8 September 2016

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

2016 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.

- Annual Report 2016
  http://www.south32.net/CMSPages/GetFile.aspx?guid=805af58e-03f7-401f-94c3-8f999ab4cbeb

- Appendix 4G: Key to Disclosures – Corporate Governance Council Principles & Recommendations
  http://www.south32.net/CMSPages/GetFile.aspx?guid=8855e1a4-f9f6-48be-8199-3de7d93f5a1e

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 2016 Annual Report (page references are to pages in the Annual Report) and should be read in conjunction with South32's Financial Results and Outlook for the year ended 30 June 2016 announcement issued on 25 August 2016. 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 2016 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 delivery of our strategy are analysed and assessed consistently across the business. The potential consequence of each risk is determined in accordance with the methodology outlined in our Risk Management Standard.

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

Our 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 our Group.

1.2. Risk factors

Strategic and External risks

Fluctuations in commodity prices, exchange rates, interest rates and global economy

Nature: Our 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.

Mitigation: The combination of our high-quality operations and strong balance sheet is a key differentiator in the current challenging economic environment. Our diverse portfolio and geographical spread also 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 monitor the markets in which we operate and continuously review our operating and capital expenditure plans.

Actions by governments, political events or tax authorities

Nature: Our business 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 us incurring additional tax or royalty payments. In addition, our entities could be exposed to the risk of nationalisation, renegotiation or nullification of existing contracts, leases, permits or other agreements.

Mitigation: We proactively manage 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.

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

Nature: Our business are exposed to the price variability of our production inputs and this could negatively impact operating margins. Labour is a significant input to our operating costs. Labour costs 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. Industrial action, acts of terror and civil unrest could impact on operations.

Mitigation: Our strategy seeks to optimise our operations, sustainably lowering operating costs and capital expenditure. We aspire to have constructive relationships and dialogue with trade unions and employees across our business. Investment decisions are framed by our simple capital management framework and all discretionary investments compete, based on the risk and return equation.

Access to water and power

Nature: Water and power are critical to all our operations. Continued access to water and power, on current terms, to support existing activities cannot be guaranteed in the future. Underlying factors can change, such as the climate, our operations, counterparties, contractual arrangements or government policy.

Mitigation: We work closely with suppliers of water and power, engaging on a long-term, mutually beneficial basis. We also work to secure water and energy resources within our control.

In areas where the long-term availability of water has become less certain as a result of climate change and drought, we are investigating, and where appropriate investing in, initiatives such as the desalination facility at our Hillside operation. As we seek to diversify our energy supply sources where possible, we will continue to pursue opportunities such as the co-generation and multiple fuel options in place at Worsley Alumina.

We may be subject to regulations in relation to dividend payments and capital returns

Nature: Our ability to pay dividends and utilise excess capital 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.

Mitigation: We have robust procedures in place that govern the efficient allocation of capital across the Company, including returning surplus capital to South32 Limited. These procedures are continuously reviewed in line with government regulations and business requirements to ensure our risk is managed. We also have a highly integrated cash management structure that underpins our access to cash.

Regulatory risks of climate change

Nature: Carbon pricing including carbon taxes, trading or any other regulatory carbon pricing mechanism, has the potential to affect the economic viability of our operations. We monitor climate and energy policy developments including the large increase in the range and depth of carbon pricing legislation globally. This includes the outcomes of the Paris Agreement signed in December 2015 and the accompanying ‘Nationally Determined Contributions’, plus policy changes relating to carbon pricing legislation in Australia and South Africa (in draft).

Mitigation: When considering the long-term viability of our operations and future capital investments, we apply a range of scenarios for carbon pricing. We support carbon pricing that is globally competitive and broad-based, covering all industry sectors and possible emission sources. Recognising that carbon pricing will likely become more stringent over time, we are committed to de-carbonising our operations. An emissions reduction target is included in all employee remuneration packages, including executives.

Risks to commodity portfolio from climate change

Nature: We are monitoring and responding to increasing commitments to divest or reduce investments in fossil fuel companies. While our energy coal operations represented 20.4 per cent of total revenue from Group production in FY2016, this trend could have a detrimental impact on investor appetite for our shares. Furthermore, any reduction in the anticipated level of demand for energy coal could have a negative impact on the pricing of our energy coal products.

Mitigation: We have chosen not to develop any new energy coal basins. Our South African energy coal operations are positioned at the low end of the industry cost curve. We supply the domestic South African market under long-term contracts to Eskom, the national power provider which accounts for 90 per cent of coal powered generation, and international markets. Our seaborne energy coal is predominantly sold to emerging markets where electricity supply is dominated by coal powered generation. We conduct scenario analyses annually to stress test our portfolio. A number of our commodities are critical in supporting a transition to a two degree limited future. This includes metallurgical coal and manganese to create high quality steel for climate resilient infrastructure: aluminium for light weighting and creating more efficient transport options; and manganese and nickel, both used in some battery technologies that support renewable energy.

Access to infrastructure

Nature: Our products 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 ability to deliver product to our customers. Further, the cost of accessing required infrastructure may increase and we may not be able to pass on the full extent of the increase to our customers.

Mitigation: Our business manages the infrastructure needs of our 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 necessary access. Business continuity plans are developed to manage the risk of disruption to critical infrastructure. Our centralised, fully integrated marketing function allows us to optimise our supply chain and effectively manage logistics and handling of commodities from load point to customer.

Failure to maintain, realise or enhance existing reserves

Nature: Mineral Resource and Ore Reserve estimates are expressions of judgement based on knowledge, experience and industry practice. Our value is limited to the known resources and reserves position. Failure to take the right opportunities to optimise and enhance our resources and reserves position could detrimentally impact long-term shareholder returns.

Mitigation: We have a number of initiatives in place to optimise our operations, unlock their potential and identify new options that may compete for capital. Our simple capital management framework and capital prioritisation process is designed to maximise total shareholder returns.

Support of the local communities in which businesses are located

Nature: Notwithstanding our contribution to the communities in which we are located, local communities may become dissatisfied with the impact of our operations or oppose new development projects. Community action could include litigation, which may affect the costs, production and, in extreme cases, viability of our operations. There are also security risks that may impact our people and operations.

Mitigation: We enable our operations to effectively manage relationships with communities and we actively seek to engage and support them. Our Regional Model means our operations are managed by people who understand their communities and the environment in which they operate.

Operational Risks

Health and safety risks in respect of our activities

Nature: Longer-term health impacts may arise due to the exposure of the workforce to hazardous substances. As we operate internationally, we may be affected by potential pandemic outbreaks. Potential safety events that may have an adverse impact on our operations include fi re, 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.

Mitigation: The well-being of our employees is paramount and our values of Togetherness and Care underpin everything we do. As a result, our operations 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. The company-wide Care Strategy will further our eff orts to provide a safe working environment and prevent all injuries. The creation of an inclusive workplace with a strong culture of care and accountability will be supported by well-designed work that delivers safe outcomes and a focus on continuously improving and learning.

Environmental risks in respect of activities including water and waste water management

Nature: Our operations, by their nature, have the potential to impact biodiversity, land, water 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, off sets or compensatory actions. They may also impact the sustainability of operations.

Mitigation: We have defined policies and standards that seek to prevent, monitor and limit the impact of our operations on the environment. Certain sites are subject to remediation plans that seek to address known contamination as a result of past activities. As part of this process, we are focussed 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.

Deterioration in liquidity and cash flow

Nature: Fluctuations in commodity prices and the global economy may adversely impact future cash flows. If we compromise our balance sheet, liquidity and cash reserves, interest rate costs on borrowed debt and future access to financial capital markets could be adversely affected.

Mitigation: As part of our capital management framework, we have committed to maintain an investment grade credit rating and strong liquidity through the economic cycle. Our Treasury team is responsible for managing the balance sheet and cash flow within strict financial criteria.

Unexpected operational or natural catastrophes

Nature: We have extractive, processing and logistical operations in a number of geographic locations. Our operations can be exposed to incidents such as fi re and explosion, loss of power supply and critical mechanical equipment failures. Our operations, including the associated transport networks, are exposed to the physical impacts of climate change. This includes changes to water availability and access (both scarcity and potential for flooding), variability in temperatures and rising sea levels. We may also be exposed to other incidents that affect operations, including fi re, flooding, underground rock failures, pit wall failures at open-cut mines and unexpected natural catastrophes, the frequency and severity of which may be exacerbated as a result of climate change.

Mitigation: We undertake planning designed to protect the safety of our employees, contractors and stakeholders, and the long-term value of our operations. Our operations use our risk management tools to analyse risks, such as unexpected catastrophes, and implement actions to prevent or limit the effects. We are also working on projects to increase the long-term resilience of our operations to the physical impacts of climate change. This includes incorporating the most up-to-date climate parameters into our planning, risk and investment model. By recognising that we share critical and valuable natural resources with others, we are also taking action to protect and maintain access to shared ecosystem services such as water and biodiversity for the long-term. Contingency, business continuity and disaster recovery plans are developed to respond to significant events to ensure the safe restoration of normal business activity. We purchase insurance to protect ourselves against the financial consequences of an event, subject to availability and cost.

Commercial counterparties that we transact with may not meet their obligations

Nature: We contract 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 or long-term take-or-pay agreements may adversely impact on cost or price performance. Non-supply or changes to the quality of key inputs may impact costs and production at operations.

Mitigation: We seek to proactively engage with our contracting counterparties to collaboratively manage instances of non-supply or quality control prior to it occurring. Our operations manage exposures by defining counterparty limits based on counterparty credit ratings and the level of exposure. We purchase insurance to protect ourselves against the financial consequences of supply disruption, subject to availability and cost.

Risks of fraud and corruption

Nature: We are exposed to the risks of fraud and corruption, both within and external to our organisation. Fraud and corruption may lead to regulatory fines, financial loss, litigation, loss of operating licences or reputational damage.

Mitigation: We adhere to the applicable legislative and regulatory requirements in respect of fraud and corruption in the jurisdictions in which we operate. Our Code of Business Conduct, policies and procedures describe the controls in place to manage this risk and our expectations of our people when faced with fraud and corruption. We also provide our people with the tools to safely report any suspected fraudulent or corrupt activities.

Breaches of information technology security processes

Nature: Our global information technology systems, consisting of infrastructure, applications and communication 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 disruption to operations.

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

Failure to retain and attract key employees

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

Mitigation: We have a number of initiatives in place to provide an inclusive workplace and establish an effective, engaged and empowered workforce. Our skills development activities focus on having the right people in the right roles, building a strong pipeline of future leaders and maintaining a competent workforce with deep functional expertise. Engaging with employees at all levels allows everyone to connect, supporting decision making and continual improvement.

2. Related party transactions

Extract from Note 31 'Key management personnel ', page 181 of the 2016 Annual Report.

Key management personnel compensation

US$'000	**FY2016**	**FY2015**
Short-term employee benefits	**7,225**	1,754
Post-employment benefits	**108**	44
Other long-term benefits	**310**	36
Share-based payments	**8,464**	1,320
Total	**16,107**	3,154

Transactions with key management personnel

There were no transactions with key management personnel during the year ended 30 June 2016 (2015: US$ nil).

Loans to key management personnel

There were no loans with key management personnel during the financial year and as at 30 June 2016 (2015: US$ nil).

Transactions with key management personnel's personally related entities

There were no transactions with entities controlled or jointly controlled by key management personnel and there were no outstanding amounts with those entities as at 30 June 2016 (2015: US$ nil).

Extract from Note 32 'Related party transactions', page 182 of the 2016 Annual Report.

Transactions with related parties

US$'000	Joint ventures		Associates	
	FY2016	**FY2015**	**FY2016**	**FY2015**
Sales of goods and services	**143,502**	65,154	**2,838**	3,682
Purchases of goods and services	**-**	-	**33,162**	50,081
Interest income	**9,892**	3,907	**33**	16
Dividend income	**18,685**	-	**-**	-
Interest expense	**2,647**	697	**-**	-
Short term financing arrangements to/(from) related parties	**(19,319)**	-	**-**	-
Loans made to/(from) related parties	**-**	30,000	**28,374**	5,613

Outstanding balances with related parties

US$'000	Joint ventures		Associates	
	FY2016	**FY2015**	**FY2016**	**FY2015**
Trade amounts owing to related parties	**-**	-	**583**	2,343
Other amounts owing to related parties(1)	**269,126**	249,807	**-**	-
Trade amounts owing from related parties	**31,216**	1,406	**-**	-
Loan amounts owing from related parties	**300,000(2)**	300,000(2)	**52,314**	23,940

(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.

[2] The loan was made on commercial terms, with interest charged at market rates and is due to be repaid in December 2016 (subject to refinancing).

Terms and conditions

Sales to, and purchases from, related parties of goods and services are transactions at market prices and on commercial terms.

Outstanding balances at year-end are unsecured and settlement mostly occurs in cash.

No guarantees are provided or received for any related party receivables or payables.

No provision for doubtful debts has been recognised in relation to any outstanding balances and no expense has been recognised in respect of bad or doubtful debts due from 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 for the year ended 30 June 2015 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 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 the South32 Group from the BHP Billiton Group. Refer to note 4 'South32 Limited demerger', on pages 133 - 134.

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.

3. Directors' Responsibility Statement

The following statement was prepared for the purposes of the South32 Group's 2016 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 2016 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:

a) The consolidated financial statements and notes that are set out on pages 125 to 183 prepared in accordance with 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 and

b) 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 they face.

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 2016 Annual Report do not contain any material changes to the South32's Financial Results and Outlook for the year ended 30 June 2016 announcement issued on 25 August 2016 on SENS.

Notice is hereby given that the Company's Annual General Meeting will be held at 2.00pm (AWST) on 24 November 2016 in the Golden Ballroom, Pan Pacific Hotel, 207 Adelaide Terrace, Perth, Western Australia 6000, Australia to transact the business as set out in the Notice of Annual General Meeting to be dispatched no later than 25 October 2016.

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

JSE Sponsor: UBS South Africa (Pty) Ltd
8 September 2016