (silver 14,360koz, lead 115kt and zinc 45kt) remains unchanged with processing rates scheduled to increase towards the end of the year as run-of-mine stocks are rebuilt and the new crusher chamber is commissioned in the March 2018 quarter.

Notes:

1. FY18e Operating unit cost guidance provided in our FY17 Results Announcement includes royalties (where appropriate) and the influence of exchange rates, and was predicated on various assumptions for FY18, including: an alumina price of US\$299/t; a manganese ore price of US\$4.50/dmt for 44% manganese product; a nickel price of US\$4.27/lb; a thermal coal price of US\$72/t (API4) for South Africa Energy Coal; a silver price of US\$16.82/troy oz; a lead price of US\$2,135/t; a zinc price of US\$2,555/t; an AUD:USD exchange rate of 0.74; a USD:ZAR exchange rate of 14.17 and a USD:COP exchange rate of 2,961; all of which reflected forward markets as at May 2017 or our internal expectations.
2. In May 2017, South32 acquired 45 million Common Shares, or approximately 15 per cent of Arizona Mining as part of a private placement and investor rights agreement. The investor rights agreement allows South32 to acquire up to, but no more than 19.9 per cent of Arizona Mining within an 18-month standstill period without the consent of Arizona Mining's board of directors. Under the terms of the September 2017 forward contract, a third-party financial institution will seek to purchase the additional shares in the market over a maximum period of 12 months. Trading activity will occur at the financial institution's sole discretion, subject to certain agreed trading parameters. South32 settled the contract in full before the program commenced. The final cost will be determined on completion of the program and will be based on the daily volume weighted average price of the shares over the period.
3. Net distributions from equity accounted investments includes net debt movements and dividends.
4. 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%.
5. 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.
6. 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).

OPERATING PERFORMANCE

South32's share	YTD FY17	YTD FY18	1Q17	2Q17	3Q17	4Q17	1Q18
Worsley Alumina (86% share)							
Alumina hydrate production (kt)	980	974	980	966	993	959	974
Alumina production (kt)	967	942	967	973	964	988	942
Alumina sales (kt)	960	966	960	949	1,018	920	966
South Africa Aluminium (100%)							
Aluminium production (kt)	175	180	175	181	178	180	180
Aluminium sales (kt)	178	162	178	169	163	203	162
Mozal Aluminium (47.1% share)							
Aluminium production (kt)	68	69	68	68	67	68	69
Aluminium sales (kt)	64	65	64	70	66	73	65
Brazil Alumina (alumina 36% share)							
Alumina production (kt)	326	337	326	347	324	332	337
Alumina sales (kt)	299	333	299	339	356	322	333
South Africa Energy Coal (100%)							
Energy coal production (kt)	7,744	6,689	7,744	7,081	6,675	7,413	6,689
Domestic sales (kt)	4,446	3,788	4,446	4,472	4,056	3,948	3,788
Export sales (kt)	2,904	2,748	2,904	2,952	2,873	3,068	2,748
Illawarra Metallurgical Coal (100%)							
Total coal production (kt)	1,884	819	1,884	1,829	1,614	1,746	819
Total coal sales (kt)	2,193	778	2,193	1,412	1,980	1,711	778
Metallurgical coal production (kt)	1,437	494	1,437	1,392	1,431	1,437	494
Metallurgical coal sales (kt)	1,723	403	1,723	1,065	1,694	1,470	403
Energy coal production (kt)	447	325	447	437	183	309	325
Energy coal sales (kt)	470	375	470	347	286	241	375
Australia Manganese (60% share)							
Manganese ore production (kwmt)	763	808	763	736	719	776	808
Manganese ore sales (kwmt)	757	790	757	743	749	838	790
Ore grade sold (% Mn)	46.7	46.1	46.7	46.1	46.0	46.2	46.1
Manganese alloy production (kt)	38	39	38	40	28	41	39
Manganese alloy sales (kt)	54	36	54	28	37	36	36
South Africa Manganese (60% share)							
Manganese ore production (kwmt)	417	496	417	517	566	538	496
Manganese ore sales (kwmt)	417	528	417	511	554	542	528
Ore grade sold (% Mn)	39.7	40.7	39.7	40.8	40.1	39.8	40.7
Manganese alloy production (kt)	21	17	21	16	19	17	17
Manganese alloy sales (kt)	20	14	20	20	14	20	14

South32's share	YTD FY17	YTD FY18	1Q17	2Q17	3Q17	4Q17	1Q18
Cerro Matoso (99.9% share)							
Ore mined (kwmt)	1,238	1,051	1,238	1,109	1,044	1,056	1,051
Ore processed (kdmmt)	645	696	645	644	648	624	696
Ore grade processed (% Ni)	1.52	1.91	1.52	1.55	1.60	1.69	1.91
Payable nickel production (kt)	8.7	11.7	8.7	9.0	9.1	9.7	11.7
Payable nickel sales (kt)	8.2	11.4	8.2	9.4	9.2	9.8	11.4
Cannington (100%)							
Ore mined (kwmt)	780	647	780	859	675	595	647
Ore processed (kdmmt)	828	593	828	841	739	628	593
Silver ore grade processed (g/t, Ag)	216	175	216	182	183	196	175
Lead ore grade processed (% Pb)	5.7	5.2	5.7	5.2	5.3	5.2	5.2
Zinc ore grade processed (% Zn)	3.2	2.8	3.2	4.2	3.0	3.1	2.8
Payable silver production (koz)	4,694	2,763	4,694	4,035	3,548	3,326	2,763
Payable silver sales (koz)	5,063	2,926	5,063	3,797	3,544	3,866	2,926
Payable lead production (kt)	38.4	25.8	38.4	35.5	31.3	26.9	25.8
Payable lead sales (kt)	40.1	25.9	40.1	33.2	32.5	32.3	25.9
Payable zinc production (kt)	17.7	11.0	17.7	24.4	15.1	13.2	11.0
Payable zinc sales (kt)	18.5	13.6	18.5	22.3	16.8	9.8	13.6

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.

FURTHER INFORMATION

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