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South32 Limited
(Incorporated in Australia under the *Corporations Act 2001* (Cth))
(ACN 093 732 597)
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ISIN: AU000000S320
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SOUTH32 ANNOUNCES MAJOR RESTRUCTURING PLANS AND NON-CASH CHARGES

South32 Limited (ASX, LSE, JSE: S32) (“South32”) today announced the outcome of the South Africa Manganese strategic review and its intention to substantially reduce cash costs at a number of operations.

As a result of a downward revision to forecast commodity demand and prices, South32 also advises that it expects to book pre-tax, non-cash charges of approximately US\$1.7B (post-tax US\$1.7B) when it reports its December 2015 half year financial results.

South32 Chief Executive Officer, Graham Kerr, said: “The completion of the South Africa Manganese strategic review is important for our Company as it will allow us to re-base manganese ore production at a significantly lower level while reducing Rand denominated mine gate costs by a commensurate amount. When combined with the restructuring initiatives that are currently being finalised at many operations across our portfolio, we expect to further strengthen our financial position and increase our cash generating capacity through the cycle.

“We will continue to focus on the things that we can control; safety, volume, costs and capital expenditure, as we seek to optimise the performance of our operations. This strategy to maximise value rather than volume, our high quality operations and well-defined financial policies underpin our resilience at current commodity prices and we remain exceptionally well positioned for any improvement in industry fundamentals.

“We are, however, not immune to external influences and the significant change in the outlook for commodity prices is expected to result in non-cash charges of approximately US\$1.7B when we report our December 2015 half year financial results.”

Significantly reducing production volumes and costs at South Africa Manganese

In response to a sharp decline in manganese ore and alloy prices, South32, as 60% owner and operator of the largest manganese business globally (the Samancor Manganese Joint Venture), suspended mining activity at the Hotazel Manganese Mines (Hotazel) in November 2015. This suspension removed around 700kt of manganese ore production from the global supply chain and inventories at the Hotazel mines have declined substantially as a result.

With the strategic review complete, mining activity will restart at South Africa Manganese with immediate effect, but at a substantially reduced rate and with greater flexibility. Subject to market conditions, the Hotazel mines will ramp-up to a saleable production rate of 2.9Mtpa (100% basis), taking approximately 900ktpa or 23%¹ of saleable production out of the market for the foreseeable future. At the same time, optimised mine plans, redundancies and other restructuring initiatives are expected to reduce Rand denominated mine gate costs² by a commensurate amount. Annual sustaining capital expenditure is also expected to decline by approximately 80%³ to US\$7M⁴ (South32 share) in FY17.

Specific measures being taken to reposition South Africa Manganese to ensure it is appropriately structured for the current environment, yet flexible enough to benefit from an eventual recovery in prices include:

- The reduction of approximately 620 employees across the joint venture;
- The acceleration of the second phase of the Central Block development project at Wessels (US\$19M budget, South32 share)⁵, which will enable mining to relocate closer to critical infrastructure and reduce cycle times;
- A 36%¹ reduction in saleable production at the Wessels mine to 740ktpa (100% basis);
- The optimisation of the mining and processing footprint at Mamatwan, where saleable production will be reduced by approximately 18%¹ to 2.2Mtpa (100% basis); and
- The continued operation of only one of four furnaces at the Metalloys smelter, which is now generating free cash flow.

As part of the review, the Company engaged with employees, union and government representatives. Pre-tax restructuring costs, including redundancies, of approximately US\$10M (South32 share) are anticipated in FY16.

Broader restructuring to further optimise our operations and maximise cash flow

The demerger of South32 has given greater focus to our operations and has created the necessary environment for our employees to enact change and improve performance. Our teams are currently finalising plans that will deliver a meaningful reduction in costs at Illawarra Metallurgical Coal, Cerro Matoso, Worsley Alumina and Australia Manganese. These initiatives are expected to result in a substantial reduction in employee numbers during the remainder of FY16 and will be detailed in our December 2015 half year financial results.

Non-cash charges to reflect the downward rebasing of demand and price forecasts

South32 is finalising its financial statements in preparation for its December 2015 half year financial results, which will be released on 25 February 2016. In this regard, the downward revision to forecast commodity demand and prices is expected to result in pre-tax, non-cash charges of approximately US\$1.7B (US\$1.7B post-tax). These charges will be excluded from the Group's Underlying earnings measures in the December 2015 half year.

¹ Compares planned saleable production rates in FY17 with saleable production in FY15.

² Compares planned Rand denominated mine gate costs for the Hotazel mines in FY17 with Rand denominated mine gate costs in FY15.

³ Compares planned sustaining capital expenditure for the Hotazel mines in FY17 with sustaining capital expenditure in FY15.

⁴ Planned sustaining capital expenditure in FY17 is based on an average USD:ZAR exchange rate of 14.12.

⁵ The second phase of the Central Block development project is 78% complete with commissioning now planned for July 2016.

This process is expected to result in the fair value uplift applied to Australia Manganese in advance of the demerger being fully impaired, while additional impairments are expected for South Africa Manganese, South Africa Energy Coal and Brazil Alumina. The latter impairment reflects the continued suspension of smelting activities at the Alumar joint venture (South32 36%) and our decision to sell power forward to the end of CY17.

Provisional impairment related non-cash charges to be included in the December 2015 half year financial results	US\$B
Pre-tax non-cash charges	
<i>Australia Manganese</i>	0.9
<i>South Africa Energy Coal</i>	0.4
<i>Brazil Alumina</i>	0.1
<i>South Africa Manganese</i>	0.1
<i>Other⁶</i>	0.2
Sub-total	1.7
Tax effect	0.0
Post-tax non-cash charge	1.7

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

About the Samancor Manganese Joint Venture

The Samancor Manganese joint venture is the world's largest producer of manganese with operations in South Africa and Australia. Its Australian operations include GEMCO, an open-cut manganese mine in the Northern Territory, ranked as the largest and one of the world's lowest cost manganese ore producers, and TEMCO, a manganese alloy plant in Tasmania. The joint venture's African operations include the HMM mines, Wessels and Mamatwan, located in the Kalahari Basin in South Africa's Northern Cape Province, a region that holds ~80% of the world's known manganese resource endowment. Its African operations also include Metalloys smelter.

⁶ Other includes available for sale financial assets and Manganese marketing.

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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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