



27 November 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
south32.net

SOUTH AFRICA ENERGY COAL TO BECOME A STAND-ALONE BUSINESS

South32 Limited (ASX, LSE, JSE: S32, ADR: SOUHY) (**South32**) announced today that it will manage South Africa Energy Coal (SAEC) as a stand-alone business from April 2018 and invest 4.3 billion South African Rand (US\$301M)¹ to extend the life of its Klipspruit colliery by approximately 20 years².

SAEC requires ongoing investment to sustain production and meet its take or pay rail and domestic supply obligations. To sustainably improve its financial performance, we will restructure SAEC and manage it separately from the rest of the Group with tailored functional support, systems and governance processes. This change will also allow the Group to further simplify the way it manages its global portfolio³.

Once SAEC has been established as a stand-alone business and consistent with our objective to further transform our South African operations, we will commence a process to broaden ownership of SAEC. This will present opportunities for Broad-Based Black Economic Empowerment entities, employees and communities, and could lead to a listing of SAEC on the Johannesburg Stock Exchange.

SAEC will continue to be consolidated in the Group's financial statements on a 100% basis⁴ until there is a change in control.

South32 Chief Executive Officer, Graham Kerr, said "Establishing South Africa Energy Coal as a stand-alone business will enable us to improve the operation's competitiveness and ensure its ongoing sustainability. This process will also allow us to further simplify our organisation and unlock additional value for shareholders."

"We will also seek to increase the local ownership of South Africa Energy Coal, consistent with our commitment to South Africa's economic transformation, and may ultimately list the business on the Johannesburg Stock Exchange."

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.

This announcement contains inside information.

FURTHER INFORMATION

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Further information on South32 can be found at www.south32.net.

JSE Sponsor: UBS South Africa (Pty) Ltd
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Forward-looking statements

This release contains forward-looking statements, including statements about currency exchange rates, commodity prices, production forecasts, plans, development decisions, exploration and capital expenditure. 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, South32 Limited 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.

About South Africa Energy Coal

South Africa Energy Coal consists of three primary coal mining operations and processing plants producing energy coal for the domestic and export market:

- The 8.6Mt^{4,5} Khutala Colliery consisting of an underground bord and pillar mine and truck and shovel mini pit, with coal delivered to Eskom on a 'cost plus' basis;
- The 6.5Mt^{4,5} Klipspruit Colliery consisting of a single dragline, multi seam open-cut mine and a truck and shovel mini pit, with coal sold into the export and domestic markets; and
- The 13.8Mt^{4,5} Wolvekrans Middelburg Complex (WMC) consisting of open-cut mines using draglines as well as truck and shovel operations, with coal sold into the export market as well as to Eskom under a long-term contract.

South Africa Energy Coal had a Coal Resource of 4,940Mt and a Coal Reserve of 346Mt as at 30 June 2017⁶. The operation owns a 21.0% interest in Richards Bay Coal Terminal Pty Ltd (RBCT) and a port capacity entitlement of 17.3Mtpa. This is matched by a rail capacity entitlement for export coal sales from Klipspruit and the WMC with Transnet Freight Rail of 16.4Mtpa (inclusive of 15.64Mtpa take or pay obligation).

South Africa Energy Coal employs approximately 4,100 full-time employees and 4,300 contractors (approximately 35% of South32).

The operation had closure and rehabilitation provisions of US\$746 million (South32 share) as at 30 June 2017 (2016: US\$616 million).

South Africa Energy Coal historical and estimated production

Upstream production (South32's share ⁴)				
	FY16	FY17	FY18e ^(a)	FY19e ^(a)
Total energy coal production (kt)	31,681	28,913	27,500	29,350
Domestic coal production (kt)	16,825	16,717	16,000	15,850
Export coal production (kt)	14,856	12,196	11,500	13,500

(a) The denotation (e) refers to an estimate or forecast year.

Notes:

1. The project's costs are primarily South African Rand based and the capital expenditure conversion to USD is predicated on an average USD: ZAR exchange rate of 14.36 (average of daily spot rate from 13 to 17 November 2017 inclusive).
2. In accordance with the market announcement "South32 approves Klipspruit Life Extension project" disclosed 27 November 2017.
3. Subject to any necessary regulatory approvals.
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 for at 100%.
5. FY17 saleable production.
6. Coal Resources and Coal Reserves, shown as Marketable Coal Reserves, as disclosed as part of South32's Annual Resource and Reserve declaration in the FY17 Annual Report on 14 September 2017 (www.south32.net). The Competent Persons responsible for resources were: Khutala - G Gemmell (Pri. Sci. Nat., SACNASP), Klipspruit - H Strauss (MGSSA), Wolvekrans Middelburg Complex - S Kara (Pri. Sci. Nat., SACNASP), L Visser (Pri. Sci. Nat., SACNASP), Davel, Pegasus, and Weltevreden - P Maseko (Pri.Sci.Nat., SACNASP), Leandra and Naudesbank – S Nzama (Pri.Sci.Nat., SACNASP). The Competent Person responsible for reserves for Khutala, Klipspruit and Wolvekrans Middelburg Complex was P Mulder (MSAIMM). All the named Competent Persons are full time employees of South32. South32 is not aware of any new information or data that materially affects these Resource and Reserve estimates and that all material assumptions and technical parameters underpinning the estimates continue to apply and have not materially changed. The company confirms that the form and context in which the resource and reserve estimates are presented have not been materially modified from the original market announcements.

South Africa Energy Coal FY17 Resource and Reserves

SOUTH AFRICA ENERGY COAL

Energy Coal

COAL RESOURCES

As at 30 June 2017

Deposit ⁽¹⁾⁽²⁾	Mining Method	Coal Type	Measured Coal Resources					Indicated Coal Resources					Inferred Coal Resources					Total Coal Resources									
			Mt	% Ash	% VM	% S	KCal/kg CV	Mt	% Ash	% VM	% S	KCal/kg CV	Mt	% Ash	% VM	% S	KCal/kg CV	Mt	% Ash	% VM	% S	KCal/kg CV					
South Africa - Operating mines																											
Khutala	OC	Th	1,105	30.4	22.6	1.21	4,890	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,105	30.4	22.6	1.21	4,890
	UG	Th	142	35.1	20.2	0.73	4,390	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	142	35.1	20.2	0.73	4,390
Klipspruit	OC	Th	102	28.5	22.4	1.23	5,140	-	-	-	-	-	-	-	-	-	-	-	-	-	-	102	28.5	22.4	1.23	5,140	
Wolvekrans Middelburg Complex	OC	Th	651	26.9	22.6	1.11	5,460	17	29.2	23.0	1.05	5,180	175	25.5	23.1	1.10	5,590	843	26.6	22.7	1.10	5,480					
	SP ⁽⁵⁾	Th	-	-	-	-	-	4.9	27.4	20.4	0.68	5,370	-	-	-	-	-	4.9	27.4	20.4	0.68	5,370					
South Africa - Projects																											
Davel	UG	Th	-	-	-	-	-	-	-	-	-	-	222	22.8	27.2	1.49	5,790	222	22.8	27.2	1.49	5,790					
Leandra ⁽³⁾	UG	Th	328	27.1	23.3	1.25	5,020	199	28.0	23.1	1.21	4,930	1,195	28.4	22.0	0.98	4,840	1,722	28.1	22.4	1.06	4,880					
Naudesbank	OC/UG	Th	87	24.9	25.5	1.07	5,600	110	24.3	25.6	1.05	5,660	46	24.7	25.3	1.06	5,640	243	24.6	25.5	1.06	5,630					
Pegasus	OC	Th	12	27.4	21.1	1.35	5,340	1.4	23.5	22.3	1.32	5,730	-	-	-	-	-	13	26.9	21.3	1.35	5,380					
Weltevreden	OC/UG	Th	225	28.3	22.7	1.27	5,230	151	30.8	22.0	1.22	5,000	171	31.2	21.7	1.15	4,950	547	29.9	22.2	1.22	5,080					

SOUTH AFRICA ENERGY COAL

Energy Coal

COAL RESERVES

As at 30 June 2017

Deposit ⁽¹⁾⁽²⁾⁽⁴⁾⁽⁵⁾⁽⁷⁾	Mining Method	Coal Type	Proved Coal Reserves	Probable Coal Reserves	Total Coal Reserves	Proved Marketable Coal Reserves					Probable Marketable Coal Reserves					Total Marketable Coal Reserves				
			Mt	Mt	Mt	Mt	% Ash	% VM	% S	KCal/kg CV	Mt	% Ash	% VM	% S	KCal/kg CV	Mt	% Ash	% VM	% S	KCal/kg CV
South Africa - Operating mines																				
Khutala	UG	Th	42	-	42	42	37.1	20.0	0.73	4,220	-	-	-	-	42	37.1	20.0	0.73	4,220	
	OC	Th	2.4	0.3	2.7	2.4	39.2	20.7	1.05	4,080	0.3	19.0	31.0	2.11	6,030	2.7	37.0	21.8	1.17	4,300
Klipspruit	OC	Export	22	-	22	6.7	14.2	25.8	0.57	6,230	-	-	-	-	6.7	14.2	25.8	0.57	6,230	
	OC	Th	-	-	-	12	30.6	21.5	0.87	5,260	-	-	-	-	12	30.6	21.5	0.87	5,260	
Wolvekrans Middelburg Complex	OC	Th	412	38	449	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
	SP ⁽⁵⁾	Th	-	4.9	4.9	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
	OC	Export	-	-	-	157	18.5	24.8	0.49	6,270	8.1	15.9	25.3	0.48	6,280	165	18.4	24.8	0.49	6,270
	OC	Domestic	-	-	-	96	23.7	21.8	0.94	5,530	22	24.6	22.0	0.89	5,450	118	23.8	21.9	0.93	5,520

(1) Cut-off criteria

Coal Resources

Khutala	≥ 1.0m seam thickness for OC, ≥ 2.5m seam thickness for UG, ≥ 24% dry ash-free volatile matter.
Klipspruit	≥ 1.0m seam thickness, ≤ 45% ash, ≥ 24% dry ash-free volatile matter.
Wolvekrans Middelburg Complex	≥ 1.0m seam thickness, ≤ 45% ash, ≥ 17.9% volatile matter.
Davel	≥ 1.2m seam thickness, ≥ 24% dry ash-free volatile matter.
Leandra	≥ 1.8m seam thickness, ≤ 45% ash, ≥ 24% dry ash-free volatile matter.
Pegasus	≥ 1.0m seam thickness, ≤ 45% ash, ≥ 24% dry ash-free volatile matter.
Naudesbank	≥ 0.5m to 0.8m seam thickness, ≤ 45% ash, ≥ 22% dry ash-free volatile matter.
Weltevreden	≥ 0.8m seam thickness, ≤ 45% ash, ≥ 24% dry ash-free volatile matter.

Coal Reserves

Khutala	≥ 1.0m seam thickness for OC, ≥ 3.8m seam thickness for UG.
Klipspruit	≥ 1.0m seam thickness, varying CV ≥ 3,580 Kcal/kg, ≤ 45% ash.
Wolvekrans Middelburg Complex	≥ 1.0m seam thickness, ≥ 2,870 Kcal/kg CV, ≤ 45% ash, ≥ 17.9% volatile matter.

(2) Coal Resource Tonnes are reported on an insitu moisture basis and qualities are reported on an air-dried basis.

(3) Increase in Coal Resource tonnes due to reporting refinements adopted in FY17.

(4) Coal Reserve tonnes and quality is reported on an air-dried basis.

(5) SP Coal Resources and Coal Reserves are reported for the first time.

(6) Coal delivered to wash plant. For Khutala, coal delivered to the power station.

(7) Process recoveries for the operations:

Khutala	100%
Klipspruit	79%
Wolvekrans Middelburg Complex	68%