



25 September 2015

South32 Limited
(Incorporated in Australia under the *Corporations Act 2001* (Cth))
(ACN 093 732 597)
ASX / LSE / JSE Share Code: S32
ISIN: AU000000S320
south32.net

2015 ANNUAL REPORT

South32 Limited (ASX, LSE, JSE: S32) ("**South32**") advises that the following documents have today been submitted to the National Storage Mechanism and will shortly be available for inspection at: www.morningstar.co.uk/uk/NSM.

- 2015 Annual Report
<http://www.south32.net/CMSPages/GetFile.aspx?guid=3422a937-e347-4fd0-bf7c-551fb5caa2f9>
- 2015 Notice of Annual General Meeting
<http://www.south32.net/CMSPages/GetFile.aspx?guid=3cf5a154-56a7-4ec8-a5aa-181a73041e83>
- Appendix 4G: Key to Disclosures – Corporate Governance Council Principles and Recommendations
<http://www.south32.net/CMSPages/GetFile.aspx?guid=26e4cc9c-6c04-4b45-8502-ad79ee99d977>
- Letter to Market Announcements Office, ASX Limited dated 25 September 2015 – “South32 publishes Annual Report and Notice of Annual General Meeting”
<http://www.south32.net/CMSPages/GetFile.aspx?guid=c8344b37-d141-4e5a-b22c-4203f6fcb223>

These documents may be accessed via South32’s website (www.south32.net) or by using the web links above.

Additional information

The following information is extracted from the 2015 Annual Report (page references are to pages in the Annual Report) and should be read in conjunction with South32’s final results announcement issued on 24 August 2015. Both documents can be found at www.south32.net and together, constitute the material required by DTR 6.3.5 to be communicated to the media in unedited full text through a Regulatory Information Service. This material is not a substitute for reading the 2015 Annual Report in full.

1. Principal risks and uncertainties

1.1. Risk management

The identification, assessment and management of risk is fundamental to our business. Our risk management and internal control framework is used to identify and assess risk events and to establish robust controls and mitigation strategies.

Risk management is embedded in our business activities, functions and processes with materiality and tolerance for risk being key considerations in our decision making processes. Material risks that could impact the achievement of the business plans are analysed and assessed consistently across the business. The potential consequence of each risk is systemically determined using a methodology described in the Group's Risk Management Standard.

Controls are implemented and verified on an ongoing basis, ensuring that the level of risk is monitored and managed. Action plans to correct deficiencies in the application of the Risk Management Standard or specific risks and controls are tracked to ensure all actions are completed.

The South32 Group's business, operating and financial performance are subject to various risks and uncertainties, many of which are beyond the Group's reasonable control. The following identified risks are not listed in order of significance and are not intended to be exhaustive. They reflect the most significant risks currently identified for the South32 Group.

1.2. Risk factors

External risks

Fluctuations in commodity prices, exchange rates, interest rates and ongoing global economic volatility

The South32 Group's earnings, balance sheet and cash flows are affected by the volatility of commodity prices, interest rates and currencies. The prices realised for our products are linked to global commodity markets, which reflect the balance of supply and demand for each commodity. Operating costs are influenced by the currencies of those countries where our operations are located and by currencies in which the costs of imported equipment and services are determined.

With operations located in five countries, producing ten commodities, our diverse portfolio and geographical spread provide some downside protection from variability. To further mitigate risk, we typically seek to manage financing costs, currency impacts, input costs and commodity prices on a floating index basis. We actively and continuously monitor the markets in which we operate, reviewing our operating and capital expenditure plans in a dynamic manner.

Actions by governments, political events or tax authorities

South32 businesses could be adversely affected by new government regulations, such as changes to taxation policy, and controls on imports, exports and prices. Our operations are based on material long-term investments that are dependent on long-term fiscal stability. Audits and reviews by administrative bodies, may result in South32 Group entities incurring additional tax or royalty payments. In addition, South32 Group entities could be exposed to the risk of nationalisation, renegotiation or nullification of existing contracts, leases, permits or other agreements.

The South32 Group's purpose is to make a difference by developing natural resources. We seek to be trusted by our owners, partners and the communities we operate in to realise the potential of their resources. The Group proactively manages relationships with local, domestic and international governments and regulators. We engage directly with governments and key stakeholders to ensure risk associated with regulatory change is identified, understood and, where possible, mitigated.

Breaches of information technology security processes

The South32 Group's global information technology systems, consisting of infrastructure, applications and communications networks, could be subject to security breaches resulting in theft, disclosure or corruption of information. Security breaches could also result in misappropriation of funds or the disruption of operations.

Network and physical control frameworks, together with anti-virus software, provide a level of protection. In addition, monitoring of networks, ethical hacking and data analysis is undertaken to identify suspicious activity and potential exposures to allow appropriate action to be taken.

Operational risks

Cost inflation and labour disputes could impact operating margins and expansion plans

Our businesses are exposed to the price variability of our production inputs and this could negatively impact operating margins. Labour is a significant input into our operating costs, which may vary depending on underlying demand and the requirements of each operation. An increase in the capital cost of development projects or scheduling delays could adversely impact anticipated financial returns.

We are fast-tracking the implementation of our regional operating model and refining the way we work. Consequently, we expect a further improvement in labour productivity whilst our operating teams are mandated to focus on the core elements of sustainability, volume, costs and capital expenditure. Our investment decisions will be framed by our very simple capital management framework and all discretionary investments will be forced to compete based on the risk and return equation. The South32 Group also seeks constructive relationships and dialogue with trade unions and employees in all our businesses.

Access to infrastructure

Products of the South32 Group's businesses are transported to customers by a range of methods, including road, rail and sea. A number of factors could disrupt the availability of transport services, including weather-related problems, rail or port capacity and allocation constraints, key equipment and infrastructure failures, and industrial action. These risks may limit our businesses' ability to deliver product to customers. Furthermore, the cost of accessing required infrastructure may increase and South32 businesses may not be able to pass on the full extent of the increase to customers.

Each of the individual businesses and operations within the South32 Group manage the infrastructure needs of their operations. We seek to understand our access requirements and then implement infrastructure plans to address them. Many of our operations have long-term agreements in place to secure the necessary access. Business continuity plans are developed to manage the risk of disruption to critical infrastructure.

Access to water and power

Water and power are critical to a number of our operations. Continued access, or access on current terms, to water and power to support existing activities cannot be guaranteed in the future due to factors such as climate (including drought), changes in allocations, changes in activities or conditions at the South32 Group's operations, elections by contract counterparties to cease current arrangements, the term of contractual arrangements ending or changes in government policy.

The South32 Group seeks to work closely with suppliers of water and power, engaging with them on a long-term, mutually beneficial basis.

Unexpected operational or natural catastrophes

Our businesses have extractive, processing and logistical operations in a number of geographic locations. Mines and associated mining and processing equipment and processing plants can be exposed to incidents such as fire and explosion, loss of power supply and critical mechanical equipment failures. The South32 Group may also be exposed to other incidents that affect operations, including fire, flooding, underground rock failures, pit wall failures at open-cut mines, unexpected natural catastrophes, the frequency and severity of which may be impacted due to climate change.

Our assets undertake planning that is designed to protect the long-term value of our operations and the safety of our employees, contractors and stakeholders. To consider unexpected catastrophes, South32 businesses use our risk management tools to analyse such risks and implement actions to prevent or limit the effects. Contingency, business continuity and disaster recovery plans are developed to respond to significant events to ensure the safe restoration of normal business activity. The South32 Group purchases insurance to protect itself against the financial consequences of an event, subject to availability and cost.

Commercial counterparties that the South32 Group transact with may not meet their obligations

The South32 Group contracts with a number of commercial, government and financial counterparties, including customers, suppliers and financial institutions. Counterparties may fail to perform against existing contracts and obligations. Non-supply or changes to the quality of supply of key inputs may unfavourably impact costs and production at operations.

The South32 Group seeks to engage proactively with its contracting counterparties to collaboratively manage instances of non-supply or quality control prior to it occurring. South32 businesses manage exposures by defining counterparty limits based on counterparty credit ratings and level of exposure. The South32 Group purchases insurance to protect itself against the financial consequences of supply disruption, subject to availability and cost.

Risks of fraud and corruption

As a diversified metals and mining company operating in a number of jurisdictions, the South32 Group is exposed to the risks of fraud and corruption, both within its organisation and external to the organisation. Fraud and corruption may lead to regulatory fines, financial loss, litigation, loss of operating licences or reputational damage.

The South32 Group seeks to adhere to applicable legislative and regulatory requirements in respect of fraud and corruption in the jurisdictions in which it operates. Our Code of Business Conduct, policies and procedures describe the controls in place to manage this risk and our expectations of our personnel when faced with fraud and corruption instances. We also provide

our personnel with the tools to safely report any suspected fraud and corruption activity across our businesses.

Failure to retain and attract key employees

The loss of key personnel or the failure to attract, train and recruit sufficiently qualified employees could affect South32's operations, financial position and growth.

The South32 Group has a number of initiatives in place to establish an effective, engaged and inclusive workforce with training programmes focused on building a strong pipeline of future leaders and a competent workforce with deep functional expertise.

Failure to maintain, realise or enhance existing reserves

Mineral Resource and Ore Reserve estimates are expressions of judgement based on knowledge, experience and industry practice. Our value is limited to the known reserves and resources position.

The South32 Group has a number of initiatives in place to unlock the potential of our existing portfolio and develop new options that may compete for capital. Our simple capital management framework and capital prioritisation process has been designed to ensure we allocate our capital to the option that maximises total shareholder returns.

Financial risks

Deterioration in liquidity and cash flow

Fluctuations in commodity prices and global economic volatility may adversely impact future cash flows. If the South32 Group's key financial metrics are not maintained, its liquidity and cash reserves, interest rate costs on borrowed debt and future access to financial capital markets could be adversely affected.

The South32 Group's Treasury team is responsible for monitoring financial metrics and managing cash flow to meet business needs. We seek to mitigate risk by adhering to our capital management framework, which includes a commitment to maintain an investment grade credit rating through the cycle.

The South32 Group may be subject to regulations on dividends payment or capital extraction

The South32 Group's ability to pay dividends will depend on government regulations, the level of distributions received from operating subsidiaries and associates, and the level of cash balances and access to those cash balances.

The South32 Group intends to distribute a minimum 40 per cent of Underlying earnings as dividends to its shareholders following each six month reporting period. South32 will distribute dividends with the maximum practicable franking credits for the purposes of the Australian dividend imputation system.

Sustainability risks

Health and safety risks in respect of the South32 Group's activities

Longer-term health impacts may arise due to the exposure of the workforce to hazardous substances. Because the South32 Group operates internationally, it may be affected by

potential pandemic outbreaks. Potential safety events that may have an adverse impact on the South32 Group's operations include fire, explosion or rock fall incidents both in above ground and underground mining operations, personnel conveyance equipment failures or human errors in underground operations, aircraft incidents, incidents involving light vehicles and mining mobile equipment, ground control failures or gas leaks, equipment isolation during repair and maintenance, working from heights or lifting operations.

The South32 Group places great importance on the well-being of our employees. Our values seek to drive togetherness and care. Safety is paramount and underpins everything we do. As a result, our businesses have, and have had for a number of years, comprehensive health and safety policies in place with associated performance requirements that are intended to help prevent and mitigate the impact of such exposures.

Environmental risks in respect of the South32 Group's activities including water and waste water management risks

Our operations, by their nature, have the potential to impact biodiversity, land, water resources and related ecosystems, including from the discharge of contaminants. Changes in scientific understanding of these impacts, regulatory requirements or stakeholder expectations may prevent or delay project approvals and result in increased costs for mitigation, offsets or compensatory actions and may impact the sustainability of operations.

The South32 Group has policies and standards defined that seek to prevent, monitor and limit the impact of our operations on the environment. Certain South32 Group sites are subject to remediation plans that seek to address known contamination as a result of past activities. As part of this process, the South32 Group is focused on water and waste water management, as the sustainability of our operations relies on our ability to obtain an appropriate quality and quantity of water. We use water responsibly and manage it appropriately, taking into account natural supply variations.

Support of the local communities in which businesses are located

Notwithstanding the South32 Group's contribution to the communities in which the businesses are located, local communities may become dissatisfied with the impact of our operations or oppose new development projects, including through litigation, which may affect the costs, production, and, in extreme cases, viability of such operations. There are also security risks that may impact on operations and people.

We have developed processes to enable our businesses to effectively manage relationships with communities and we actively seek to engage with, and support, all communities affected by our operations. Our regional operating model means that our businesses are run by people who understand their communities and the environment in which they operate.

Climate change and greenhouse gas effects may adversely impact operations and markets

The South32 Group sells carbon-based energy and steel making raw material products. Carbon-based energy is also a significant input in some of the South32 Group's mining and processing operations. A number of governments and governmental bodies have introduced, or are contemplating introducing, fiscal and/or regulatory change to address the impacts of climate change. Many countries have established, or are contemplating establishing individual greenhouse gas targets and/or other national mitigation actions.

The South32 Group focusses on reducing our emissions. We track greenhouse gas emissions for each asset. We are working to reduce emissions by driving incremental improvement and,

where viable, investing in specific reduction initiatives that will reduce our exposure across a number of our assets. We believe that carbon pricing is an effective mechanism to address climate change and factor the cost of carbon into our existing operations and investment decisions.

2. Related party transactions

Details of the related party transactions that have taken place during the year ended 30 June 2015 are set out in Notes 31 'Key management personnel' and 32 'Related party transactions' to the Financial Statements on pages 219 to 220 of the 2015 Annual Report.

Extract from Note 32 'Related party transactions', page 220.

Transactions with related parties

Transactions with BHP Billiton Group

Transactions between members of the South32 Group whilst they were wholly-owned subsidiaries of BHP Billiton Limited and the BHP Billiton Group included:

- Advancement and repayment of loans
- Provision of management and administrative assistance
- Purchases and sales of products and services
- Interest expense and income, paid or received by controlled entities of South32 Limited for money borrowed
- Transfer of tax related balances for tax consolidation purposes and
- Acquisition and disposal of businesses and operations whilst under common control

Prior to the demerger from the BHP Billiton Group, the South32 Group entered into a Separation Deed with the BHP Billiton Group. The Separation Deed deals with matters arising in connection with the demerger of South32 from the BHP Billiton Group. Refer to note 4 South32 Limited demerger.

The Separation Deed principally covers the following key terms: assumption of liabilities, limitations and exclusions from indemnities and claims, contracts, financial support, demerger costs and litigation.

Transactions with other related parties

US\$'000	Joint ventures		Associates	
	2015	2014	2015	2014
Sales of goods/services	65,154	-	3,682	3,781
Purchases of goods/services	-	-	50,081	25,508

Interest income	3,907	-	16	-
Interest expense	697	-	-	-
Advancement of loans	300,000⁽¹⁾	-	5,613	9,078

(1) The transaction was made on a commercial basis, with interest charged at market rates and is due to be repaid on 12 September 2015.

Outstanding balances with related parties

US\$'000	Joint ventures		Associates	
	2015	2014	2015	2014
Trade amounts owing to related parties	-	-	2,343	377
Other amounts owing to related parties	249,807⁽¹⁾	-	-	-
Trade amounts owing from related parties	1,406	-	-	-
Loan amounts owing from related parties	300,000	-	23,940	22,376

(1) Amount owing relates to short term deposits and cash managed by the South32 Group. Interest is paid based on the three month LIBOR and the one month JIBAR.

3. Directors' Responsibility Statement

The following statement was prepared for the purposes of the South32 Group's 2015 Annual Report and is repeated here for the purposes of complying with DTR 6.3.5. It relates to, and is extracted from, the South32 Group's 2015 Annual Report and is not connected to the extracted and summarised information presented in this announcement.

"The Directors state that to the best of their knowledge:

- The consolidated financial statements and notes that are set out on pages 158 to 225 prepared in accordance with the applicable accounting standards give a true and fair view of the assets, liabilities, financial position and profit and loss of South32 and the undertakings included in the consolidation taken as a whole as at 30 June 2015.
- The Directors' Report includes a fair review of the development and performance of the business and the position of South32 and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that the Group faces.

This Directors' Report is made in accordance with a resolution of the Board. David Crawford AO, Chairman and Graham Kerr, Chief Executive Officer."

4. No change statement and notice of Annual General Meeting

Shareholders are advised that the financial statements in the 2015 Annual Report do not contain any material changes to the financial statements published by South32 on 24 August 2015 on SENS.

Notice is hereby given that the company's Annual General Meeting will be held at 2.00pm (AWST) on 18 November 2015 in the Grand Ballroom, Hyatt Regency Perth to transact the business as set out in the Notice of Annual General Meeting.

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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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