



03 November 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

SOUTH32 AGREES TO ACQUIRE PEABODY'S METROPOLITAN COLLIERY

South32 Limited (ASX, LSE, JSE: S32) (**South32**) advises that it has entered into a binding agreement to acquire the Metropolitan Colliery and associated 16.67% interest in the Port Kembla Coal Terminal (**PKCT**)⁽¹⁾ from an Australian subsidiary of Peabody Energy Corporation (**Peabody**).

South32 Chief Executive Officer Graham Kerr said: "The Metropolitan Colliery is a natural fit within our portfolio and the acquisition is consistent with our strategy to invest in high quality mining operations where we can create value. The mine's recently upgraded infrastructure and close proximity to Illawarra Metallurgical Coal will enable us to further optimise performance and unlock unique blending and resource synergies."

"We look forward to the Metropolitan team joining South32." Mr Kerr said.

Transaction highlights

- Agreed offer includes fully funded, cash consideration of US\$200M⁽²⁾ and a mechanism whereby both companies will share commodity price upside in the first year of production, or on a minimum 1.3Mt⁽³⁾, should metallurgical coal prices exceed an agreed forward curve;
- Integrates a well-capitalised, underground operation that adds an average 1.9Mtpa⁽⁴⁾ of saleable metallurgical coal production;
- Leverages our regional model and marketing capability; and
- Unlocks unique blending and resource synergies, including the potential development of our CCL724 mining lease, which contains a 71Mt Coal Resource⁽⁵⁾ adjacent to the Metropolitan Colliery.

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.

FURTHER INFORMATION

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

JSE Sponsor: UBS South Africa (Pty) Ltd
03 November 2016

FACT SHEET

The offer

We have entered into a binding agreement to acquire Peabody's Metropolitan Colliery and associated 16.67% interest in PKCT, which we currently manage. As part of the offer:

- We will pay a cash consideration of US\$200M to Peabody on completion;
- The companies will share additional cashflow on a 50:50 basis should metallurgical coal prices exceed an agreed forward curve ("Contingent Value");
- The Contingent Value mechanism:
 - Is based on coal sales from the Metropolitan Colliery in the first 12 months following completion of the transaction, or a minimum 1.3Mt;
 - Refers to an agreed metallurgical coal price forward curve, including: March 2017 quarter US\$160/t, June 2017 quarter US\$130/t, September 2017 quarter US\$120/t and December 2017 quarter US\$115/t; and
 - Is net of royalties, applicable product premia/discounts and tax impacts.
- The offer is subject to approval from the Australian Competition and Consumer Commission; and
- Completion is anticipated in the March 2017 quarter.

The transaction will be funded from existing cash reserves and will not compromise a core priority of our capital management framework, being the retention of a strong balance sheet and investment grade credit rating. At 30 September 2016, we held net cash of US\$551M⁽⁶⁾.

The Metropolitan Colliery

Overview	<ul style="list-style-type: none"> • A single-seam, underground longwall metallurgical coal mine located in the Southern Coalfields in New South Wales, Australia • Coal is mined from the Bulli seam and subsequently crushed, screened and washed on site • Well-capitalised operation, having received US\$210M in growth capital from 2010 to 2015
Location	<ul style="list-style-type: none"> • Helensburgh, approximately 30km to the north of Wollongong and 10km to the east of South32's Appin Colliery
Geology	<ul style="list-style-type: none"> • Tenure hosts the Illawarra Coal Measures • Currently mining the Bulli seam
Resources and Reserves	<ul style="list-style-type: none"> • 25Mt of Proven and Probable Coal Reserves^{(a)(b)} • Unlocks a further 71Mt of Coal Resource at Illawarra Metallurgical Coal's adjacent CCL724 lease
Production and Costs	<ul style="list-style-type: none"> • Underground longwall operation with proven historical annual saleable coal production capacity of 2.3Mtpa • At historical production rates, unit costs, including sustaining capital expenditure, are expected to be marginally lower than our existing Illawarra Metallurgical Coal operation
Processing	<ul style="list-style-type: none"> • All coal is washed on site at a 480tph preparation plant • Electricity is sourced from the NSW grid and water is sourced from Sydney Water
Logistics and Marketing	<ul style="list-style-type: none"> • Export coal is transported via Pacific National rail to PKCT and domestic coal is transported via rail to domestic steelworks
Product	<ul style="list-style-type: none"> • Unique blending opportunity with South32's existing products • Approximately 700ktpa of domestic sales are largely semi hard coking coal with a minor quantity of pulverised coal injection (PCI) • All remaining tonnes to be sold to export markets as low volatile, premium hard coking coal
Workforce	<ul style="list-style-type: none"> • Metropolitan has approximately 375 employees and contractors

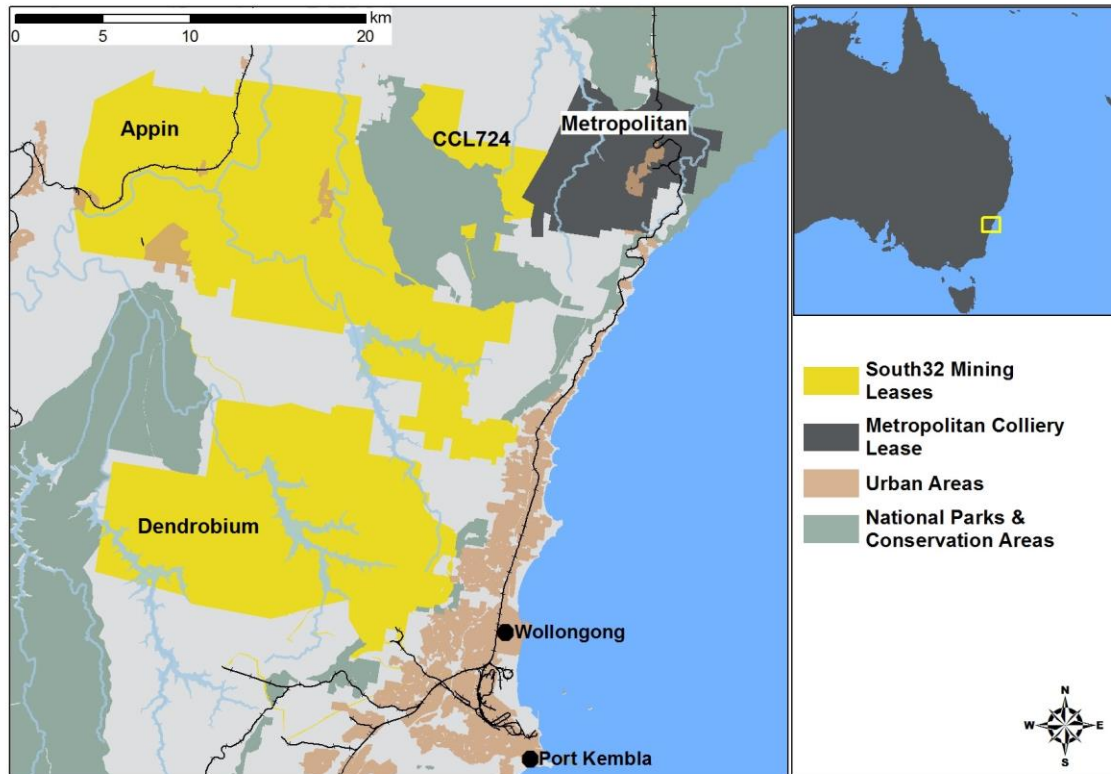
(a) As at 31 December 2015. This Foreign Estimate is reported in accordance with the US SEC Industry Guide 7, Peabody Energy Corp. 10-K filing with the US SEC, 16 March 2016.

(b) Metric Tonnes (Mt), converted from Short Tons using a factor of 0.907.

Cautionary statement:

- The estimates of Coal Reserves for the Metropolitan Colliery mine are foreign estimates under the ASX Listing Rules and are not reported in accordance with the JORC Code.
- Competent persons have not done sufficient work to classify the foreign estimates as Coal Resources or Coal Reserves in accordance with JORC Code.
- It is uncertain that following evaluation and further exploration that the foreign estimates will be able to be reported as Coal Resources or Coal Reserves in accordance with the JORC code.

Location map



Operating information

Metropolitan Colliery performance ^(a)	CY14	CY15
Coal production (Mt)	2.3	1.9
Coal sales (Mt)	2.2	1.8
Realised coal sales price (US\$/t)	97	78
Operating unit cost, including sustaining capital expenditure (US\$/t) ^(b)	82	81
Sales revenue (US\$M)	212	142
Underlying EBITDA (US\$M)	39	8
Capital expenditure (US\$M)	25	14
Growth/Major capital projects (US\$M)	18	4
Sustaining capital expenditure (US\$M)	7	11

(a) Peabody Energy Corp. 8-K filing with the US SEC, 13 April 2016. Metric Tonnes (Mt) converted from Short Tons using a factor of 0.907. Peabody Energy Corp prepares financial information in accordance with US GAAP and using their accounting policies.

(b) Operating unit cost, including Sustaining capital expenditure is Revenue less Underlying EBITDA plus Sustaining capital expenditure, divided by sales volume. Operating unit cost may change as a result of acquisition accounting and the application of South32 accounting policies from acquisition date.

In FY17, saleable coal production of 1.3Mt is anticipated as two longwall moves are scheduled across the year and additional underground development activities will reduce longwall availability and utilisation rates. FY18 saleable production is expected to increase to 1.7Mt as longwall performance increases towards historical rates. The lower production rate and expenditure on underground development and exploration activities across FY17 and FY18 will temporarily increase unit costs. Updated production and unit cost guidance for the expanded Illawarra Metallurgical Coal operation will be provided with our December 2016 half year financial results.

Coal Reserve – clarifying statements

The estimates of Coal Reserves for the Metropolitan Colliery mine are foreign estimates under the ASX Listing Rules reported in accordance with the US SEC Industry Guide 7, Peabody Energy Corp. 10-K filing with the US SEC, 16 March 2016.

The categories of Coal Reserve classification used are in accordance with the US SEC Industry Guide 7. The Coal Reserve reported in accordance with Appendix 5A of ASX Listing rules (The JORC Code) requires reporting of Marketable Coal Reserves in conjunction with Coal Reserves including basis of the predicted yield. US SEC Industry Guide 7 only requires to report Recoverable Coal Reserves. In this case, the Recoverable Reserves may be read as Marketable Coal Reserves.

South32 considers these estimates to be both relevant and material to South32 given that this transaction has the potential to increase the production capacity of the existing South32 Illawarra Metallurgical Coal operation (a material project to South32) by greater than 10%.

Reliability of estimate:

South32 has experience operating within the same coalfield. South32's key technical and operational personnel, including the Coal Reserves Competent Person, conducted site visits as part of the due diligence process. Key modifying and operating cost factors are based on operational experience and have been benchmarked to South32's existing operations. All infrastructure is in place to operate the mine at the stated capacity. Environmental factors have been considered and relevant approvals are in place to enable the extraction of the stated reserves. Peabody Energy reported Coal Reserves in compliance with US SEC Industry Guide 7 following an independent audit carried out by Palaris Australia Pty. Ltd.

The basis for the estimate as provided to South32 consists of a geological database incorporating seam intersections, coal quality, surface topography and roof and floor lithology derived from exploration boreholes, in seam strip samples, seismic data and other relevant points of observation. Mining and processing recoveries are based on current and historical operational experience.

South32 believes that the information provided is the most recent available.

Following completion of the transaction it is South32's intention to conduct a work program to increase confidence in the resource and reserve and to ensure that resources and reserves are reported in accordance with the JORC Code. The work program will include additional exploration by means of drilling and seismic surveys and is anticipated to be completed within three years and will be funded using internal cash reserves.

Advisors

South32 was advised by J.P. Morgan Australia Limited as financial adviser and Herbert Smith Freehills as legal adviser.

Notes

- (1) South32 currently owns 16.67% of PKCT and manages the operation.
- (2) Subject to customary working capital adjustments.
- (3) Should 1.3Mt of volume not be achieved in the 12 months post completion, the Contingent Value mechanism shall continue until 1.3Mt is achieved. In any event, the Contingent Value mechanism will cease by 31 December 2018.
- (4) Represents average saleable coal production from CY11 to CY15, but excludes CY13 given the impact of once-off events.
- (5) The total Coal Resource consists of 2.2Mt of Measured, 12Mt of Indicated and 57Mt of Inferred Coal Resources from the Bulli Seam. This Resource has been declared as part of South32's Annual Resource declaration for Illawarra Metallurgical Coal in the FY16 Annual report (www.south32.net).
- (6) Provisional unaudited net cash balance as at 30 September 2016.

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.

Competent persons' statement

The information in this announcement that relates to Metropolitan Colliery Recoverable Coal Reserves is based on and fairly represents the information supplied by Peabody Energy as a foreign estimate and reported in accordance with ASX listing rule 5.12 by Ms. Jasmine Gale and Mr. Matthew Rose and is an accurate representation of the available data and studies for the Metropolitan Colliery mine. Ms. Gale and Mr. Rose are employees of South32 and members of the Australasian Institute of Mining and Metallurgy. Ms. Gale and Mr. Rose have sufficient relevant experience for the type of deposit and method of extraction to qualify as competent persons in accordance with the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (The JORC Code). Both Ms. Gale and Mr. Rose consent to the inclusion in the report of the matters based on their information in the form and context in which it appears.

The information in this announcement that relates to the estimates of the Illawarra Metallurgical Coal Resource for the CCL724 lease was declared as part of South32's Annual Resource declaration for Illawarra Metallurgical Coal in the FY16 Annual report (www.south32.net). South32 is not aware of any new information or data that materially affects the information included in this announcement. All material assumptions and technical parameters underpinning the resource estimate in this announcement continue to apply and have not materially changed.