

QUARTERLY REPORT



DECEMBER 2015

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

- By optimising the performance of our high quality operations and balance sheet we have delivered a significant reduction in net debt during the December 2015 half year, despite the challenging external environment. Our current estimate for net debt at 31 December 2015 is US\$115M.
- A significant increase in ore grades and recoveries underpinned a 13% increase in Cannington zinc production to a record 41.8kt.
- A further improvement in concentrator performance at Australia Manganese contributed to a 6% increase in ore production to a record 1.6Mt.
- Strong and stable hydrate production at Worsley Alumina supported a 2% increase in saleable alumina production to a record 2.0Mt.
- Ore production at South Africa Manganese was impacted by the temporary suspension of operations during the period. The strategic review, which is nearing completion, will define the optimal configuration and production profile for the South Africa Manganese mines and smelter to ensure cash outflows are mitigated in this difficult pricing environment.
- While FY16 production guidance is maintained for the majority of our upstream operations, we have lowered our estimate for Illawarra Metallurgical Coal production by 7% to 8.3Mt after difficult geological conditions were encountered during the period.
- The Appin Area 9 project is 95% complete, with commissioning expected to start in the March 2016 quarter. The project, which sustains Illawarra Metallurgical Coal production capacity, is now more than 30% below the original budget of US\$845M and three months ahead of schedule.

"Following another solid quarter of operating performance we remain on track to meet production guidance for the majority of our upstream operations."

"Our relentless focus on safety, volume, costs and capital expenditure has allowed us to reduce net debt by almost US\$300 million in the December 2015 half year, despite continuing weakness in commodity markets."

"In order to protect our strong financial position in the currently challenging environment we have already cut or suspended production at our South Africa Manganese ore mines and Alumar, Metalloys, TEMCO and South Africa Aluminium smelters. Further decisive action will be taken as we seek to maximise short-term cash flow while preserving longer-term value."

Graham Kerr, South32 CEO

Production summary

South32's share	1H15	1H16	HoH
Alumina production (kt)	2,633	2,666	1%
Aluminium production (kt)	517	485	(6%)
Energy coal production (kt)	17,405	17,037	(2%)
Metallurgical coal production (kt)	3,858	3,298	(15%)
Manganese ore production (kt)	2,733	2,346	(14%)
Manganese alloy production (kt)	223	131	(41%)
Payable nickel production (kt)	21.2	17.5	(17%)
Silver production (koz)	12,235	11,878	(3%)
Lead production (kt)	98.6	97.5	(1%)
Zinc production (kt)	37.0	41.8	13%

	2Q15	1Q16	2Q16	QoQ
	1,398	1,364	1,302	(5%)
	256	244	241	(1%)
	8,882	8,698	8,339	(4%)
	2,018	2,079	1,219	(41%)
	1,377	1,437	909	(37%)
	121	65	66	2%
	10.5	8.7	8.8	1%
	5,534	6,278	5,600	(11%)
	49.6	49.1	48.4	(1%)
	17.0	19.6	22.2	13%

Unless otherwise noted: percentage variance relates to the relative performance during the December 2015 half year compared with the December 2014 half year (HoH) or the December 2015 quarter compared with the September 2015 quarter (QoQ); production and sales volumes are reported on an attributable basis. Variance analysis relates to HoH performance, as defined above.

CORPORATE UPDATE

- During the December 2015 half year, South32 invested US\$7M on exploration, of which US\$2M will be capitalised. Our exploration activities focused on metallurgical coal and silver in Australia, and nickel in Colombia.
- A review of corporate functional support completed during the December 2015 half year is expected to deliver an annualised saving of approximately US\$30M in FY16 Group and Unallocated costs. Corporate functional expenditure of approximately US\$100M is expected in the 2016 financial year.
- South32's Underlying effective tax rate (ETR) 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%. It should, however, be recognised that permanent differences have a disproportionate effect on the Group's tax rate when commodity prices and profit margins are compressed. In this context, an Underlying ETR¹ of approximately 35% is now expected for the December 2015 half year and this will rise for the full year should commodity prices and margins remain compressed.
- South32 capital expenditure guidance for FY16 of US\$700M was predicated on several assumptions, including an average AUD:USD exchange rate of 0.78 and average USD:ZAR exchange rate of 12.42. Updated capital expenditure guidance will be provided when the Company reports its December 2015 half year financial results to reflect the general appreciation of the US dollar against a basket of producer currencies, and the Group's ongoing efforts to optimise its investment activities.
- The Group's current estimate for net debt² at 31 December 2015 is US\$115M (US\$196M at 30 September 2015 and US\$402M at 30 June 2015) and includes finance leases totalling US\$595M (US\$575M at 30 September 2015 and US\$631M at 30 June 2015). Our cash balance also incorporates a US\$46M benefit following the resolution of legacy tax disputes during the December 2015 half year. The Group's strong balance sheet remains a key point of differentiation and we are firmly committed to an investment grade credit rating.

Upstream production guidance (South32's share)	FY15	FY16e
Worsley Alumina		
Alumina production (kt)	3,819	3,950
Brazil Alumina		
Alumina production (kt)	1,328	1,320
South Africa Energy Coal³		
Domestic coal production (kt)	18,123	16,650
Export coal production (kt)	16,150	15,300
Illawarra Metallurgical Coal		
Metallurgical coal production (kt)	7,455	<i>(Revised) 6,900</i>
Energy coal production (kt)	1,471	<i>(Revised) 1,350</i>
Australia Manganese		
Manganese ore production (kt)	2,942	3,050
South Africa Manganese		
Manganese ore production ⁴ (kt)	2,273	<i>(Remains under review)</i>
Cerro Matoso		
Payable nickel production (kt)	40.4	36.5
Cannington		
Payable silver production (koz)	22,601	21,650
Payable lead production (kt)	183	175
Payable zinc production (kt)	72	80

WORSLEY ALUMINA

(86% share)

South32's share	1H15	1H16	HoH	2Q15	1Q16	2Q16	2Q15 vs 2Q16	1Q16 vs 2Q16
Alumina production (kt)	1,953	1,993	2%	1,060	1,031	962	(9%)	(7%)
Alumina sales (kt)	1,943	1,898	(2%)	1,068	930	968	(9%)	4%

Worsley Alumina saleable production increased by 2% (or 40kt) to a record 1,993kt in the December 2015 half year as the operations processed stockpiled alumina hydrate and benefitted from additional operating efficiency gains. The 2% decline in sales reflected a timing difference as one shipment slipped into the March 2016 quarter.

Planned calciner maintenance in the December 2015 quarter led to a 7% QoQ reduction in saleable alumina production. The next major calciner outage is now scheduled for the December 2016 quarter. FY16 saleable alumina production guidance remains unchanged at 3.95Mt.

SOUTH AFRICA ALUMINIUM

(100%)

South32's share	1H15	1H16	HoH	2Q15	1Q16	2Q16	2Q15 vs 2Q16	1Q16 vs 2Q16
Aluminium production (kt)	356	352	(1%)	176	178	174	(1%)	(2%)
Aluminium sales (kt)	352	363	3%	178	185	178	0%	(4%)

South Africa Aluminium saleable production of 352kt was largely unchanged in the December 2015 half year, while the 2% reduction in quarterly production volumes reflected our decision to suspend production in 22 pots in September 2015. This suspension of activity is expected to deliver an incremental improvement in cash flow as planned pot relining activity is deferred. A loss of 18kt is anticipated should the 22 pots remain offline for the remainder of FY16, with a marginal YoY reduction in production likely.

MOZAL ALUMINIUM

(47.1% share)

South32's share	1H15	1H16	HoH	2Q15	1Q16	2Q16	2Q15 vs 2Q16	1Q16 vs 2Q16
Aluminium production (kt)	135	133	(1%)	67	66	67	0%	2%
Aluminium sales (kt)	137	121	(12%)	73	53	68	(7%)	28%

Mozal Aluminium saleable production of 133kt was largely unchanged in the December 2015 half year. Production increased marginally in the December 2015 quarter following a modest reduction in the number of load-shedding events during the period. The 12% decline in sales reflected the scheduling of shipments between periods. Aluminium production is expected to remain broadly unchanged in FY16.

BRAZIL ALUMINA

(Refinery 36% share, Smelter 40% share)

South32's share	1H15	1H16	HoH	2Q15	1Q16	2Q16	2Q15 vs 2Q16	1Q16 vs 2Q16
Alumina production (kt)	680	673	(1%)	338	333	340	1%	2%
Alumina sales (kt)	694	661	(5%)	371	320	341	(8%)	7%
Aluminium production (kt)	26	0	(100%)	13	0	0	(100%)	N/A
Aluminium sales (kt)	25	0	(100%)	13	0	0	(100%)	N/A

Brazil Alumina saleable alumina production of 673kt was largely unchanged in the December 2015 half year and FY16 alumina production guidance of 1.32Mt remains unchanged. The 5% decline in sales reflected 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. With the economics unlikely to support the recommencement of smelting activity we have sold forward power for the 2017 calendar year and served termination notice on our contract with Eletronorte for the remaining years of the contract. As a result of this decision, power sales are not expected to contribute to Underlying EBIT beyond FY16 as 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 2017 and 2018 financial years. Unhedged power sales, inclusive of this provision, are now expected to contribute approximately BRL235M to Underlying EBIT in FY16 and will be skewed to the first half.

SOUTH AFRICA ENERGY COAL

(100%)

South32's share	1H15	1H16	HoH	2Q15	1Q16	2Q16	2Q15 vs 2Q16	1Q16 vs 2Q16
Energy coal production (kt)	16,525	16,379	(1%)	8,499	8,292	8,087	(5%)	(2%)
Domestic sales (kt)	9,137	9,080	(1%)	4,734	4,246	4,834	2%	14%
Export sales (kt)	7,913	8,021	1%	4,174	4,132	3,889	(7%)	(6%)

South Africa Energy Coal saleable production of 16.4Mt was broadly unchanged in the December 2015 half year as operational efficiencies at the Khutala underground mine and the Wolvekrans Middelburg Complex mitigated the impact of the planned closure of the opencast mine at Khutala. FY16 saleable production guidance remains unchanged at 31.95Mt (16.65Mt domestic, 15.30Mt export).

ILLAWARRA METALLURGICAL COAL

(100%)

South32's share	1H15	1H16	HoH	2Q15	1Q16	2Q16	2Q15 vs 2Q16	1Q16 vs 2Q16
Metallurgical coal production (kt)	3,858	3,298	(15%)	2,018	2,079	1,219	(40%)	(41%)
Metallurgical coal sales (kt)	3,447	3,147	(9%)	1,830	1,999	1,148	(37%)	(43%)
Energy coal production (kt)	880	658	(25%)	383	406	252	(34%)	(38%)
Energy coal sales (kt)	799	609	(24%)	426	391	218	(49%)	(44%)

Illawarra Metallurgical Coal saleable production decreased by 17% (or 782kt) to 3.96Mt in the December 2015 half year as challenging geological conditions were encountered at the Appin and Dendrobium mines, and a planned longwall move was completed during the December 2015 quarter. Another two longwall moves are expected to be completed in the March 2016 quarter, consistent with the mine plan. Accordingly, FY16 saleable coal production has been lowered by 7% to 8.25Mt (metallurgical coal 6.9Mt, energy coal 1.35Mt).

The Appin Area 9 project is 95% complete, with commissioning expected to start in the March 2016 quarter. The project, which sustains Illawarra Metallurgical Coal production capacity, is now more than 30% below the original budget of US\$845M and three months ahead of schedule.

AUSTRALIA MANGANESE

(60% share)

South32's share	1H15	1H16	HoH	2Q15	1Q16	2Q16	2Q15 vs 2Q16	1Q16 vs 2Q16
Manganese ore production (kt)	1,499	1,589	6%	773	857	732	(5%)	(15%)
Manganese ore sales (kt)	1,459	1,499	3%	725	749	750	3%	0%
Manganese alloy production (kt)	83	85	2%	48	44	41	(15%)	(7%)
Manganese alloy sales (kt)	77	76	(1%)	44	38	38	(14%)	0%

Australia Manganese saleable ore production increased by 6% (or 90kt) to a record 1,589kt in the December 2015 half year as the operation continued to optimise concentrator performance. The 15% reduction in saleable ore production in the December 2015 quarter was anticipated, ensuring FY16 production guidance remains unchanged at 3.05Mt. A higher strip ratio, planned maintenance and seasonal factors are expected to impact performance in the June 2016 half year.

Saleable manganese alloy production increased by 2% (or 2kt) to 85kt in the December 2015 half year. In response to market conditions, TEMCO has suspended production at one of its four furnaces for a minimum of three months. While production will be impacted in the June 2016 half year, customer commitments will continue to be met from inventory.

The Premium Concentrate Ore (PCO2) project is expected to increase GEMCO production capacity by 0.5Mt to 5.3Mtpa (100% basis). The project is now expected to be delivered under budget with first production anticipated in the June 2016 quarter, as planned.

SOUTH AFRICA MANGANESE

(60% share)

South32's share	1H15	1H16	HoH	2Q15	1Q16	2Q16	2Q15 vs 2Q16	1Q16 vs 2Q16
Manganese ore production (kt)	1,234	757	(39%)	604	580	177	(71%)	(69%)
Manganese ore sales (kt)	1,189	879	(26%)	590	518	361	(39%)	(30%)
Manganese alloy production (kt)	140	46	(67%)	73	21	25	(66%)	19%
Manganese alloy sales (kt)	134	50	(63%)	65	25	25	(62%)	0%

South Africa Manganese saleable ore production decreased by 39% (or 477kt) to 757kt in the December 2015 half year following the suspension of operations at Wessels and Mamatwan in November 2015. South Africa Manganese saleable alloy production decreased by 67% (or 94kt) to 46kt following the suspension of three of the four high-carbon ferromanganese furnaces at Metalloys in May 2015. A strategic review, which is nearing completion, will define the optimal configuration and production profile for the South Africa Manganese mines and smelter to ensure cash outflows are mitigated in this difficult pricing environment.

CERRO MATOSO

(99.9% share)

South32's share	1H15	1H16	HoH	2Q15	1Q16	2Q16	2Q15 vs 2Q16	1Q16 vs 2Q16
Payable nickel production (kt)	21.2	17.5	(17%)	10.5	8.7	8.8	(16%)	1%
Payable nickel sales (kt)	20.6	17.5	(15%)	10.1	8.7	8.8	(13%)	1%

Cerro Matoso payable nickel production decreased by 17% (or 3.7kt) to 17.5kt in the December 2015 half year as the average ore grade declined, consistent with the mine plan. FY16 production guidance of 36.5kt remains unchanged.

The higher grade La Esmeralda deposit has the potential to deliver an uplift in the average ore grade between 2018 and 2022. A new social and environmental licence to allow access to the ore body was granted in December 2015.

CANNINGTON

(100%)

South32's share	1H15	1H16	HoH	2Q15	1Q16	2Q16	2Q15 vs 2Q16	1Q16 vs 2Q16
Silver production (koz)	12,235	11,878	(3%)	5,534	6,278	5,600	1%	(11%)
Silver sales (koz)	12,715	11,898	(6%)	5,631	6,203	5,695	1%	(8%)
Lead production (kt)	98.6	97.5	(1%)	49.6	49.1	48.4	(2%)	(1%)
Lead sales (kt)	99.7	95.5	(4%)	48.5	48.7	46.8	(4%)	(4%)
Zinc production (kt)	37.0	41.8	13%	17.0	19.6	22.2	31%	13%
Zinc sales (kt)	33.5	41.2	23%	18.0	19.0	22.2	23%	17%

Cannington payable silver production decreased by a modest 3% (or 357koz) to 11.9Moz in the December 2015 half year as the average silver ore grade remained largely unchanged. Conversely, a significant increase in the average zinc ore grade and recovery underpinned a 13% increase in zinc production to a record 41.8kt. FY16 production guidance remains unchanged (payable silver 21.65Moz, payable lead 175kt, payable zinc 80kt) as the mine plan will deliver an increase in the ratio of zinc to lead concentrate over the remainder of the year.

Finalisation adjustments and the provisional pricing of Cannington concentrates will reduce Underlying EBIT by US\$19M in the December 2015 half year (-US\$43M in the June 2015 financial year; -US\$40M December 2014 half year). Outstanding concentrate sales (containing 5.2Moz of silver, 45.7kt of lead and 16.0kt of zinc) were revalued at 31 December 2015. The final price of these sales will be determined in the second half of the 2016 financial year.

Notes:

1. Provisional unaudited Underlying ETR for the December 2015 half year.
2. Provisional unaudited net debt balance as at 31 December 2015.
3. 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%.
4. 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.
5. 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.
6. Figures in italics indicate that this figure has been adjusted since it was previously reported.
7. 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); megawatt (MW); Australian Securities Exchange (ASX); London Stock Exchange (LSE); and Johannesburg Stock Exchange (JSE).

OPERATING PERFORMANCE

South32's share	1H15	1H16	2Q15	3Q15	4Q15	1Q16	2Q16
Worsley Alumina (86% share)							
Alumina hydrate production (kt)	1,956	1,970	976	931	987	990	980
Alumina production (kt)	1,953	1,993	1,060	937	929	1,031	962
Alumina sales (kt)	1,943	1,898	1,068	866	1,048	930	968
South Africa Aluminium (100%)							
Aluminium production (kt)	356	352	176	168	175	178	174
Aluminium sales (kt)	352	363	178	166	177	185	178
Mozal Aluminium (47.1% share)							
Aluminium production (kt)	135	133	67	65	65	66	67
Aluminium sales (kt)	137	121	73	66	70	53	68
Brazil Alumina (alumina 36% share, aluminium 40% share)							
Alumina production (kt)	680	673	338	311	337	333	340
Alumina sales (kt)	694	661	371	285	330	320	341
Aluminium production (kt)	26	0	13	12	2	0	0
Aluminium sales (kt)	25	0	13	13	3	0	0
South Africa Energy Coal (100%)							
Energy coal production (kt)	16,525	16,379	8,499	9,240	8,508	8,292	8,087
Domestic sales (kt)	9,137	9,080	4,734	4,921	4,358	4,246	4,834
Export sales (kt)	7,913	8,021	4,174	4,354	4,123	4,132	3,889
Illawarra Metallurgical Coal (100%)							
Metallurgical coal production (kt)	3,858	3,298	2,018	1,614	1,983	2,079	1,219
Metallurgical coal sales (kt)	3,447	3,147	1,830	1,810	2,067	1,999	1,148
Energy coal production (kt)	880	658	383	185	406	406	252
Energy coal sales (kt)	799	609	426	272	307	391	218
Australia Manganese (60% share)							
Manganese ore production (kt)	1,499	1,589	773	682	761	857	732
Manganese ore sales (kt)	1,459	1,499	725	686	700	749	750
Manganese alloy production (kt)	83	85	48	41	43	44	41
Manganese alloy sales (kt)	77	76	43	26	36	38	38
South Africa Manganese (60% share)							
Manganese ore production (kt)	1,234	757	604	548	492	580	177
Manganese ore sales (kt)	1,189	879	590	614	407	518	361
Manganese alloy production (kt)	140	46	73	68	38	21	25
Manganese alloy sales (kt)	134	50	65	70	47	25	25

South32's share	1H15	1H16	2Q15	3Q15	4Q15	1Q16	2Q16
Cerro Matoso (99.9% share)							
Ore mined (kwmt)	3,339	3,017	1,827	1,826	1,156	1,531	1,486
Ore processed (kdmt)	1,335	1,312	678	698	596	639	673
Ore grade processed (% Ni)	1.72	1.53	1.69	1.63	1.59	1.55	1.52
Payable nickel production (kt)	21.2	17.5	10.5	10.6	8.6	8.7	8.8
Payable nickel sales (kt)	20.6	17.5	10.1	11.0	9.0	8.7	8.8
Cannington (100%)							
Ore mined (kt)	1,748	1,743	925	813	857	910	833
Ore processed (kt)	1,669	1,657	850	791	829	838	819
Payable silver ore grade processed (g/t, Ag)	272	266	246	247	235	272	260
Payable lead ore grade processed (% Pb)	7.0	7.0	7.0	6.3	6.4	6.9	7.1
Payable zinc ore grade processed (% Zn)	3.5	3.7	3.2	3.2	3.5	3.4	4.0
Payable silver production (koz)	12,235	11,878	5,534	5,130	5,236	6,278	5,600
Payable silver sales (koz)	12,715	11,898	5,631	4,972	6,144	6,203	5,695
Payable lead production (kt)	98.6	97.5	49.6	40.1	44.3	49.1	48.4
Payable lead sales (kt)	99.7	95.5	48.5	40.3	48.8	48.7	46.8
Payable zinc production (kt)	37.0	41.8	17.0	16.4	18.9	19.6	22.2
Payable zinc sales (kt)	33.5	41.2	18.0	17.1	16.2	19.0	22.2

FURTHER INFORMATION

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