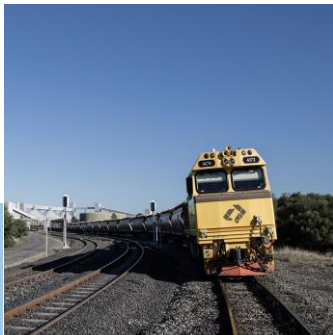
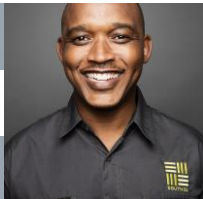




# MARKETING UPDATE

31 OCTOBER 2016



# IMPORTANT NOTICES



**THIS PRESENTATION SHOULD BE READ IN CONJUNCTION WITH THE “FINANCIAL RESULTS AND OUTLOOK – YEAR ENDED 30 JUNE 2016” ANNOUNCEMENT RELEASED ON 25 AUGUST 2016, WHICH IS AVAILABLE ON SOUTH32’S WEBSITE ([WWW.SOUTH32.NET](http://WWW.SOUTH32.NET)).**

## **FORWARD LOOKING STATEMENTS**

This presentation contains forward-looking statements, including statements about trends in commodity prices and currency exchange rates; demand for commodities and production forecasts; plans, strategies and objectives of management. These forward-looking statements reflect expectations at the date of this presentation, however they are not guarantees or predictions of future outcomes. They involve known and unknown risks, uncertainties and other factors, many of which are beyond our control, and which may cause actual outcomes to differ materially from those expressed in the statements contained in this presentation. 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. The denotation (e) refers to an estimate or forecast year.

## **NO OFFER OF SECURITIES**

Nothing in this presentation should be read or understood as an offer or recommendation to buy or sell South32 securities, or be treated or relied upon as a recommendation or advice by South32.

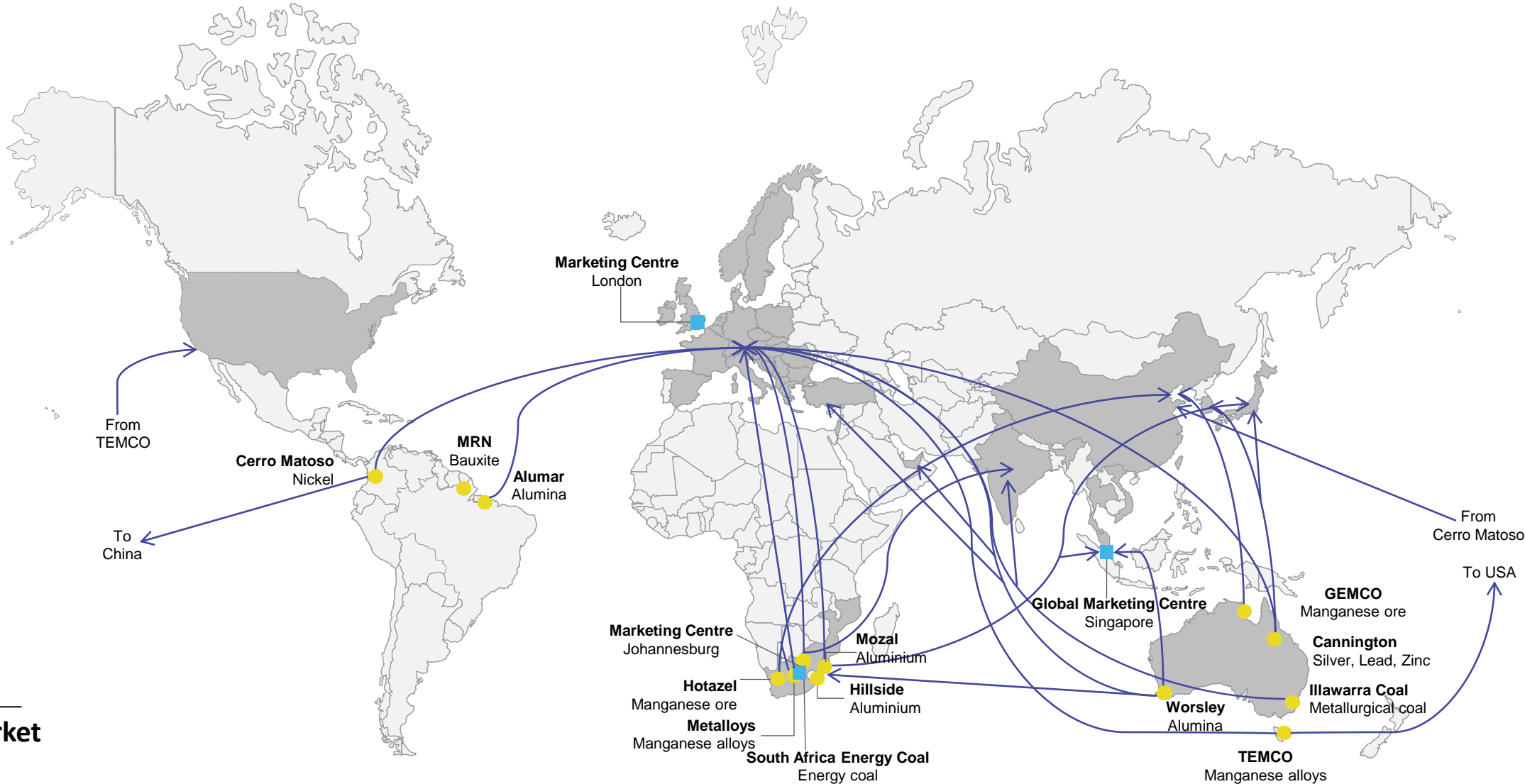
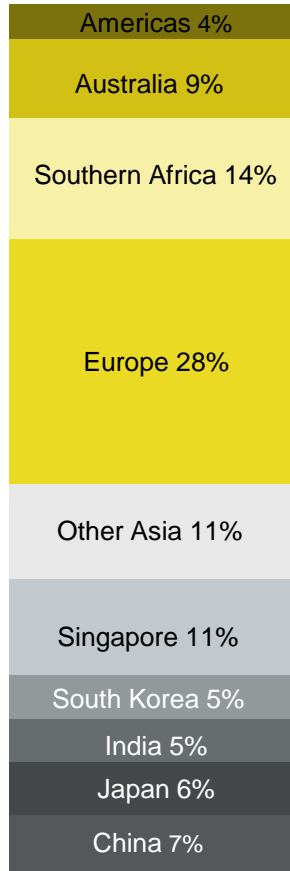
## **RELIANCE ON THIRD PARTY INFORMATION**

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## **NO FINANCIAL OR INVESTMENT ADVICE – SOUTH AFRICA**

South32 does not provide any financial or investment 'advice' as that term is defined in the South African Financial Advisory and Intermediary Services Act, 37 of 2002, and we strongly recommend that you seek professional advice.

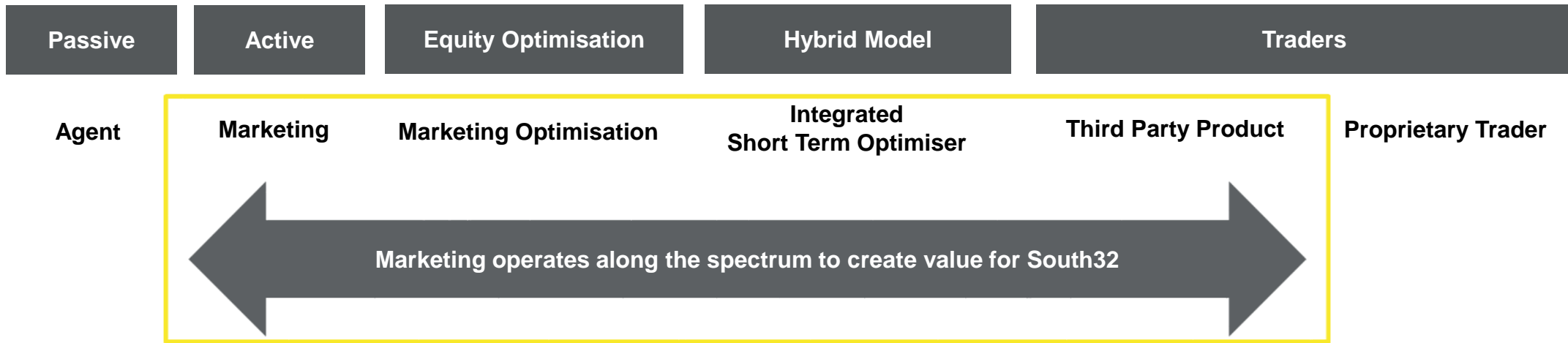
# A GLOBAL MARKETING TEAM SERVING DIVERSIFIED MARKETS



**Notes:**

1. Image is a diagrammatical representation of primary markets for our products
2. Singapore marketing centre is a wholly owned subsidiary of South32 Limited

# ACTIVELY PURSUING VALUE FOR OUR PRODUCT



## South32 marketing is

- Responsible for selling our products and purchasing strategic raw materials
- Managing the supply chain for our sales and strategic raw materials purchases
- Buying and selling third party product where we have a market or logistics advantage
- Gathering market intelligence to assist in defining the South32 view of the commodity markets
- Our centralised structure and multi-national, multi-lingual team allows us to collaborate, make faster and better decisions, and better manage risks (counterparty, credit, and market)

## South32 marketing delivers

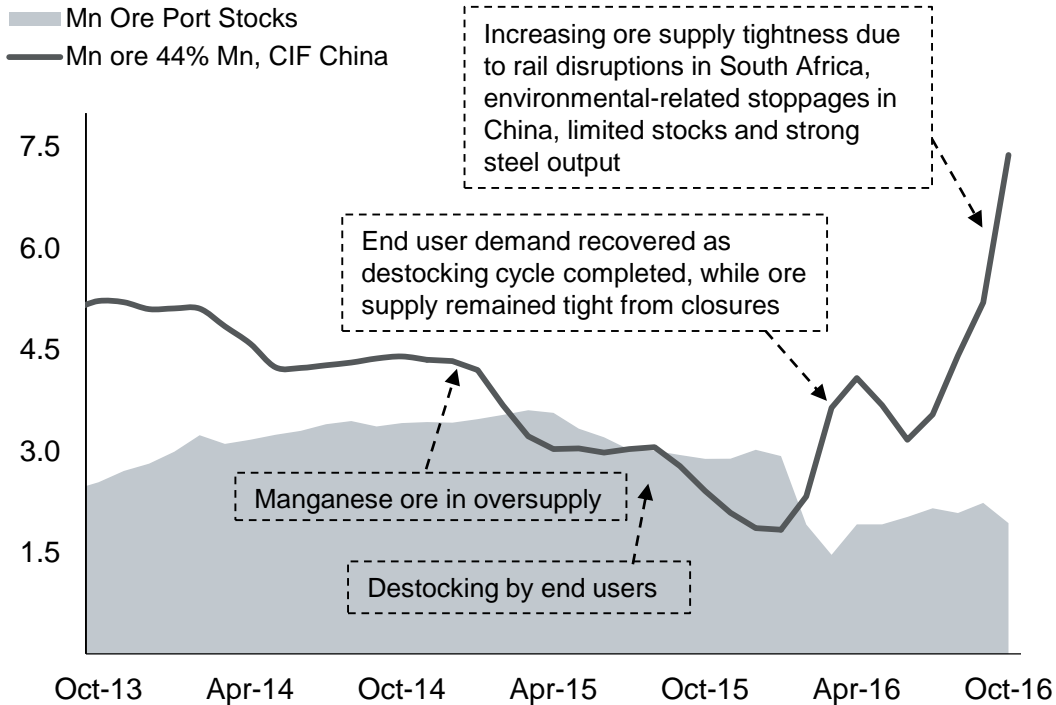
- Understanding of the quality of South32's products to ensure a market price that reflects the value in use of our product
- Deep freight and logistics knowledge and optimised supply chain outcomes
- A trusted partnership with our customers and our suppliers knowing what each partner values most
- Market insights to inform regional and corporate strategy to maximise value

# MANGANESE ORE MARKET OVERVIEW



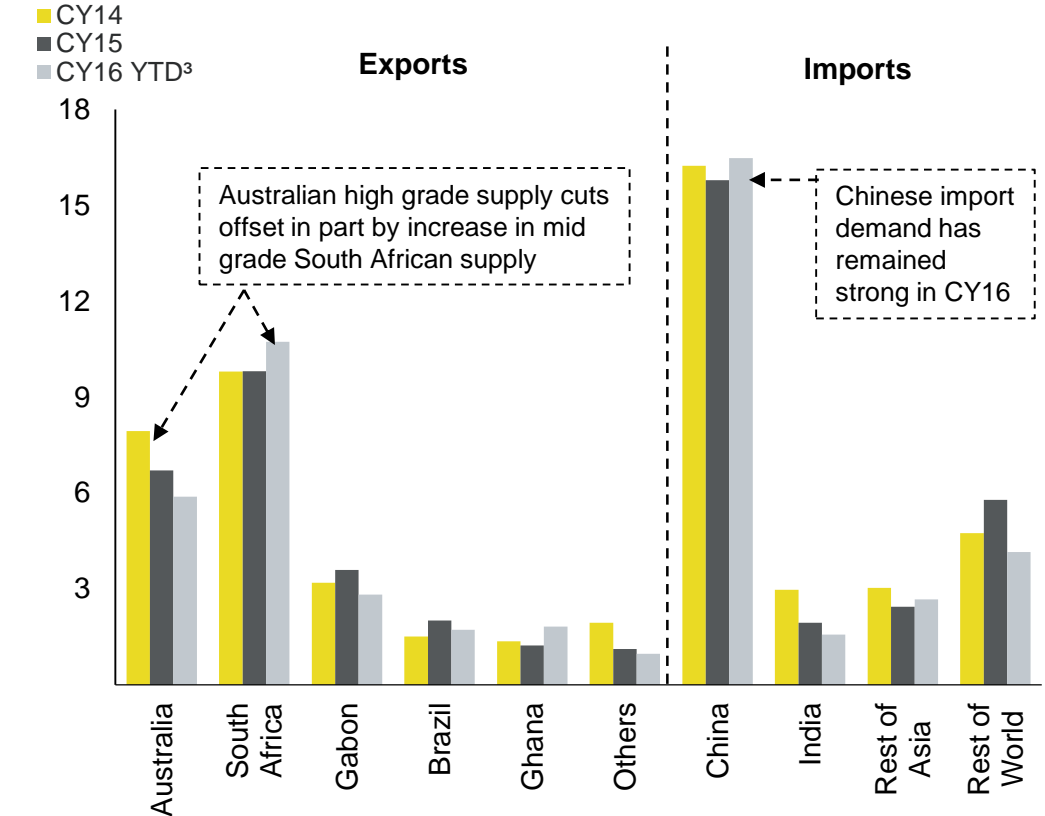
## Manganese ore price and China port stocks<sup>1</sup>

(US\$/dmtu; Mt)



## Manganese ore trade flows<sup>2</sup>

(Mt, Mn content unadjusted)



### Long term outlook:

- Manganese intensity in steel is expected to decline due to changing mix of steel production in China from construction-driven long products to consumer-driven flat products
- The impact of steel recycling on manganese demand is less pronounced than other steel inputs due to its loss in the process
- China's high import dependency expected to continue due to lower supply from domestic grade decline and orebody depletion
- Future marginal supply is likely to come from South Africa where the ZAR rate will impact the cost curve

Notes:

1. Sources: SteelOrbis, Metal Bulletin – 44% CIF China index
2. Sources: GTIS, South32 analysis
3. CY16 YTD reflects up to September 2016 annualised

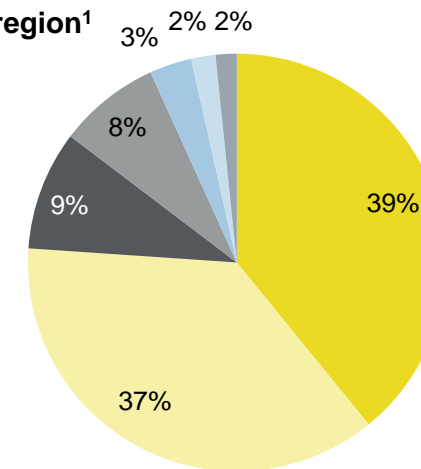
# MANGANESE ORE MARKETING

<b>Where we sell our products</b>	<ul style="list-style-type: none"> <li>Internal consumption (Temco and Metalloys)</li> <li>Exports predominately to China, South Korea, India and Europe</li> </ul>
<b>Product types</b>	<ul style="list-style-type: none"> <li>Gemco and Wessels produce high grade oxide ore (&gt; 44%Mn), Mamatwan produces semi carbonate ore (~37% Mn)</li> <li>GEMCO PC02 (~40% Mn) project completed in FY16</li> <li>Australia and South Africa produce sinter for internal consumption and external markets (~ 44% - 54% Mn)</li> </ul>
<b>Contract strategy</b>	<ul style="list-style-type: none"> <li>Market price reflecting value in use of the ore</li> <li>Opportunistic third party product is placed</li> </ul>
<b>Pricing and price exposure</b>	<ul style="list-style-type: none"> <li>There are no industry standard manganese contracts or pricing approaches</li> <li>Market, especially China, is predominantly fixed price negotiated at prevailing market prices for delivery in the following month</li> <li>Index transactions are generally priced with a quotation period of Month or Month -1</li> <li>In a falling market fixed sales typically outperform index. Vice versa in a rising market</li> </ul>

**Notes:**

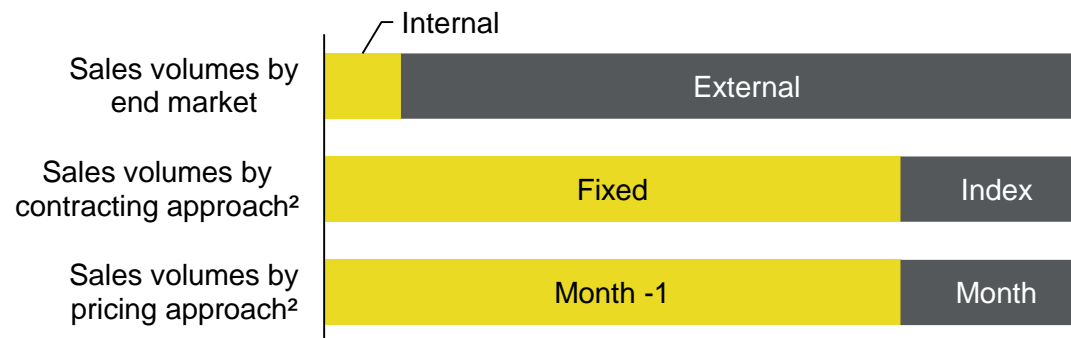
1. Revenue breakdown by country excludes intercompany sales and third party product
2. Reflects allocation of external Manganese ore sales

**FY16 sales revenue by region<sup>1</sup>**



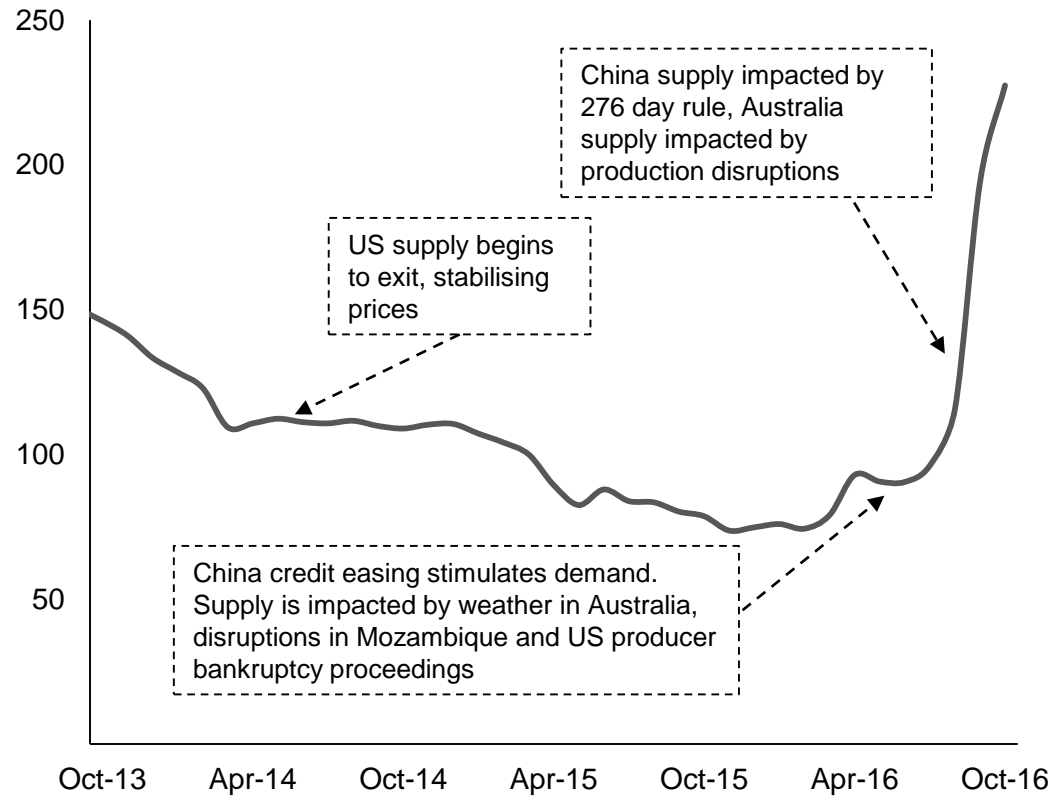
■ Other Asia ■ China ■ India ■ Europe ■ Middle East ■ Africa ■ Americas

**Relative share 1Q17 of Manganese ore sales**

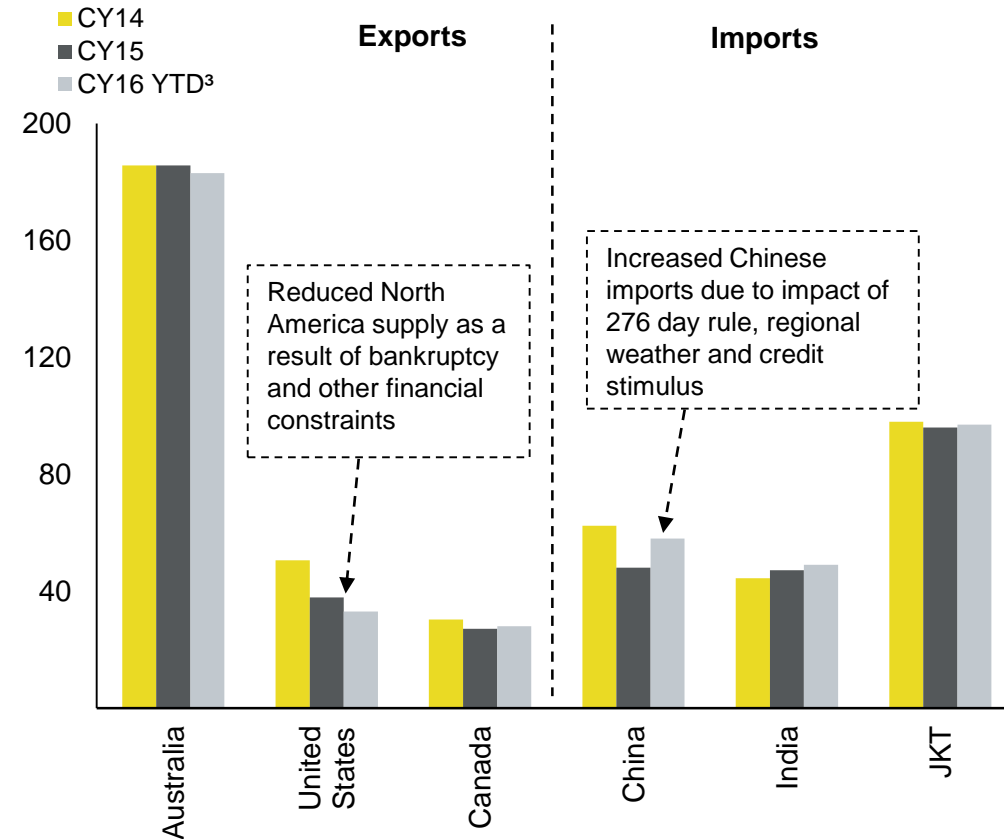


# METALLURGICAL COAL MARKET OVERVIEW

**Monthly average HCC price<sup>1</sup>**  
(US\$/t)



**Metallurgical coal trade flows<sup>2</sup>**  
(Mt)



**Long term outlook:**

- The metallurgical coal market continues to grow, albeit modestly, driven by steel use in industrialisation and urbanisation
- Recent price movement heavily impacted by short term supply factors, unlikely to continue in the long term
- India will be the key driver for demand growth given outlook for steel production and lack of domestic hard coking coal supply
- Marginal supply likely to come from Australia or North America

Notes:

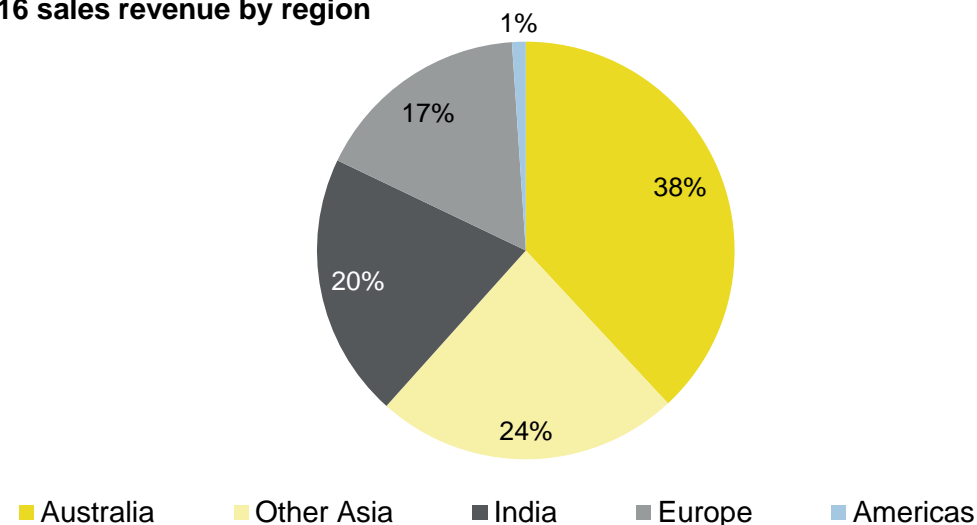
1. Source: Platts
2. Sources: GTIS, HDR
3. CY16 YTD reflects up to August 2016 annualised

# METALLURGICAL COAL MARKETING

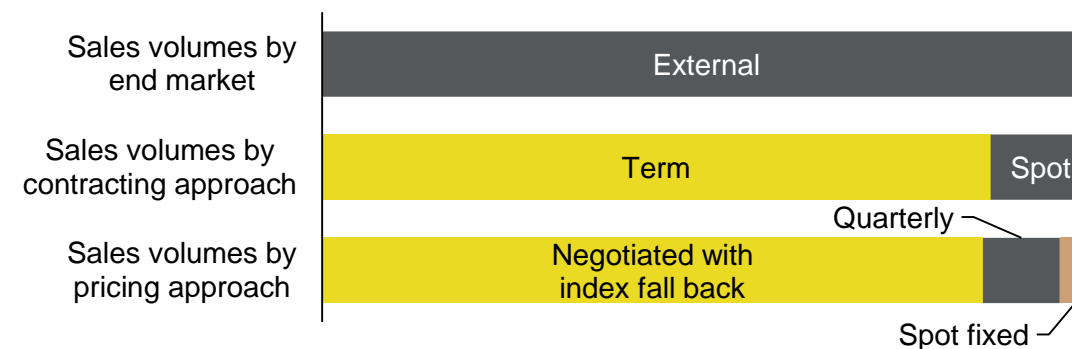


<b>Where we sell our products</b>	<ul style="list-style-type: none"> <li>Domestic steelmakers (BlueScope and Arrium)</li> <li>Exports predominately to India, Japan, South Korea, Taiwan and Europe</li> </ul>
<b>Product types</b>	<ul style="list-style-type: none"> <li>Illawarra Metallurgical Coal produces a premium hard coking coal and limited thermal coal (FY16: 84%/16%)</li> </ul>
<b>Contract strategy</b>	<ul style="list-style-type: none"> <li>Market price reflecting value in use premium</li> <li>Zero hedging undertaken</li> <li>Opportunistic third party product placed</li> </ul>
<b>Pricing and price exposure</b>	<ul style="list-style-type: none"> <li>Premium received to HCC low vol FOB Australia index due to coal quality</li> <li>Sales are largely negotiated with a mechanism to fall back to index<sup>1</sup></li> <li>Limited exposure to quarterly benchmark</li> <li>Prices realised on a Month or Month -1 basis</li> </ul>

FY16 sales revenue by region



Relative share of 1Q17 Metallurgical coal sales



Notes:

1. Where a sale for a shipment is negotiated with a customer and mutual price agreement cannot be reached the contract reverts to index



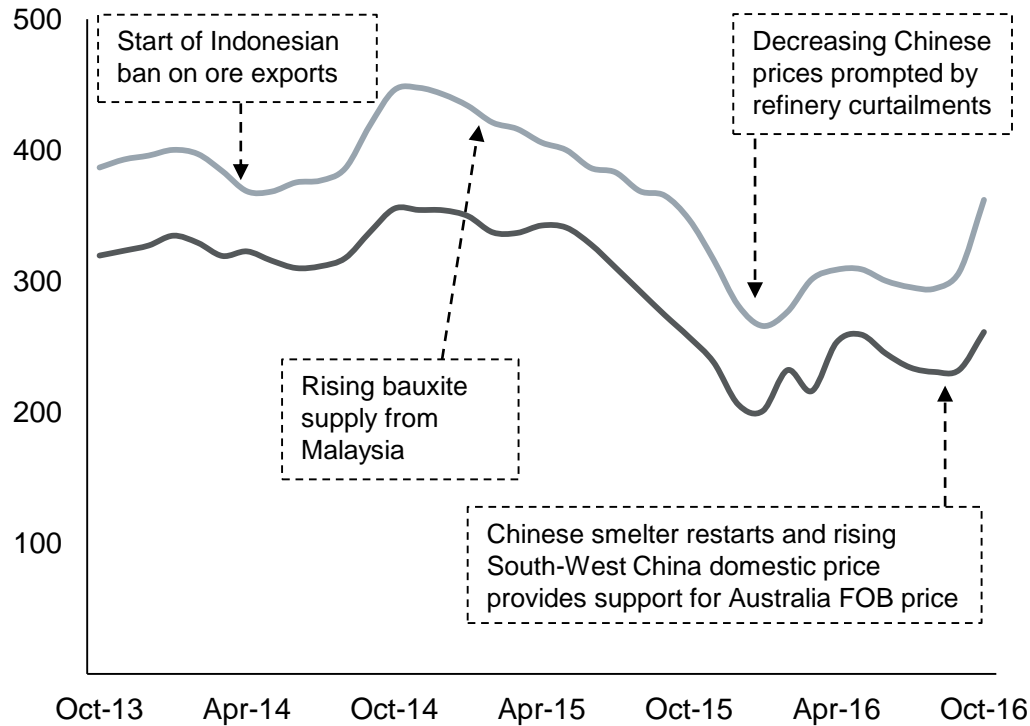
# ALUMINA MARKET OVERVIEW



## Alumina monthly price<sup>1,2</sup>

(US\$/t)

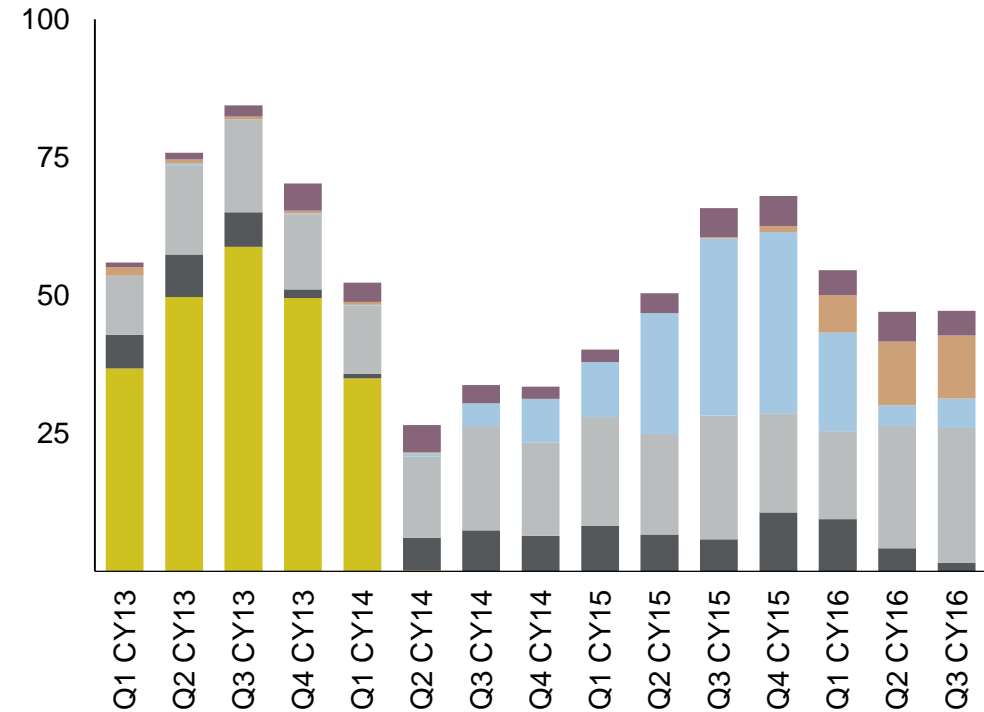
— South-West China domestic price (US\$/t)  
 — Australia FOB price (US\$/t)



## China bauxite imports<sup>3</sup>

(Mt annualised)

■ Indonesia ■ India ■ Australia ■ Malaysia ■ Guinea ■ Other



### Long term outlook:

- Healthy outlook for alumina demand, driven by growth in primary aluminium production
- China will remain short alumina units. Unit cost of importing and refining bauxite will provide price support in the short to medium term
- Indian market likely to remain unbalanced (short alumina and bauxite)
- Marginal alumina supply likely to come from Indonesia in the long term

Notes:

1. Sources: Platts, Aladinny, South32 analysis
2. South-West China domestic price excludes VAT (ex-smelter)
3. Source: GTIS

## Where we sell our products

- Internal consumption (Hillside and Mozal smelters)
- Exports predominately to Middle East, Asia and Europe

## Product types

- Smelter grade alumina that may attract a premium for its value in use characteristics

## Contract strategy

- Market price reflecting value in use
- ~85% sold on long term contracts of 1-3+ years that realise an index price
- Some shipments will be sold on a spot basis each quarter to support overall liquidity in the market

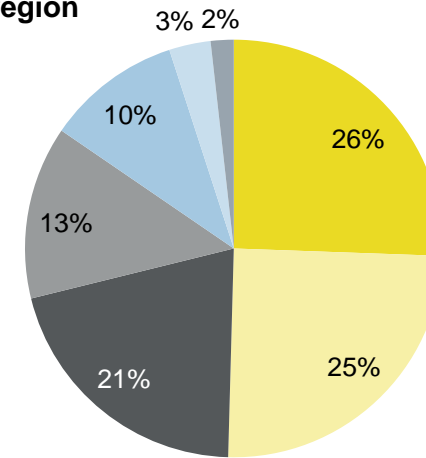
## Pricing and price exposure

- Industry pricing has transitioned from LME Aluminium percentage linked pricing to index pricing
- Other than one legacy contract, no contracts are priced on LME Aluminium percentage linked basis
- All term contracts are on an index basis with an Month -1 quotation period
- Negotiated prices for spot shipments

Notes:

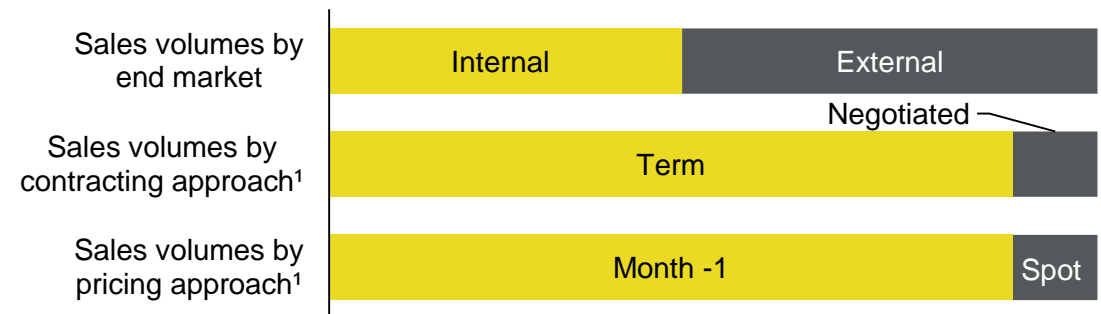
1. Reflects percentage allocation of external Alumina sales including third party product

## FY16 sales revenue by region



■ Other Asia ■ Europe ■ Middle East ■ Africa ■ Americas ■ China ■ India

## Relative share of 1Q17 Alumina sales

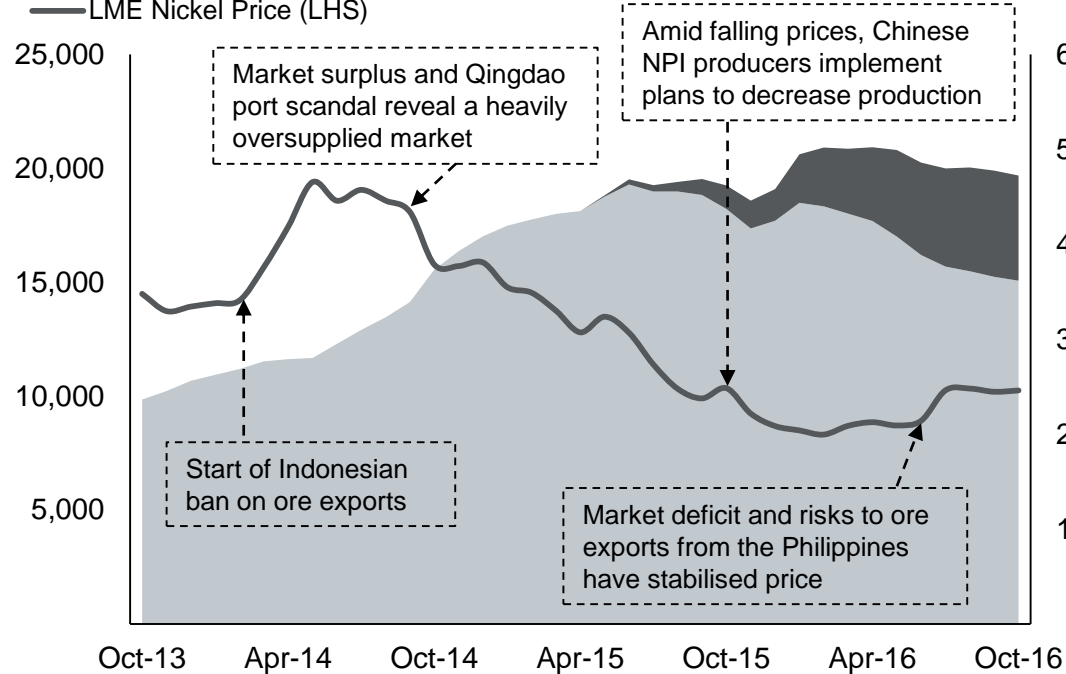


# NICKEL MARKET OVERVIEW

## LME nickel price and exchange Stocks<sup>1</sup>

(LHS: US\$/t, RHS: kt)

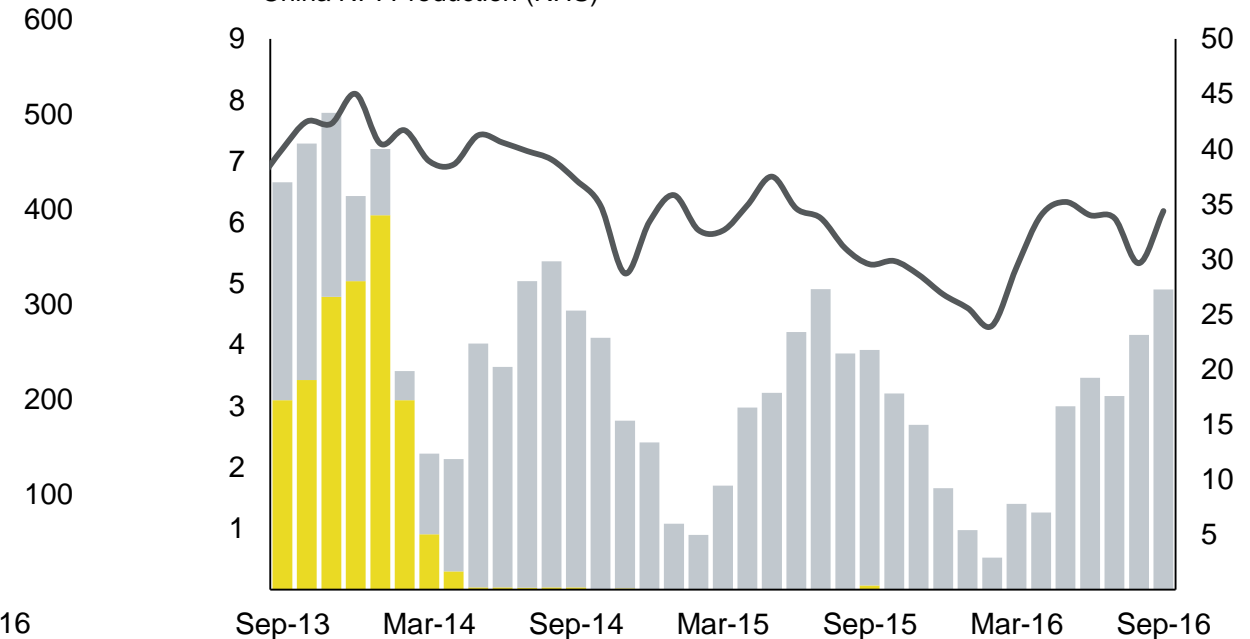
SHFE Stocks (RHS)  
 LME Stocks (RHS)  
 LME Nickel Price (LHS)



## China nickel ore imports and NPI supply<sup>2</sup>

(LHS: Mt ore, RHS: kt)

Indonesia Ore Imports (LHS)  
 Philippines Ore Imports (LHS)  
 China NPI Production (RHS)



### Long term outlook:

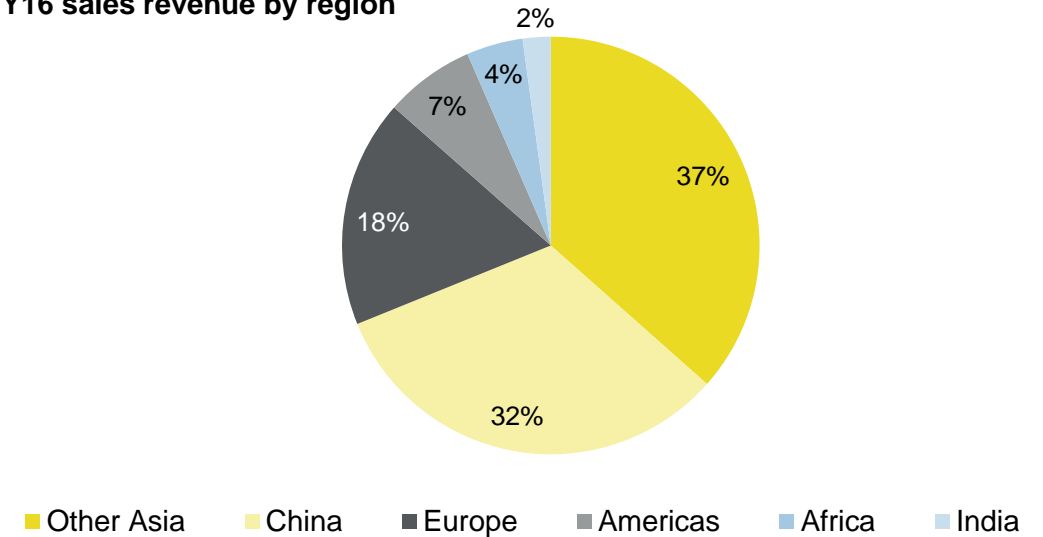
- Healthy outlook for demand driven by rising output of nickel-bearing stainless steel
- China is structurally short of nickel units and will depend on imports to meet demand
- Ore availability for Chinese Nickel Pig Iron production from the Philippines and Indonesia is a function of government policy
- Marginal production likely to come from Indonesian NPI production

Notes:

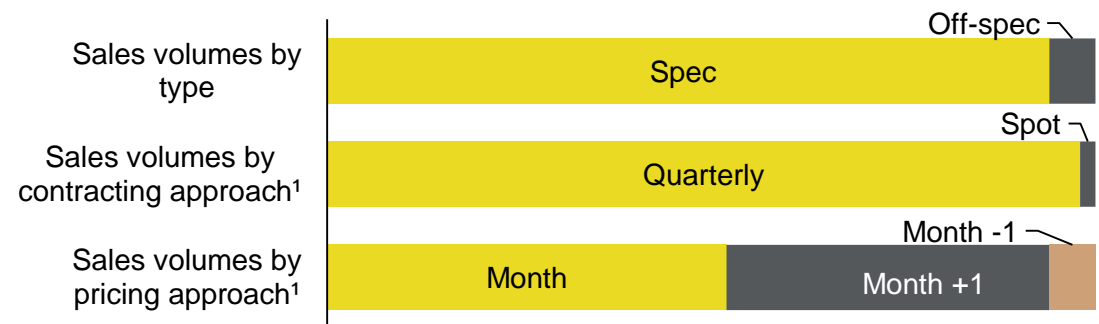
1. Sources: LME, SHFE
2. Sources: GTIS, SMM

<b>Where we sell our products</b>	<ul style="list-style-type: none"> <li>Exports mainly to Asia</li> <li>Small amount of off-specification product sales made</li> </ul>
<b>Product types</b>	<ul style="list-style-type: none"> <li>Ferronickel (an alloy of nickel and iron)</li> <li>29% nickel content</li> <li>Sold predominately to stainless steel producers</li> </ul>
<b>Contract strategy</b>	<ul style="list-style-type: none"> <li>Market price reflecting value in use</li> <li>Zero hedging</li> </ul>
<b>Pricing and price exposure</b>	<ul style="list-style-type: none"> <li>Ferronickel is sold based on its nickel content (referencing the LME price for refined nickel) plus a differential (premium or discount)</li> <li>Typically South32 product is sold on quarterly or spot contracts</li> </ul>

FY16 sales revenue by region



Relative share of 1Q17 Ferronickel sales



Notes:

1. Reflects percentage allocation of external Ferronickel sales



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