

QUARTERLY REPORT



MARCH 2016

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

- Our strong balance sheet remains a key point of difference. At 31 March 2016 our estimated net cash¹ position was US\$18M.
- We are well positioned to achieve FY16 production guidance for all our operations and remain on track to reduce controllable costs² by US\$300M.
- Strong operating performance at Worsley Alumina supported a 5% increase in production in the March 2016 quarter.
- The recommencement of longwall mining at Dendrobium and completion of the Appin Area 9 project resulted in a 35% increase in metallurgical coal production in the March 2016 quarter.
- A reduction in mill availability, associated with an outage in January, resulted in lower sequential production at Cannington in the March 2016 quarter.
- We successfully reconfigured South Africa Manganese to operate with greater flexibility to respond to market demand, having ramped-up ore production to an optimised 2.9Mtpa (100% basis).
- The Appin Area 9 project was completed 33% below budget and ahead of schedule. The Premium Concentrate Ore Project (PC02) at GEMCO is 98% complete and will be commissioned in the June 2016 quarter.

"We continue to strengthen our balance sheet by focussing on value, not volume."

"We are making great progress on our cost-out program across all operations and have continued to generate cash despite volatile commodity markets."

"We have successfully completed the Appin Area 9 project at Illawarra Metallurgical Coal and are close to completing the PC02 project at GEMCO. Both will be delivered below budget."

Graham Kerr, South32 CEO

Production summary

South32's share	9M YTD15	9M YTD16	YoY	3Q15	2Q16	3Q16	QoQ
Alumina production (kt)	3,881	4,000	3%	1,248	1,302	1,334	2%
Aluminium production (kt)	762	725	(5%)	245	241	240	(0%)
Energy coal production (kt)	26,830	24,967	(7%)	9,425	8,339	7,930	(5%)
Metallurgical coal production (kt)	5,472	4,940	(10%)	1,614	1,219	1,642	35%
Manganese ore production (kt)	3,963	3,551	(10%)	1,230	909	1,205	33%
Manganese alloy production (kt)	332	179	(46%)	109	66	48	(27%)
Payable nickel production (kt)	31.8	27.2	(14%)	10.6	8.8	9.7	10%
Silver production (koz)	17,365	16,356	(6%)	5,130	5,600	4,478	(20%)
Lead production (kt)	138.7	134.4	(3%)	40.1	48.4	36.9	(24%)
Zinc production (kt)	53.4	60.3	13%	16.4	22.2	18.5	(17%)

Unless otherwise noted: percentage variance relates to performance during the nine months ended March 2016 (or year to date (YTD)) compared with the nine months ended March 2015 (YoY) or the March 2016 quarter compared with the December 2015 quarter (QoQ); production and sales volumes are reported on an attributable basis.

CORPORATE UPDATE

- We are on track to reduce controllable costs by US\$300M in FY16. Restructuring at Worsley Alumina, South Africa Manganese and the Australia Manganese mining operation is largely complete. Restructuring at Cerro Matoso and Illawarra Metallurgical Coal is expected to be completed in the June 2016 quarter.
- Guidance for depreciation and amortisation³ (US\$760M) and capital expenditure⁴ (US\$550M) for FY16 remains unchanged, while Underlying net finance costs are expected to be marginally higher than the annualised H1 FY16 run-rate (US\$71M in H1 FY16).
- The US\$134M reduction in net debt recorded in the quarter was achieved despite a US\$30M foreign exchange rate related increase in finance lease liabilities, which rose to US\$621M (US\$595M as at 31 December 2015), and one-off redundancy and restructuring payments⁵ of approximately US\$23M.
- Our strong balance sheet remains a key point of difference and we are firmly committed to an investment grade credit rating. In the period Moody's⁶ confirmed our credit rating at Baa1 and S&P confirmed that no rating actions were warranted (S&P rating is stable at BBB+).
- Our Underlying effective tax rate (ETR)⁷ largely reflects 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%. Permanent differences have a disproportionate effect on the Group's tax rate when the Group's profit margins are compressed.
- Our exploration expenditure for the nine months ended March 2016 totalled US\$9M, of which US\$3M will be capitalised. Exploration activities were conducted at our existing operations and were focussed on metallurgical coal and silver in Australia, and nickel in Colombia.
- The U.S. International Trade Commission determined on 11 March 2016 that the U.S. silicomanganese industry is not materially injured or threatened with material injury by imports from Australia. As a result, no anti-dumping duties will be imposed on TEMCO.

Upstream production and FY16 guidance (South32's share)	FY15	9M YTD16	FY16e
Worsley Alumina			
Alumina production (kt)	3,819	3,001	3,950
Brazil Alumina			
Alumina production (kt)	1,328	999	1,320
South Africa Energy Coal⁸			
Domestic coal production (kt)	18,123	12,886	16,650
Export coal production (kt)	16,150	11,185	15,300
Illawarra Metallurgical Coal			
Metallurgical coal production (kt)	7,455	4,940	6,900
Energy coal production (kt)	1,471	896	1,350
Australia Manganese			
Manganese ore production (kt)	2,942	2,332	3,050
South Africa Manganese			
Manganese ore production ⁹ (kt)	2,273	1,219	Subject to demand
Cerro Matoso			
Payable nickel production (kt)	40.4	27.2	36.5
Cannington			
Payable silver production (koz)	22,601	16,356	21,650
Payable lead production (kt)	183	134	175
Payable zinc production (kt)	72	60	80

WORSLEY ALUMINA

(86% share)

South32's share	9M YTD15	9M YTD16	YoY	3Q15	2Q16	3Q16	3Q15 vs 3Q16	2Q16 vs 3Q16
Alumina production (kt)	2,890	3,001	4%	937	962	1,008	8%	5%
Alumina sales (kt)	2,809	2,915	4%	866	968	1,017	17%	5%

Worsley Alumina saleable production increased by 4% (or 111kt) to 3.0Mt in the nine months ended March 2016 as high calciner availability contributed to a 5% increase in production in the March 2016 quarter. This outstanding result was underpinned by another strong quarter of hydrate production as the input circuit exceeded expanded capacity of 4.6Mtpa (100% basis).

FY16 saleable alumina production guidance remains unchanged at 3.95Mt. The next major calciner outage is scheduled for the December 2016 quarter.

SOUTH AFRICA ALUMINIUM

(100%)

South32's share	9M YTD15	9M YTD16	YoY	3Q15	2Q16	3Q16	3Q15 vs 3Q16	2Q16 vs 3Q16
Aluminium production (kt)	524	525	0%	168	174	173	3%	(1%)
Aluminium sales (kt)	518	525	1%	166	178	162	(2%)	(9%)

South Africa Aluminium saleable production was largely unchanged in both the nine months (525kt) and quarter (173kt) ended March 2016. Consistent with our commitment to focus on value over volume, we suspended production in 22 pots in September 2015 in order to achieve an incremental improvement in cash flow by deferring planned pot relining activity. Despite this decision, metal production is now expected to remain largely unchanged in FY16 as the number of load-shedding events in the March 2016 quarter was lower than expected.

MOZAL ALUMINIUM

(47.1% share)

South32's share	9M YTD15	9M YTD16	YoY	3Q15	2Q16	3Q16	3Q15 vs 3Q16	2Q16 vs 3Q16
Aluminium production (kt)	200	200	0%	65	67	67	3%	0%
Aluminium sales (kt)	203	185	(9%)	66	68	64	(3%)	(6%)

Mozal Aluminium saleable production was unchanged in the nine months (200kt) and quarter (67kt) ended March 2016. The decline in sales reflects the scheduling of shipments between periods. Aluminium production is expected to remain largely unchanged in FY16.

BRAZIL ALUMINA

(Refinery 36% share, Smelter 40% share)

South32's share	9M YTD15	9M YTD16	YoY	3Q15	2Q16	3Q16	3Q15 vs 3Q16	2Q16 vs 3Q16
Alumina production (kt)	991	999	1%	311	340	326	5%	(4%)
Alumina sales (kt)	979	1,021	4%	285	341	360	26%	6%
Aluminium production (kt)	38	0	N/A	12	0	0	N/A	N/A
Aluminium sales (kt)	38	0	N/A	13	0	0	N/A	N/A

Brazil Alumina saleable alumina production of 999kt was largely unchanged in the nine months ended March 2016 and FY16 alumina production is expected to be in line with previous guidance of 1.32Mt. The 6% increase in quarterly sales reflects a timing difference as one shipment slipped into the March 2016 quarter.

Aluminium production was first curtailed at Brazil Alumina in July 2013 and the suspension of all smelting activity was announced in March 2015. As previously announced, we have forward sold power until the end of CY17 and have terminated the contract with Eletronorte. A minor provision will be booked in our June 2016 financial year statements to reflect the anticipated cash outflow associated with this contract across the remaining 18 month period. Unhedged power sales, inclusive of this provision, are expected to contribute approximately BRL235M to Underlying EBIT in FY16 and will be skewed to the first half (BRL188M in H1 FY16).

SOUTH AFRICA ENERGY COAL

(100%)

South32's share	9M YTD15	9M YTD16	YoY	3Q15	2Q16	3Q16	3Q15 vs 3Q16	2Q16 vs 3Q16
Energy coal production (kt)	25,765	24,071	(7%)	9,240	8,087	7,692	(17%)	(5%)
Domestic sales (kt)	14,058	13,080	(7%)	4,921	4,834	4,000	(19%)	(17%)
Export sales (kt)	12,267	11,596	(5%)	4,354	3,889	3,575	(18%)	(8%)

South Africa Energy Coal saleable production declined by 7% (or 1.7Mt) to 24.1Mt in the nine months ended March 2016. Lower production resulted from the planned closure of the opencast mine at Khutala, and a reduction in contractor activity at the Wolvekrans Middelburg Complex, consistent with our focus on value over volume. Underground development at Khutala contributed to a 5% reduction in production for the quarter. FY16 saleable production guidance remains unchanged at 31.95Mt (16.65Mt domestic, 15.30Mt export).

ILLAWARRA METALLURGICAL COAL

(100%)

South32's share	9M YTD15	9M YTD16	YoY	3Q15	2Q16	3Q16	3Q15 vs 3Q16	2Q16 vs 3Q16
Metallurgical coal production (kt)	5,472	4,940	(10%)	1,614	1,219	1,642	2%	35%
Metallurgical coal sales (kt)	5,257	4,747	(10%)	1,810	1,148	1,600	(12%)	39%
Energy coal production (kt)	1,065	896	(16%)	185	252	238	29%	(6%)
Energy coal sales (kt)	1,071	973	(9%)	272	218	364	34%	67%

Illawarra Metallurgical Coal total saleable production decreased by 11% (or 701kt) to 5.8Mt in the nine months ended March 2016 as challenging geological conditions were encountered in the first half of FY16 at the Appin and Dendrobium mines and three planned longwall moves were completed during the period. A 35% increase in metallurgical coal production in the March 2016 quarter was underpinned by the recommencement of longwall mining at Dendrobium and the ramp-up of the new Appin Area 9 longwall following project completion ahead of schedule and below budget. The final cost of the Appin Area 9 project is expected to be US\$565M, representing a 33% saving on the original budget. The West Cliff colliery has now been closed.

As previously revised, FY16 coal production is expected to be 8.25Mt (metallurgical coal 6.9Mt, energy coal 1.35Mt).

AUSTRALIA MANGANESE

(60% share)

South32's share	9M YTD15	9M YTD16	YoY	3Q15	2Q16	3Q16	3Q15 vs 3Q16	2Q16 vs 3Q16
Manganese ore production (kt)	2,181	2,332	7%	682	732	743	9%	2%
Manganese ore sales (kt)	2,145	2,375	11%	686	750	876	28%	17%
Manganese alloy production (kt)	124	111	(10%)	41	41	26	(37%)	(37%)
Manganese alloy sales (kt)	103	120	17%	26	38	44	69%	16%

Australia Manganese saleable ore production increased by 7% (or 151kt) to 2.33Mt in the nine months ended March 2016 as the operation continued to optimise concentrator performance and benefited from drier weather conditions. Record ore sales were achieved in the March 2016 quarter as an improvement in market conditions enabled a managed reduction of inventory to normalised levels. FY16 ore production guidance remains unchanged at 3.05Mt as a higher strip ratio and planned maintenance are expected to impact performance in the June 2016 quarter.

Saleable manganese alloy production decreased by 10% (or 13kt) to 111kt in the nine months ended March 2016. The 37% decline in production in the March 2016 quarter reflects the temporary suspension of two of four furnaces in response to power shortages in Tasmania. The first of the furnaces was suspended in December 2015 and the second suspension followed in March 2016. The two remaining furnaces are currently operating at a reduced electricity load. All four furnaces are expected to return to full production at the end of June 2016.

The Premium Concentrate Ore (PC02) project which increases GEMCO production capacity by 500ktpa to 5.3Mtpa (100% basis) is 98% complete and will be commissioned in the June 2016 quarter. The US\$139M (100% basis) project is expected to be completed under budget.

SOUTH AFRICA MANGANESE

(60% share)

South32's share	9M YTD15	9M YTD16	YoY	3Q15	2Q16	3Q16	3Q15 vs 3Q16	2Q16 vs 3Q16
Manganese ore production (kt)	1,782	1,219	(32%)	548	177	462	(16%)	161%
Manganese ore sales (kt)	1,803	1,345	(25%)	614	361	466	(24%)	29%
Manganese alloy production (kt)	208	68	(67%)	68	25	22	(68%)	(12%)
Manganese alloy sales (kt)	204	70	(66%)	70	25	20	(71%)	(20%)

South Africa Manganese saleable ore production decreased by 32% (or 563kt) to 1.22Mt in the nine months ended March 2016 following the extended suspension of operations at Wessels and Mamatwan in November 2015 in response to challenging market conditions. Sales of manganese ore declined by a lesser 25% as supply chain inventory was largely drawn down.

Following the completion of a strategic review, mining activity at South Africa Manganese recommenced in the March 2016 quarter. The reconfigured operation will have greater flexibility to respond to market demand, having ramped-up production to an optimised 2.9Mtpa (100% basis). The US\$30M (100% basis) Wessels Central Block project will enable mining to relocate closer to critical infrastructure and lower production costs in the underground mine, with first ore now anticipated in October 2016.

South Africa Manganese saleable alloy production decreased by 67% (or 140kt) to 68kt in the nine months ended March 2016, following the suspension of three of the four high-carbon ferromanganese furnaces at Metalloys in May 2015. Metalloys will continue to operate one of four furnaces until market conditions improve.

CERRO MATOSO

(99.9% share)

South32's share	9M YTD15	9M YTD16	YoY	3Q15	2Q16	3Q16	3Q15 vs 3Q16	2Q16 vs 3Q16
Payable nickel production (kt)	31.8	27.2	(14%)	10.6	8.8	9.7	(8%)	10%
Payable nickel sales (kt)	31.6	26.8	(15%)	11.0	8.8	9.3	(15%)	6%

Cerro Matoso payable nickel production decreased by 14% (or 4.6kt) to 27.2kt in the nine months ended March 2016 as the average ore grade declined, consistent with the mine plan. Contained nickel production increased in the recent quarter as processing rates and recoveries rebounded following the completion of maintenance in the December 2015 quarter. FY16 production guidance of 36.5kt remains unchanged.

CANNINGTON

(100%)

South32's share	9M YTD15	9M YTD16	YoY	3Q15	2Q16	3Q16	3Q15 vs 3Q16	2Q16 vs 3Q16
Silver production (koz)	17,365	16,356	(6%)	5,130	5,600	4,478	(13%)	(20%)
Silver sales (koz)	17,687	16,262	(8%)	4,972	5,695	4,364	(12%)	(23%)
Lead production (kt)	138.7	134.4	(3%)	40.1	48.4	36.9	(8%)	(24%)
Lead sales (kt)	140.0	132.5	(5%)	40.3	46.8	37.0	(8%)	(21%)
Zinc production (kt)	53.4	60.3	13%	16.4	22.2	18.5	13%	(17%)
Zinc sales (kt)	50.6	59.8	18%	17.1	22.2	18.6	9%	(16%)

A significant increase in the average zinc ore grade and recoveries at Cannington underpinned a 13% increase in zinc production to 60.3kt in the nine months ended March 2016, consistent with the mine plan. Payable silver production decreased by 6% (or 1.01Moz) to 16.36Moz in the same period. A reduction in mill availability, associated with an outage in January, resulted in lower sequential production at Cannington in the March 2016 quarter. Planned mill outages are scheduled to occur in May and August 2016.

FY16 production guidance remains unchanged (payable silver 21.65Moz, payable lead 175kt, payable zinc 80kt).

Notes:

1. Provisional unaudited net cash balance as at 31 March 2016.
2. Controllable costs are measured on a cash basis (including equity accounted investments) and exclude significant items, inter-segment sales, foreign exchange rate movements, country specific inflation, price-linked costs and discontinued/suspended operations. Any controllable cost movement is defined in absolute terms compared to FY15.
3. Excludes equity accounted investments.
4. Includes equity accounted investments capital expenditure, but excludes expenditure related to the purchase of intangibles and capitalised exploration expenditure.
5. Redundancy payments of US\$18M and a further US\$5M of payments relating to employee entitlements (previously provided for in the ordinary course of business) were made during the March 2016 quarter and related to restructuring at Worsley Alumina and Cerro Matoso.
6. Moody's Investor Service has confirmed the Baa1/P-2 credit rating and P-2 short term commercial paper rating of South32 Limited, however their outlook for all ratings is negative.
7. The ETR calculation excludes equity accounted investments as they are recorded on an after tax basis.
8. 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%.
9. 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.
10. 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.
11. Figures in italics indicate that this figure has been adjusted since it was previously reported.
12. 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); Australian Securities Exchange (ASX); London Stock Exchange (LSE); and Johannesburg Stock Exchange (JSE).

OPERATING PERFORMANCE

South32's share	9M YTD15	9M YTD16	3Q15	4Q15	1Q16	2Q16	3Q16
Worsley Alumina (86% share)							
Alumina hydrate production (kt)	2,887	2,959	931	987	990	980	989
Alumina production (kt)	2,890	3,001	937	929	1,031	962	1,008
Alumina sales (kt)	2,809	2,915	866	1,048	930	968	1,017
South Africa Aluminium (100%)							
Aluminium production (kt)	524	525	168	175	178	174	173
Aluminium sales (kt)	518	525	166	177	185	178	162
Mozal Aluminium (47.1% share)							
Aluminium production (kt)	200	200	65	65	66	67	67
Aluminium sales (kt)	203	185	66	70	53	68	64
Brazil Alumina (alumina 36% share, aluminium 40% share)							
Alumina production (kt)	991	999	311	337	333	340	326
Alumina sales (kt)	979	1,021	285	330	320	341	360
Aluminium production (kt)	38	0	12	2	0	0	0
Aluminium sales (kt)	38	0	13	3	0	0	0
South Africa Energy Coal (100%)							
Energy coal production (kt)	25,765	24,071	9,240	8,508	8,292	8,087	7,692
Domestic sales (kt)	14,058	13,080	4,921	4,358	4,246	4,834	4,000
Export sales (kt)	12,267	11,596	4,354	4,123	4,132	3,889	3,575
Illawarra Metallurgical Coal (100%)							
Metallurgical coal production (kt)	5,472	4,940	1,614	1,983	2,079	1,219	1,642
Metallurgical coal sales (kt)	5,257	4,747	1,810	2,067	1,999	1,148	1,600
Energy coal production (kt)	1,065	896	185	406	406	252	238
Energy coal sales (kt)	1,071	973	272	307	391	218	364
Australia Manganese (60% share)							
Manganese ore production (kt)	2,181	2,332	682	761	857	732	743
Manganese ore sales (kt)	2,145	2,375	686	700	749	750	876
Ore grade sold (% Mn)	47.8	47.9	47.8	47.9	48.1	47.6	47.8
Manganese alloy production (kt)	124	111	41	43	44	41	26
Manganese alloy sales (kt)	103	120	26	36	38	38	44
South Africa Manganese (60% share)							
Manganese ore production (kt)	1,782	1,219	548	492	580	177	462
Manganese ore sales (kt)	1,803	1,345	614	407	518	361	466
Ore grade sold (% Mn)	41.4	40.2	41.7	41.0	40.2	39.9	40.4
Manganese alloy production (kt)	208	68	68	38	21	25	22
Manganese alloy sales (kt)	204	70	70	47	25	25	20

South32's share	9M YTD15	9M YTD16	3Q15	4Q15	1Q16	2Q16	3Q16
Cerro Matoso (99.9% share)							
Ore mined (kwmt)	5,165	4,529	1,826	1,156	1,531	1,486	1,512
Ore processed (kdmmt)	2,033	2,016	698	596	639	673	704
Ore grade processed (% Ni)	1.69	1.53	1.63	1.59	1.55	1.52	1.53
Payable nickel production (kt)	31.8	27.2	10.6	8.6	8.7	8.8	9.7
Payable nickel sales (kt)	31.6	26.8	11.0	9.0	8.7	8.8	9.3
Cannington (100%)							
Ore mined (kt)	2,561	2,470	813	857	910	833	727
Ore processed (kt)	2,460	2,330	791	829	838	819	673
Silver ore grade processed (g/t, Ag)	264	264	247	235	272	260	258
Lead ore grade processed (% Pb)	6.8	6.9	6.3	6.4	6.9	7.1	6.7
Zinc ore grade processed (% Zn)	3.4	3.8	3.2	3.5	3.4	4.0	4.1
Silver production (koz)	17,365	16,356	5,130	5,236	6,278	5,600	4,478
Silver sales (koz)	17,687	16,262	4,972	6,144	6,203	5,695	4,364
Lead production (kt)	138.7	134.4	40.1	44.3	49.1	48.4	36.9
Lead sales (kt)	140.0	132.5	40.3	48.8	48.7	46.8	37.0
Zinc production (kt)	53.4	60.3	16.4	18.9	19.6	22.2	18.5
Zinc sales (kt)	50.6	59.8	17.1	16.2	19.0	22.2	18.6

FURTHER INFORMATION

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