SOUTH32

ANNUAL REPORT 2015

shares trade on the ASX, JSE and LSE under the listing code of S32.

This Annual Report is a summary of the operations, activities and performance of South32 Limited (ABN 84 093 732 597) for the period ended 30 June 2015 and its financial position as at 30 June 2015.

South32 Limited is the parent company of the South32 Group of companies. In this report, unless otherwise stated, references to South32 and the South32 Group, the Company, we, us and our, refer to South32 Limited and its controlled entities, as a whole.

South32 is conscious of its environmental footprint associated with the production of this Annual Report. This Annual Report is printed on paper that is FSC (Forest Stewardship Council) certified and manufactured from plantation-grown timber. Both the paper manufacturer and printer are certified to the highest possible internationally recognised standard for environmental management. Printed copies of this Annual Report will only be posted to those shareholders who have requested to receive a printed copy. Other shareholders are notified when the Annual Report becomes available and given details of where to access it electronically.

Monetary amounts in this document are reported in US dollars, unless otherwise stated.

Prior to the demerger, the South32 Group and the BHP Billiton Group were required to undertake a number of internal share and asset transfers in connection with the corporate restructure (Internal Restructure). As a result of the Internal Restructure, the statutory financial information for FY2015 and FY2014 does not reflect the performance of the South32 Group as it is currently structured. To assist shareholders in their understanding of the South32 Group, pro forma financial information for FY2015 and FY2014 has been prepared to reflect the business as it is now structured and as though it was in effect for the period 1 July 2013 to 30 June 2015. The pro forma financial information is not prepared in accordance with IFRS. Refer to section 5 (p80) for the basis of preparation of the pro forma financial information.

Metrics describing health, safety, environment and community (HSEC) performance apply to "operated assets" that have been wholly owned and operated by South32 or the BHP Billiton Group, or that have been operated by South32 or BHP Billiton in a joint venture operation, from 1 July 2014 to 30 June 2015 (FY2015).

KNOW US IN 32 SECONDS

Safety and sustainability underpin our operations

Talented and committed people

Values-based business focus

High-quality cash generative portfolio

Regional operating model – Australia and Africa

Globally diversified commodity portfolio

Geographic diversity of customers and end markets

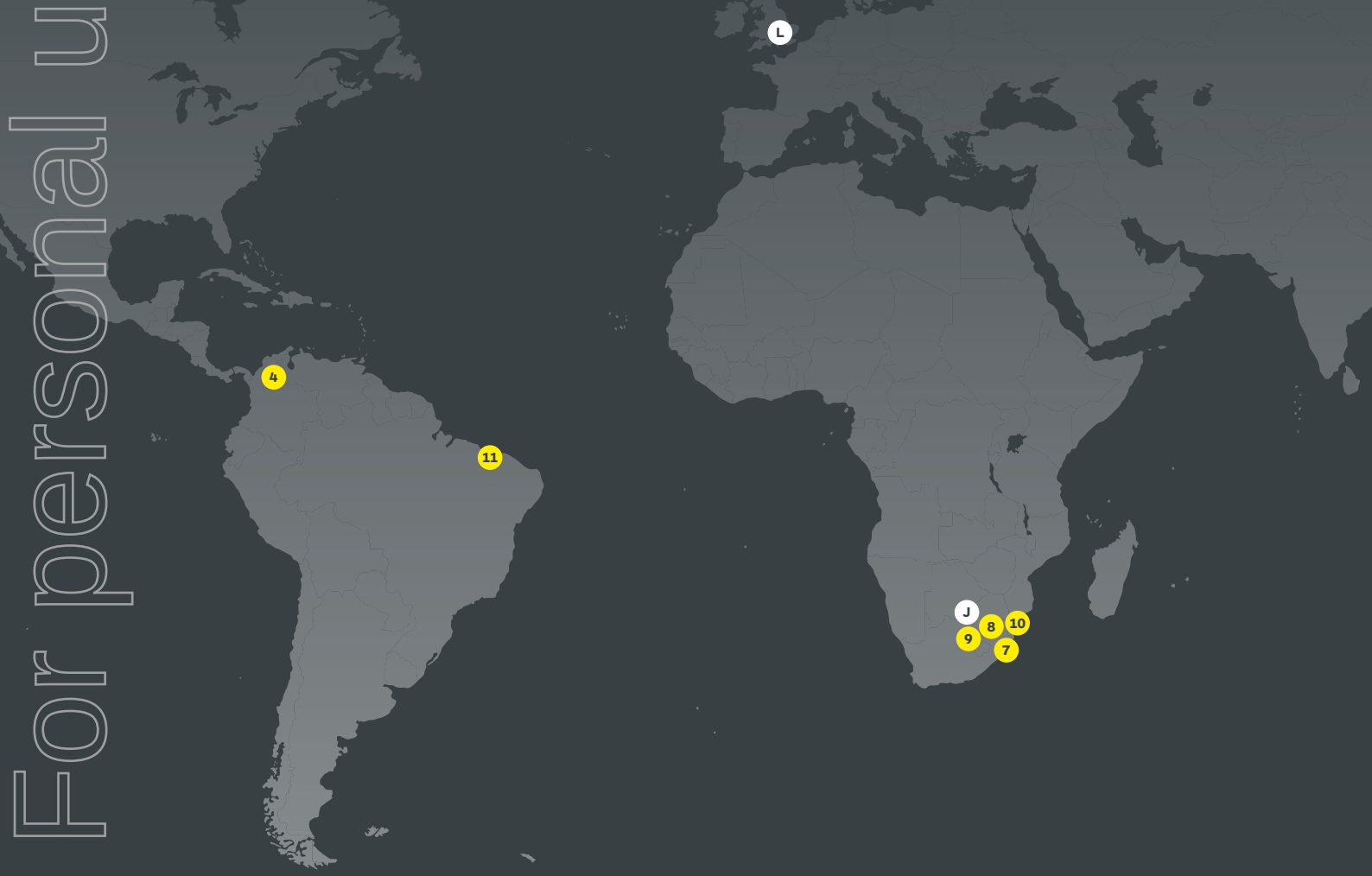
Strong balance sheet and investment grade credit rating

Simple strategy to maximise returns

ABOUT THIS REPORT
AT A GLANCE

WHERE WE HAVE OUR ASSETS

WE ARE A GLOBALLY DIVERSIFIED METALS AND MINING COMPANY WITH A HIGH-QUALITY, WELL MAINTAINED PORTFOLIO



ABOUT THIS REPORT
OUR GLOBAL ASSETS

AUSTRALIA REGION

The Australia Region comprises operations within Australia and South America. These operations mine or produce alumina, bauxite, coal, manganese, silver, lead, zinc and nickel. The Australia Region office is located in Perth, Western Australia.

1. **Australia Manganese (GEMCO)**
2. **Australia Manganese (TEMCO)**
3. **Cannington**
4. **Cerro Matoso**
5. **Illawarra Metallurgical Coal**
6. **Worsley Alumina**

AFRICA REGION

The Africa Region includes operations located in South Africa and Mozambique. These operations produce aluminium, energy coal and manganese. The Africa Region office is located in Johannesburg.

7. **South Africa Aluminium**
8. **South Africa Energy Coal**
9. **South Africa Manganese**
10. **Mozal Aluminium**

GLOBAL OFFICES

The South32 corporate office is located in Perth, Western Australia. As a mining hub, Perth provides access to people and expertise with the time zone providing ideal coverage to support both the Australia and Africa Regions.

- P **Perth**
  Corporate office and Australia Region hub
- J **Johannesburg**
  Africa Region hub and global shared services centre
- S **Singapore**
  Marketing office
- L **London**
  Marketing office
- 11 **Brazil Aluminium**

WHERE WE EXPORT OUR COMMODITIES

ONE OF OUR STRENGTHS IS THE GEOGRAPHIC DIVERSITY OF OUR CUSTOMERS AND END MARKETS

AFRICA

AMERICAS

ASIA-PACIFIC

EUROPE

MIDDLE EAST

OUR COMMODITIES

SOUTH32 COMMODITIES ARE USED TO MAKE PRODUCTS THAT SUPPORT AND SIMPLIFY EVERYDAY LIVING

13
Al
Aluminium
26.982

ALUMINIUM

Aluminium is made from a two-step process that first refines bauxite into alumina before the alumina is smelted into aluminium metal. Aluminium is used in transportation, construction, packaging, power generation, machinery and consumer products. Aluminium's weight and recycling properties make it a great alternative to steel. In cars, it makes the vehicle lighter and more fuel efficient.

6
C
Carbon
12.01

COAL

Metallurgical Coal is primarily used in the steel production process that involves a variety of coals being blended and converted into coke (a fuel) in an oven. Steel is an essential building material for construction and infrastructure.

Energy Coal is used in power generation and cement manufacturing. Currently, coal accounts for around 40 per cent of global electricity production. It is the world's second largest source of primary energy largely due to the fact it is abundant, widely distributed across the globe and affordable for developing countries.

82
Pb
Lead
207.2

LEAD

Lead is primarily used in batteries. Lead-acid batteries are used extensively in the automotive industry for starting, lighting and ignition, but increasingly as a source of power in electric vehicles. It is also used in the manufacture of radiation shields for X-ray machines.

25
Mn
Manganese
54.93

MANGANESE

Manganese improves the strength of steel and can be added to aluminium for the same reason. High rise buildings and major infrastructure, such as hospitals, office towers and bridges, use steel that contains manganese.

28
Ni
Nickel
58.69

NICKEL

Nickel's main use is the manufacture of stainless steel. Stainless steel that includes nickel is primarily used in the food processing, transportation and manufacturing industries. Stainless Steel is used for everyday household items and as bench tops in industrial kitchens and laboratories, as it is heat-resistant, hard to damage and is easily kept clean.

47
Ag
Silver
107.86

SILVER

Silver has been used to make coins for over 2,000 years. Coins and bars still make up the majority of demand for silver today. Silver is also used to create jewellery, medical appliances and electronics. Most recently it has been used in new industrial applications, such as solar panels and window coatings to increase insulation properties.

30
Zn
Zinc
65.38

ZINC

Zinc is extensively used for the galvanisation of iron and steel to protect against corrosion, and in alloys such as bronze and brass. The standard steel street light pole is coated with zinc to protect it from corrosion.

WHO WE ARE

OUR PURPOSE

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.

OUR STRATEGY

Our strategy is to invest in high-quality metals and mining operations where our distinctive capabilities and regional model enable us to stretch performance in a sustainable way. By maintaining financial discipline and continually optimising our portfolio we will deliver sector leading total shareholder returns.

OUR VALUES

CARE

We care about people, the communities we are a part of and the world we depend on.

TRUST

We deliver on our commitments and rely on each other to do the right thing.

TOGETHERNESS

We value difference, listen and share, knowing that together we are better.

EXCELLENCE

We are courageous and challenge ourselves to be the best in what matters.

32°

OUR NAME - SOUTH32

South32 is a business built in the Southern Hemisphere, with a reach and ambition that encircles the globe. Our two primary regions – Australia and Africa – are linked by the thirty-second parallel south, and bound by a resilience and pioneering "spirit" inherent to our history. This connection illustrates our common spirit, wherever we do business in the world.

OUR SYMBOL - THE WEAVE

The weave is a traditional technique for creating materials by binding together individual threads to create a stronger fabric. The use of this theme in our brand mark reflects our belief that no individual person or activity on their own will define the success of South32. Working together, we can make a difference, from the ground up.

HOW WE PERFORMED

TOTAL RECORDABLE INJURY FREQUENCY FOR FY2015

per million hours worked

5.8

(FY2014: 4.7)

PRODUCTION RECORDS

4

Alumina at Brazil Aluminium
Coal at Illawarra Metallurgical Coal
Alloy at Australia Manganese
Ore at South Africa Manganese

PRO FORMA FY2015 UNDERLYING EBIT

US$ million

1,001

(FY2014 US$642 million)

PRO FORMA FY2015 UNDERLYING EARNINGS

US$ million

575

(FY2014 US$407 million)

CLOSING NET DEBT

US$ million

402

UNDERPINS BBB+/Baa1 CREDIT RATINGS

PRO FORMA FY2015 UNDERLYING RETURN ON INVESTED CAPITAL (ROIC)

Per cent

6.2

(FY2014 4.0 per cent)

A BRIGHT FUTURE FOR SOUTH32

Dear Shareholder

On behalf of the Board, I am pleased to share with you this inaugural Annual Report for South32.

In May 2015, we successfully demerged from BHP Billiton and listed on the Australian Securities Exchange, the Johannesburg Stock Exchange and the London Stock Exchange. In August, we announced our annual results for FY2015. We now provide you with our first Annual Report.

South32 is truly a global company, listed on three continents with operations spanning five countries. This geographic diversity is reflected in the composition of our Board. Our Directors are based in Africa, Australia and the United Kingdom and have decades of experience in resources, finance and corporate governance.

The establishment of South32 presented the Board with a unique opportunity to develop a governance structure that is fit-for-purpose for a company of our size and geographic diversity, building upon the best from our heritage. The authority and responsibilities of the Board are defined in our Constitution and Board Charter, which are available on our website.

Your Board is committed to ensuring that South32 operates and is managed in a sustainable way. We believe strong corporate governance practices are fundamental to the long-term performance of the Group. We will continually review our governance practices to address our regulatory obligations and the expectations of all stakeholders, while appropriately managing the risks inherent across our business.

Our management team has a broad range of mining, commercial, exploration and financial experience, with a track record of generating earnings improvements through cost management, productivity improvements and value accretive investments. Safety, sustainability, and sound financial discipline are critical to our success. Graham Kerr and his management team are committed to these principles.

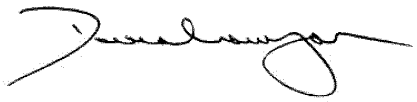
The external environment remains challenging and we expect this uncertainty to remain for some time.

However, South32 begins in a solid position. We have inherited a high-quality, well maintained, cash generative portfolio with assets that are competitively positioned on their respective industry cost or margin curves and we have a strong balance sheet.

South32 has also developed a simple business strategy and the Board has ensured that the right incentives underpin the strategy, with a focus on the Company's short and long-term performance. Ultimately, we strive to deliver sector leading total shareholder returns.

The Board believes South32 has the right people and the right strategy to prosper. By working together with our stakeholders, we can create a brighter future for all.

I encourage you to familiarise yourself with South32, our approach and performance to date, and look forward to providing you with further updates as we progress on our journey.



David Crawford AO
Chairman

HITTING THE GROUND RUNNING

Since listing in May, we have hit the ground running, by fast-tracking the implementation of our regional operating model, putting the right teams in place, right-sizing our systems and processes, driving the necessary cultural change across the Group and developing a simple strategy to maximise returns for our shareholders. These achievements have only been possible thanks to the collective effort of thousands of people, right across our business.

Despite the significant progress made during the year, we sadly lost two valued members of our team at our Worsley and Metalloys operations in FY2015, and another at our Hillside aluminium smelter in July. These events are a tragic reminder of the step-change we need to make to eliminate fatalities occurring in our business.

In FY2015, we achieved four annual production records including alumina at Brazil Aluminium, coal at Illawarra Metallurgical Coal, alloy at Australia Manganese and ore at South Africa Manganese. Record volumes of hydrate were also achieved at Worsley Alumina.

On a pro forma basis we recorded an annual increase in Underlying EBIT of 56 per cent to US$1.0 billion and an annual increase in Underlying earnings of 41 per cent to US$575 million.

We were able to convert this earnings growth into cash flow, with pro forma FY2015 Free cash flow before interest and tax of US$1.7 billion. We also maintained our strong balance sheet, with a net debt position at the end of FY2015, of US$402 million and strong investment grade credit rating.

During the year, we took the decisions to temporarily suspend loss-making capacity at the Alumar aluminium smelter in Brazil and the Metalloys manganese alloy smelter in South Africa. These decisions reflect our commitment to remain financially disciplined and maximise financial performance, not volume or tonnes.

We have developed a simple strategy for our business – to invest in high-quality metals and mining operations, where our distinctive capabilities and regional operating model enable us to stretch performance in a sustainable way. By maintaining financial discipline and continually optimising our portfolio, we will deliver sector leading total shareholder returns.

Delivery of this strategy has three key elements. Firstly, we will optimise the performance of our existing assets through a relentless focus on the basics – safety, volume, cost and capital expenditure. Secondly, and in parallel, we will maximise the potential of our portfolio and finally, we will identify new options to compete for capital.

The regional operating model is a key enabler to achieving this strategy. We are fast-tracking its implementation and re-designing the way we work, by reducing layers of management, aggregating functional support at our two regional offices in Johannesburg and Perth, and changing the nature, capability and structure of our supply function.

This regional approach also enables us to foster stronger relationships with our key stakeholders, particularly in southern Africa, where for the first time we have one voice across the region for all stakeholders.

We are working across a number of fronts to maximise the performance of our business and deliver improved returns for our shareholders. Across our portfolio we have identified opportunities to reduce our controllable costs by at least US$350 million, by the end of FY2018.

Capital expenditure is also a key focus as we seek to sustainably de-capitalise the business. In FY2016, we expect to reduce our sustaining capital expenditure by 9 per cent to US$650 million. This rate of expenditure is expected to be maintained on average over our planning horizon.

We are confident that our simple strategy, strong balance sheet and commitment to maximising financial performance, positions us well to deliver sector leading returns for our shareholders despite challenging market conditions across the industry.

I look forward to reporting our progress in the coming reporting periods.

Graham Kerr
Chief Executive Officer

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WE ARE A GLOBALLY DIVERSIFIED METALS AND MINING COMPANY WITH HIGH-QUALITY AND WELL MAINTAINED ASSETS

OUR COMPANY

SECTION 2: OUR COMPANY

OUR STRATEGY

South32 has developed a simple strategy – to invest in high-quality metals and mining operations, where our distinctive capabilities and regional model enable us to stretch performance in a sustainable way. By maintaining financial discipline and continually optimising our portfolio, we will deliver sector leading total shareholder returns.

Delivery of this strategy has three key elements:

- Optimise the performance of our existing assets through a relentless focus on the basics – safety, volume, cost and capital expenditure
- Maximise the potential of our existing assets by converting high-value resource into reserve
- Identify new opportunities to increase competition for capital

We will achieve this by being a best in class operator, focusing on our employee and stakeholder relationships, demonstrating entrepreneurial spirit and being financially disciplined.

Left to right:
Wayne Osborn, Keith Rumble, David Crawford, Xolani Mkhwanazi, Ntombifuthi (Futhi) Mtoba, Peter Kukielski, Frank Cooper and Graham Kerr

BOARD OF DIRECTORS

The names, qualifications, experience and special responsibilities of each person holding the position of Director at the date of this Annual Report are set out below.

DAVID CRAWFORD AO, BCOMM, LLB, FCA, FCPA, FAICD, 71

- Chairman and Independent Non-Executive Director
- Chairman, Nomination and Governance Committee; Member, Risk and Audit Committee

(Location: Australia)

Director of South32 Limited since 2 February 2015.

Skills and experience:

Mr Crawford has extensive experience in risk management and business reorganisation. He has acted as a consultant, scheme manager, receiver, manager and liquidator to very large and complex groups of companies. Mr Crawford was previously Australian National Chairman of KPMG, Chartered Accountants.

Other directorships and offices (current and recent):

- Chairman, Australia Pacific Airports Corporation Limited (since May 2012) and Director (since April 2001)
- Chairman, Lend Lease Corporation Limited (since May 2003) and Director (since July 2001)
- Advisory Board Member of Bank of America Merrill Lynch Australia
- Advisory Board Member of Allens
- Former Director of BHP Billiton Limited (from May 1994 to November 2014) and BHP Billiton Plc (from June 2001 to November 2014)

GRAHAM KERR BBUS, FCPA, 44

- Chief Executive Officer and Executive Director

(Location: Australia)

Director of South32 Limited since 21 January 2015.

Skills and experience:

In August 2014, Mr Kerr was appointed as Chief Executive Officer (CEO) of South32 and oversaw the setup, demerger and listing of South32. He was previously Chief Financial Officer of BHP Billiton from November 2011 having joined BHP Billiton in 1994. Mr Kerr retired from the BHP Billiton Group Management Committee and as Chief Financial Officer of BHP Billiton on 1 October 2014. Prior to his appointment as Chief Financial Officer of BHP Billiton, Mr Kerr was President of Diamonds and Specialty Products. Mr Kerr has worked in a wide range of operational and commercial roles across the BHP Billiton Group.

As President of Diamonds and Specialty Products, Mr Kerr was accountable for the Ekati Diamond Mine in Canada, the Richards Bay Minerals Joint Venture in South Africa, diamonds exploration in Angola, the Corridor Sands Project in Mozambique and the development of BHP Billiton's potash portfolio in Canada.

Prior to that, Mr Kerr held the positions of Chief Financial Officer of Stainless Steel Materials, Vice President Finance of BHP Billiton Diamonds and Finance Director for the BHP Canadian Diamonds Company. In 2004, Mr Kerr left BHP Billiton for a two-year period when he was General Manager Commercial for Iluka Resources Ltd.

FRANK COOPER AO, BCOM, FCA, FAICD, 59

- Independent Non-Executive Director
- Chairman, Risk and Audit Committee; Member, Remuneration Committee; Member, Nomination and Governance Committee

(Location: Australia)

Director of South32 Limited since 7 May 2015.

Skills and experience:

Mr Cooper has more than 35 years' experience in the accounting profession, specialising in the mining, energy and utilities sector, including most recently as a partner of PricewaterhouseCoopers (PwC).

Other directorships and offices (current and recent):

- Director, Woodside Petroleum Limited (since February 2013)
- Director, St John of God Australia Limited and Trustee, St John of God Health Care
- Commissioner and Chairman, Insurance Commission of Western Australia
- Commissioner, West Australian Football Commission
- Member, Senate of the University of Western Australia

PETER KUKIELSKI BSC, 58

- Independent Non-Executive Director
- Member, Remuneration Committee; Member, Sustainability Committee; Member, Nomination and Governance Committee

(Location: United Kingdom)

Director of South32 Limited since 7 May 2015.

Skills and experience:

Mr Kukielski has enjoyed a long career in the mining industry. He is currently CEO of Anemka Resources, a private mining company. He was previously Executive-in-Residence at Warburg Pincus and prior to that held the position of Chief Executive Officer of Mining at Arcelor Mittal where he was also a member of the Group Management Board. Arcelor Mittal is listed on five stock exchanges. Before that he was the Executive Vice President and Chief Operating Officer of Teck Cominco Limited and Chief Operating Officer of Falconbridge Limited, both of which had listings on the TSX and NYSE. He has also held senior engineering and project management positions with BHP Billiton and Fluor Corporation.

Other directorships and offices (current and recent):

None

XOLANI MKHWANAZI BSC, MSC, PHD (APPLIED PHYSICS), 60

- Non-Independent Non-Executive Director
- Member, Sustainability Committee

(Location: South Africa)

Director of South32 Limited since 2 July 2015.

Skills and experience:

Dr Mkhwanazi was previously President and Chief Operating Officer South Africa Aluminium with BHP Billiton (from February 2005). Dr Mkhwanazi was Chairman of BHP Billiton in South Africa from 2009 to 2015. He has served as Chief Executive Officer of Bateman Africa Ltd and the National Electricity Regulator. Prior to that, he held senior positions at the Council for Scientific and Industrial Research. During this period he played a key role in the formulation of the South African National Science and Technology Policy. In his early career, Dr Mkhwanazi was a Senior Scientist at the Atomic Energy Corporation and Head of the Physics Department at the University of Swaziland.

Other directorships and offices (current and recent):

- Director, Murray and Roberts Ltd (since August 2015)
- Director, Bombardier Transportation South Africa (Pty) Ltd
- Director, Comverge South Africa (Pty) Limited
- Director, Odgers Berndtson SA (Pty) Ltd
- Director, Private Label Promotion (Pty) Ltd

NTOMBIFUTHI (FUTHI) MTOBA DCOM (HONORIS CAUSA) CB.COMPT, BA, 60

- Independent Non-Executive Director
- Member, Risk and Audit Committee; Member, Nomination and Governance Committee

(Location: South Africa)

Director of South32 Limited since 7 May 2015.

Skills and experience:

Dr Mtoba was Chairman of the Board at Deloitte Southern Africa, where her industry specialisation was in financial services. Dr Mtoba is a Past President of Business Unity South Africa (BUSA) and a past member of the Board of United Global Compact. Dr Mtoba's numerous awards include Business Woman of the Year (Nedbank and Business Women's Association, 2004) and International Woman of the Year (Organisation of Women in International Trade, 2005).

Other directorships and offices (current and recent):

- Director, NEPAD Business Foundation
- Council Member/Director, African Union Foundation
- Advisory Board Member, LeapFrog Investments Limited
- Chairman of Council, University of Pretoria
- Council Member, Alumni WEF Global Agenda Council
- Member, IMF Advisory Group for Sub-Saharan Africa (AGSA)
- Trustee and Chairman, Allan Gray Orbis Foundation
- Trustee, Nelson Mandela Foundation

WAYNE OSBORN MBA, FAICD, 63

- Independent Non-Executive Director
- Chairman, Remuneration Committee; Member, Sustainability Committee; Member, Nomination and Governance Committee

(Location: Australia)

Director of South32 Limited since 7 May 2015.

Skills and experience:

Mr Osborn has 35 years of experience in the Australian mining, resources and manufacturing sectors. Mr Osborn joined Alcoa in 1979 and worked in a variety of roles and locations across the Australian business, prior to being appointed Managing Director, Alcoa of Australia in 2001. Mr Osborn retired from Alcoa of Australia in 2008.

Other directorships and offices (current and recent):

- Director, Wesfarmers Limited (since March 2010)
- Director, Iluka Resources Limited (since March 2010)
- Director, Alinta Holdings Limited
- Former Director, CIMIC Group Limited (formerly Leighton Holdings Limited) (from November 2008 - March 2013)

KEITH RUMBLE BSC, MSC (GEOLOGY), 61

- Independent Non-Executive Director
- Chairman, Sustainability Committee; Member, Remuneration Committee; Member, Nomination and Governance Committee

(Location: South Africa)

Director of South32 Limited since 27 February 2015.

Skills and experience:

Mr Rumble was previously Chief Executive Officer of SUN Mining, a wholly-owned entity of the SUN Group, a principal investor and private equity fund manager in Russia, India and other emerging and transforming markets. Mr Rumble has more than 30 years' experience in the resources industry, specifically in titanium and platinum mining, and is a former Chief Executive Officer of Impala Platinum (Pty) Ltd and former Chief Executive Officer of Rio Tinto Iron and Titanium Inc in Canada. Mr Rumble began his career at Richards Bay Minerals in 1980 and held various management positions before becoming Chief Executive Officer in 1996.

Other directorships and offices (current and recent):

- Director, Acetologix Pty Limited
- Director, Enzyme Technologies (Pty) Limited
- Director, Elite Wealth (Pty) Limited
- Board of Governors of Rhodes University
- Trustee, World Wildlife Fund, South Africa
- Former Director, BHP Billiton Limited and BHP Billiton Plc (from September 2008 to May 2015)

EXECUTIVE COMMITTEE

The names, qualifications and experience of members of the Executive Committee are set out below.

GRAHAM KERR BBUS, FCPA, 44

- Chief Executive Officer and Executive Director

See page 15 for Mr Kerr's qualifications and experience.

BRENDAN HARRIS BSC, 43

- Chief Financial Officer

In August 2014, Mr Harris was appointed Chief Financial Officer (CFO) of South32 and had an integral role in the set-up, demerger and listing of South32. Prior to this, Mr Harris joined BHP Billiton as Vice President Investor Relations Australasia in July 2010 and was appointed Head of Investor Relations in July 2011. He previously held various roles in investment banking over almost a decade, including Executive Director Metals and Mining Research, Macquarie Equities, where he had primary responsibility for Australian-listed metals and mining research. During Mr Harris' early career as an exploration geologist, he was involved in iron ore exploration in the Pilbara region of Western Australia with Robe River Iron Associates and gold and base metals exploration in the Gawler Craton in South Australia. Mr Harris also gained experience with Western Geophysical in Perth, Western Australia, where he participated in the reprocessing of seismic data. Mr Harris holds a Bachelor of Science in geology and geophysics from Flinders University, South Australia.

RICUS GRIMBEEK BENG, 45

- President and Chief Operating Officer, Australia

In November 2014, Mr Grimbeek was appointed President and Chief Operating Officer, Australia and oversaw the set-up of the Australian region. Prior to this, he joined BHP Billiton in February 1992 as a Mining Engineer in training. Mr Grimbeek's career has spanned numerous technical and operating roles within and outside BHP Billiton, including time as the Executive Vice President Mining for Lonmin Platinum. Mr Grimbeek was the Head of Group HSEC from April 2009 to October 2011 and President and Chief Operating Officer of the Ekati Diamond Mine in Canada from May 2007 to March 2009. In November 2011, he was appointed Asset President, Worsley. Mr Grimbeek holds a Mining Engineering degree from the University of Pretoria and an Advanced Certificate in Mine Ventilation from the Chamber of Mines.

MIKE FRASER BCOM, MBL, 50

- President and Chief Operating Officer, Africa

In November 2014, Mr Fraser was appointed President and Chief Operating Officer, Africa and oversaw the set-up of the Africa region. Prior to this, Mr Fraser joined BHP Billiton in January 2000 as Head of Compensation and Benefits. Mr Fraser was appointed President, Human Resources and a member of BHP Billiton's Management Committee in August 2013. Previously, Mr Fraser led BHP Billiton's Mozal operation in Mozambique as Asset President from September 2009 to October 2012. Mr Fraser had previously worked across a number of roles in BHP Billiton's coal, manganese and aluminium businesses in a number of geographies. Prior to joining BHP Billiton, Mr Fraser held a variety of leadership roles in a large internationally diversified industrial business. Mr Fraser holds a Master of Business Leadership and a Bachelor of Commerce from the University of South Africa.

NICOLE DUNCAN BA (HONS), LLB, MAICD, FGIA, FCIS, 43

- Chief Legal Officer and Company Secretary

Ms Duncan commenced in the role of Chief Legal Officer and Company Secretary of South32 on 19 December 2014. Previously she was appointed Vice President, Company Secretariat for BHP Billiton from September 2013, and Vice President, Supply, Group Information Management from October 2011 to August 2013. Ms Duncan had held various legal roles within BHP Billiton since July 2000, prior to which she was a lawyer at Ashurst. Ms Duncan graduated from the Australian National University with a degree in Law and an Honours degree in History.

DALE CALHOUN BCOM, 53

- Chief People Officer

Ms Calhoun joined South32 in March 2015 from Tower Human Capital, a strategic human resources practice that she owned and operated for seven years. Ms Calhoun has an established career both as a senior human resources executive and as a consultant. She has worked across a number of industries and organisations, including Fortescue Metals Group, Iluka Resources, Southcorp, Boral and George Weston Foods. Ms Calhoun holds a Bachelor of Commerce from the University of Melbourne and holds a Graduate Diploma in Industrial Relations from the Royal Melbourne Institute of Technology.

PAUL HARVEY BENG (MINING), 52

- Chief Transformation Officer

Mr Harvey joined South32 as Chief Transformation Officer in March 2015. This position is a transitional role. Prior to this, he was appointed President, Nickel West and a member of the Aluminium, Manganese and Nickel Executive Committee in March 2012. Mr Harvey led BHP Billiton's Ekati operation in Canada as Asset President from November 2009 to February 2012. Prior to that, he held operations management, major capital project directorships, business planning, and strategy and growth leadership roles in the uranium, base metals and diamonds and specialty products businesses in Canada and Australia. Prior to joining BHP Billiton, Mr Harvey held operational and management positons with large international resource companies in the gold and diamond sectors in South Africa. Mr Harvey holds a Bachelor of Engineering (Mining) from the Western Australian School of Mines.

PEOPLE

At South32, we are determined to be a different type of resources company; one that makes a difference from the ground up. We recognise that our people are fundamental to achieving our ambitions. Our values of care, trust, togetherness and excellence not only reflect our resolve to be an employer of choice but also provide clear guidance on the way we work with each other. We want our people to know each other, value each other's differences and care about each other. We believe the end result is a workforce of people who are engaged, motivated and share our ambition to make South32 an outstanding company.

The difference began with the formulation of our values. To ensure our people had ownership of our values and could truly connect with them we established working groups within our businesses to give direct input into their development. Our final values reflect the insightful input and ideas of our people. They are values our people believe in and are motivated to uphold.

ENGAGEMENT AND COMMUNICATION

We are creating a culture of open and transparent communication throughout our business. Our people are encouraged to contribute by voicing both their ideas and concerns.

We encourage our people to share their ideas and aspirations through line managers and fellow team members and in turn we encourage our leaders to truly know their people and develop genuine relationships with them.

Our people can also raise issues and concerns through an anonymous third party system; Ethicspoint. Issues can be raised by telephone, email or through the independently hosted website.

Our Executive Committee and Senior Management Team communicate openly and frequently with our people. We use open forums, email, intranet, web cast and social media avenues to reach our people and encourage two-way communication and interaction.

We have initiated our first Employee Perception Survey. By conducting this survey early in our life as a new company, employees across our business have an opportunity to provide feedback on a number of key performance areas allowing our business to identify employee perceptions and opportunities for improvement.

OUR PEOPLE PRIORITIES

We are a new company, and as such, we are still defining some of the frameworks and approaches that will guide the way we attract, retain and develop our people. Existing policies approved by our Board and developed to guide our efforts are included below and further expanded in section 7 (p124):

- Code of Business Conduct
- Diversity policy

In addition, we are currently developing our approach to the following people initiatives:

- Building and encouraging a diverse and inclusive workplace, see section 7 (p126) for further detail
- Assessing and developing individual and team capability
- A flexible workplace
- Management and retention of our talent
- Rewarding, recognising and incentivising our people
- Developing and reviewing performance
- Parental leave, which stipulates a minimum global paid leave benefit for all employees who are primary carers in all locations

We are ensuring these initiatives align with our values and business strategy. These initiatives will be simple and meaningful so our people will have ownership and be genuinely engaged in the activities and outcomes.

We want our people to be able to work in ways that fit their lifestyle and have already begun adjusting the way we work to increase the uptake of flexible work arrangements by our people. We know that with greater flexibility, comes greater engagement and motivation. We are also mindful that a workplace that encourages flexibility has the added benefit of enabling more diverse teams of people.

EMPLOYEE SHARE PLAN

Our new Allshare Plan will present all employees, with the exception of those participating in Management Share Plans, with an annual "gift" of South32 share rights or cash to the value of at least US$1,250 per year. The receipt of cash as opposed to share rights and length of share vesting period are subject to local legislative requirements. The intent of this programme is to provide an employee share plan that is accessible to all of our employees and that is aligned to our values. We want our people to be interested in the performance of our business and have a sense of ownership and pride in South32.

The launch and communication of the AllShare Plan has been delivered by our line leaders through direct engagement and conversations with their teams. We see this as a tremendous opportunity for our leaders to have a dialogue with their teams to discuss how we are designing this particular benefit to fit with our values and to build our culture.

WORKFORCE PROFILE

We currently employ 15,545 people, dispersed across a number of geographical locations. The breakdown of employees per location is provided below.

Headcount	**15,545**
South Africa	8,362
Mozambique	1,154
Australia	4,848
Brazil	13
Colombia	1,016
Singapore	131
Europe	21

In addition, we have approximately 9,100 contractors who contribute to the success of our business.

Our workforce comprises employees covered by either collective bargaining agreements or individual employment agreements. The number of employees per country employed under collective agreements is provided as follows.

Grand Total	**4,841**
Australia	1,856
Colombia	715
Mozambique	790
South Africa	1,480

ACHIEVEMENTS OF OUR PEOPLE

Our people achieve great things across our business and some of these achievements have been formally recognised by industry and stakeholder bodies.

The inaugural Women in Resources Northern Territory Awards recognised the successes of GEMCO Mining Operator, Jacqui Purdon in the Outstanding Tradeswoman/Operator category and GEMCO Mechanical Engineer, Eleanor Lober as the recipient of the Outstanding Young Woman in Resources Award.

The awards are part of the Australian resources sector's strategy to promote the benefits of increasing the participation of women in resources at all levels. They recognise, promote and celebrate the achievements of women, men and companies who make outstanding contributions toward a more diverse workforce. South32 GEMCO sponsored the Women in Resources Northern Territory Awards.

Illawarra Metallurgical Coal mechanical apprentice, Kyle Kruger was twice recognised for his exceptional commitment and dedication towards his apprenticeship programme.

Kyle, from the Dendrobium Mine, received the top honour at the 2015 Illawarra and South East NSW Training Awards, winning the Apprentice of the Year Award. Kyle was also named Apprentice of the Year at the Hunter Valley Training Company (HVTC) Excellence Awards.

South32 apprentices receive intensive training during their apprenticeships both in the classroom and through the practical application of the skills they learn. The achievement of our people in their chosen careers is a reflection of South32's commitment, which at Illawarra Metallurgical Coal for example spans 80 years, to training hundreds of young people to become skilled tradespeople and realise their potential.

In Africa, South32 has a dynamic new generation of mining sector specialists.

Following a three-prong approach to youth development, South32 supports a robust graduate programme, scholarship schemes and learnerships[1], aiming to attract and retain Africa's best and highly talented young professionals entering or wishing to enter the sector.

Those in the South32 Africa Graduate Programme are being prepared for leadership roles across many of the company's core disciplines, with around 75 per cent of the talent pool coming from host communities.

South32 trains artisans in the field of engineering and offers mining learnerships as well as processing or metallurgical learnerships. There are currently 320 learners in the mix including a number of talented female graduates, with the top marks currently being achieved by women.

South Africa Aluminium has adopted a proactive approach to sourcing school leavers, particularly young women, by supporting 10 scholarships through school community scholarships.

This year, more than 40 of South32 Africa's graduates will complete their current studies while more than 40 scholars are also on track to graduating.

(1) Learnership is a concept devised under South African law as set out in the *Skills and Development Act,* 1998 and is similar to an apprenticeship.

FORMING OUR NEW BUSINESS

A requirement of our separation from BHP Billiton was the establishment of our corporate office in Perth, as well as our regional offices in Perth and Johannesburg. This was an enormous feat in many respects. For many of our people, this meant relocating themselves and their families, as well as in some cases, commencing in a new role. We appreciate the level of disruption this has caused for our people and their families and are grateful for their motivation to join our new business.

We were able to attract internal talent from a variety of locations within our existing businesses to build these new teams. Where the right internal talent did not exist, we have been able to introduce new people from external sources to our business. As a consequence, we have had from the outset the benefit of teams with diverse ways of thinking and approaching the work we do and the way we engage.

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.

EXTERNAL RISKS

Factor	Nature
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

Factor	Nature
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.

OPERATIONAL RISKS

Factor	Nature
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.

OPERATIONAL RISKS

Factor	Nature
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

Factor	Nature
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

Factor	Nature
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.

THROUGH OUR REGIONAL MODEL WE ARE PUTTING THE RIGHT TEAMS IN PLACE, RIGHT-SIZING OUR SYSTEMS AND PROCESSES AND SUPPORTING OUR CULTURE

OUR ASSETS

WORSLEY ALUMINA

WORSLEY IS ONE OF THE LARGEST AND LOWEST-COST BAUXITE MINING AND ALUMINA REFINING OPERATIONS IN THE WORLD

South32 Limited holds an 86 per cent interest in Worsley Alumina, while Japan Alumina Associated owns 10 per cent and Sojitz Alumina Pty Ltd owns 4 per cent. Worsley Alumina has been mining bauxite, and refining and exporting alumina since 1984.

Bauxite mining takes place near the town of Boddington, 130km south-east of Perth, Western Australia.

After crushing, the bauxite is transported to the alumina refinery via an overland conveyor system that stretches more than 50km, making it one of the longest of its kind in the Southern Hemisphere. The refinery extracts alumina using the Bayer process. The four-stage Bayer process – digestion, clarification, precipitation and calcination – turns the red bauxite rock into white alumina powder.

The alumina is then transported by rail 55km from the refinery to the Bunbury Port where it is exported to smelters throughout the world including South32 Limited's Hillside and Mozal aluminium smelters in southern Africa.

South32 share	FY2015	FY2014
Alumina production (kt)	**3,819**	3,916
Alumina sales (kt)	**3,857**	3,864
Realised alumina sales price (US$/t)[1]	**335**	318
Operating unit cost (US$/t)[2]	**250**	276

(1) Realised sales price is calculated as sales revenue divided by sales volume.

(2) Operating unit cost is Revenue less Underlying EBITDA divided by sales.

South32 share (US$M)	FY2015	FY2014
Revenue	**1,291**	1,229
Underlying EBITDA	**325**	162
Underlying EBIT	**174**	24
Net operating assets	**3,361**	N/A
Capital expenditure	**62**	56
Exploration expenditure	**–**	–
Exploration expensed	**–**	–

SOUTH AFRICA ALUMINIUM

HILLSIDE IS THE LARGEST ALUMINIUM SMELTER IN THE SOUTHERN HEMISPHERE AND HAS A SOLID METAL PRODUCTION CAPACITY OF 720 KTPA

South Africa Aluminium consists of the Hillside and Bayside Aluminium smelters both located in Richards Bay in the South African province of KwaZulu-Natal. Hillside is fully owned and operated by South32 Limited. Bayside ceased smelting operations in FY2014 and the Bayside Casthouse was sold to a Broad-Based Black Economic Empowerment (B-BBEE) company, Isizinda Aluminium on 30 June 2015.

Hillside processes approximately 1,400 ktpa of alumina that is imported from Worsley Alumina. Hillside is one of the world's most advanced and efficient smelters and uses the Aluminium Pechiney AP35 technology.

The operation produces high-quality primary aluminium ingot for the export market and supplies a small portion of liquid metal to Isizinda Aluminium which in turn supplies aluminium slab to Hulamin, a local company that produces further beneficiated products for the domestic and export markets.

Hillside sources power from Eskom, the South African Government-owned power utility, under long-term contracts.

South32 share	FY2015	FY2014
Aluminium production (kt)	**699**	804
Aluminium sales (kt)[1]	**695**	804
Realised sales price (US$/t)[1]	**2,217**	2,007
Operating unit cost (US$/t)[2]	**1,761**	1,757

(1) Volumes and prices do not include any third party trading that may be undertaken independently of equity production. Realised sales price is calculated as sales revenue divided by sales volume.

(2) Total cost per tonne of aluminium sold. Operating unit cost is Revenue less Underlying EBITDA divided by sales.

South32 share (US$M)	FY2015	FY2014
Revenue	**1,541**	1,614
Underlying EBITDA	**317**	201
Underlying EBIT	**250**	132
Net operating assets	**1,151**	N/A
Capital expenditure	**35**	28
Exploration expenditure	**–**	–
Exploration expensed	**–**	–

MOZAL ALUMINIUM

MOZAL ALUMINIUM IS AN ALUMINIUM SMELTER LOCATED IN MOZAMBIQUE AND HAS A SOLID METAL PRODUCTION CAPACITY OF 560 KTPA

South32 Limited has a 47.1 per cent share of Mozal Aluminium, while Mitsubishi Corporation Metals Holding GmbH holds 25 per cent, Industrial Development Corporation of South Africa Limited holds 24 per cent and the Government of the Republic of Mozambique holds 3.9 per cent (through preference shares).

The Mozal aluminium smelter was established in Mozambique in July 1998. Backed by a US$2 billion investment, the smelter was the largest private investment in the country and the first large foreign direct investment in Mozambique.

Mozal uses Aluminium Pechiney AP35 technology to produce standard aluminium ingots. The smelting process involves the electrolytic reduction of alumina that has been dissolved in a molten electrolyte bath to produce liquid aluminium in specialised reaction vessels that are known as pots.

Mozal is the only aluminium smelter in Mozambique and the second largest aluminium smelter in Africa.

Mozal, in partnership with other organisations, established Mozambique's Linkages Program (Mozlink) in 2001. The programme has resulted in training for more than 100 small and medium enterprises (SMEs) and more than 3,000 employees have directly benefited from its activities. Participating SMEs, which have shown an average revenue growth of 34 per cent in total annual turnover during the past three years, have been enabled to generate more than US$30 million in revenue.

Midal, Mozambique's first downstream aluminium industry has been receiving aluminium from Mozal since October 2014. Mozal remains the largest industrial employer in Mozambique and delivers a significant contribution to the Mozambican economy.

South32 share	FY2015	FY2014
Aluminium production (kt)	**265**	266
Aluminium sales (kt)[1]	**273**	276
Realised sales price (US$/t)[1]	**2,308**	2,080
Operating unit cost (US$/t)[2]	**1,762**	1,844

(1) Volumes and prices do not include any third party trading that may be undertaken independently of the equity production. Realised sales price is calculated as sales revenue divided by sales volume.

(2) Total cost per tonne of aluminium sold. Operating unit cost is Revenue less Underlying EBITDA divided by sales.

South32 share (US$M)	FY2015	FY2014
Revenue	**630**	574
Underlying EBITDA	**149**	65
Underlying EBIT	**112**	29
Net operating assets	**626**	N/A
Capital expenditure	**14**	8
Exploration expenditure	**–**	–
Exploration expensed	**–**	–

BRAZIL ALUMINIUM

BRAZIL ALUMINIUM OPERATIONS INCLUDE THE MRN MINE LOCATED IN THE TROMBETAS REGION, PARA, AND THE ALUMAR REFINERY AND SMELTER LOCATED AT SAO LUIS, MARANHAO

South32 Limited's interests consist of the Mineração Rio do Norte (MRN) mine (14.8 per cent), the Alumar alumina refinery (36 per cent) and Alumar aluminium smelter (40 per cent), together with further interests in ancillary facilities and lands.

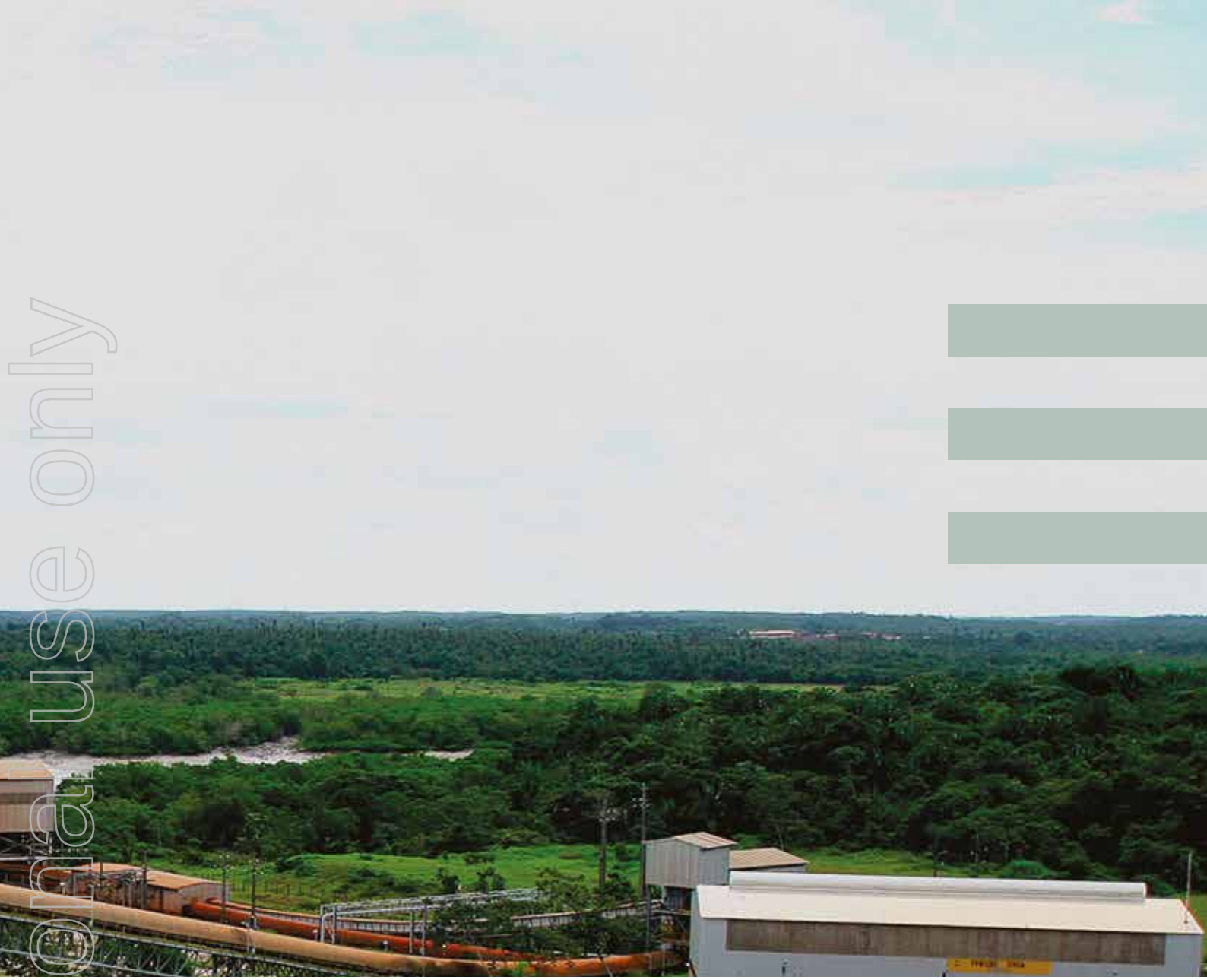
The MRN mine is an open-cut strip mining operation that has an 18 Mtpa installed bauxite capacity. Mined ore is hauled to primary crushers and then transported by conveyor belt to the beneficiation plant, where it is washed and classified by granulometry. Bauxite fines are recovered by cyclone and filtering.

At the Alumar refinery, bauxite ore is refined using the Bayer refining process.

At the Alumar smelter, the process involves electrolytic reduction of alumina that has been dissolved in a molten electrolyte bath to produce liquid aluminium in reaction pots.

The majority of the bauxite produced from the MRN mine is sold to its shareholders and related parties. South32 Limited's share of bauxite produced from the MRN mine is supplied to the Alumar refinery and the alumina produced from the refinery is currently being exported through the nearby Sao Marcos Bay facilities. The smelter pot lines are currently suspended due to market conditions and subject to ongoing review. As a consequence, contracted electricity has been forward sold until the end of December 2016.

Brazil Aluminium is managed from a small regional office in Rio de Janeiro. The Brazil Joint Venture team actively participates in the Board and functional committees of the MRN mine and Alumar refinery and smelter.



South32 share	FY2015	FY2014
Alumina production (kt)	**1,328**	1,262
Aluminium production (kt)	**40**	104
Alumina sales (kt)	**1,309**	1,248
Aluminium sales (kt)	**41**	104
Realised alumina sales price (US$/t)[1]	**323**	300
Realised aluminium sales price (US$/t)[1]	**2,366**	2,000
Alumina operating unit cost (US$/t)[2][3]	**215**	256
Aluminium operating unit cost (US$/t)[2][4]	**2,366**	1,923

(1) Realised sales price is calculated as sales revenue divided by sales volume.

(2) Operating unit cost is Revenue less Underlying EBITDA divided by sales.

(3) Includes cost of acquiring bauxite from MRN.

(4) Includes cost of alumina transferred from the Alumar refinery to the Alumar smelter at the alumina contract sales price. Excludes EBITDA from the sale of power.

South32 share (US$M)	FY2015	FY2014
Revenue	**497**	529
Other income[1]	**229**	121
Underlying EBITDA	**259**	127
Underlying EBIT	**181**	44
Net operating assets	**928**	N/A
Capital expenditure	**8**	9
Exploration expenditure	**–**	–
Exploration expensed	**–**	–

(1) Other income primarily comprises revenue generated from the sale of surplus electricity into the transmission grid.

SOUTH AFRICA ENERGY COAL

SOUTH AFRICA ENERGY COAL IS THE THIRD-LARGEST EXPORTER AND FIFTH-LARGEST DOMESTIC SUPPLIER OF ENERGY COAL IN SOUTH AFRICA

South32 Limited owns 90 per cent of South Africa Energy Coal, while employees own 2 per cent through an Employee Share Ownership Programme. The remaining 8 per cent is held by Pembani Holdings a Black Empowerment company.

Energy Coal operations, located near the towns of eMalahleni (Witbank) and Middelburg in the coalfields of the Mpumalanga Province, South Africa, consist of four primary coal mining operations (Khutala Colliery, Klipspruit Colliery, Middelburg Colliery and Wolvekrans Colliery), as well as three processing plants.

The Khutala Colliery is an underground bord and pillar operation while Klipspruit Colliery is a single dragline, multi seam open-cut mine that is combined with a truck and shovel mini pit. Middelburg Colliery and Wolvekrans Colliery are open-cut mines, actively mining two and five pits respectively, using draglines as well as truck and shovel operations.

100 per cent terms[1]	FY2015	FY2014
Energy coal production (kt)	**34,277**	30,384
Domestic sales (kt)[2]	**18,416**	16,330
Export sales (kt)[2]	**16,390**	13,298
Realised domestic sales price (US$/t)[2]	**21**	22
Realised export sales price (US$/t)[2]	**56**	66
Operating unit cost (US$/t)[3]	**30**	35

(1) South32 Limited's interest in South Africa Energy Coal is accounted at 100 per cent until ESOP and B-BBEE vendor loans are repaid.

(2) Volumes and prices do not include any third party trading that may be undertaken independently of equity production. Realised sales price is calculated as sales revenue divided by sales volume and excludes Khutala volumes as these are cost plus.

(3) Operating unit cost is Revenue less Underlying EBITDA divided by sales.

100 per cent terms[1] (US$M)	FY2015	FY2014
Revenue[2]	**1,315**	1,247
Underlying EBITDA	**276**	224
Underlying EBIT	**94**	31
Net operating assets	**395**	N/A
Capital expenditure	**98**	65
Exploration expenditure	**–**	–
Exploration expensed	**–**	–

(1) South32's interest in South Africa Energy Coal is accounted at 100 per cent until ESOP and B-BBEE vendor loans are repaid.

(2) Includes domestic and export sales revenue.

ILLAWARRA METALLURGICAL COAL

ILLAWARRA METALLURGICAL COAL OPERATIONS ARE LOCATED IN THE SOUTHERN COALFIELDS OF NEW SOUTH WALES, AUSTRALIA

Illawarra Metallurgical Coal is 100 per cent owned by South32 Limited and operates three underground metallurgical coal mines, Appin, Dendrobium and West Cliff, and coal preparation plants at West Cliff and Dendrobium.

Illawarra Metallurgical Coal also manages the Port Kembla Coal Terminal on behalf of a consortium of partners.

Illawarra Metallurgical Coal produces premium-quality, hard coking coal for steelmaking, with small amounts of energy coal as a by-product, from the Bulli and Wongawilli coal seams.

The product is washed and processed at the coal preparation plants to meet the specific criteria required in the production of steel. Road and rail are used to transport the coal to the processing facilities and to the Port Kembla Coal Terminal for distribution to domestic and international customers.

South32 share	FY2015	FY2014
Metallurgical coal production (kt)	**7,455**	5,974
Energy coal production (kt)	**1,471**	1,539
Metallurgical coal sales (kt)	**7,324**	5,921
Energy coal sales (kt)	**1,378**	1,623
Realised metallurgical coal sales price (US$/t)[1]	**101**	130
Realised energy coal sales price (US$/t)[1]	**54**	67
Operating unit cost (US$/t)[2]	**74**	98

(1) Realised sales price is calculated as sales revenue divided by sales volume.

(2) Operating unit cost is Revenue less Underlying EBITDA divided by sales.

South32 share (US$M)	FY2015	FY2014
Revenue[1]	**814**	878
Underlying EBITDA	**167**	142
Underlying EBIT	**(30)**	(28)
Net operating assets	**1,518**	N/A
Capital expenditure	**308**	309
Exploration expenditure	**5**	5
Exploration expensed	**5**	5

(1) Includes metallurgical coal and energy coal sales revenue.

AUSTRALIA MANGANESE

GEMCO IN THE NORTHERN TERRITORY IS THE LARGEST MANGANESE ORE PRODUCER IN THE WORLD, WHILE TEMCO IN TASMANIA UTILISES HYDROELECTRICITY FOR ITS OPERATIONS

Australia Manganese consists of Groote Eylandt Mining Company (GEMCO), a manganese mining operation located in the Northern Territory, and Tasmanian Electro Metallurgical Company (TEMCO), a manganese alloy plant located in Tasmania. South32 Limited owns 60 per cent of GEMCO and Anglo American Plc holds the remaining 40 per cent. TEMCO is wholly owned by GEMCO.

GEMCO is currently the largest and one of the lowest-cost manganese ore producers in the world. GEMCO is an open-cut strip mining operation, which includes crushing, screening, washing and dense media separation. It produces lump and fines products with a 4.8 Mtpa capacity (100 per cent basis).

GEMCO produces high-grade ore and is located in close proximity to Asian export markets, with port facilities located only 16km from mining operations at Milner Bay.

Using the ore shipped from GEMCO, TEMCO produces high carbon ferromanganese (HCFeMn), silicomanganese (SiMn) and sinter, primarily using hydroelectric power. The majority of TEMCO's alloy production is exported to customers in Asia and North America, with the balance of TEMCO's production being sold to steel producers in Australia and New Zealand.

South32 share	FY2015	FY2014
Manganese ore production (kt)	**2,942**	2,866
Manganese alloy production (kt)	**167**	161
Manganese ore sales (kt)[1]	**2,845**	3,038
Manganese alloy sales (kt)[1]	**139**	166
Realised manganese ore sales price (US$/t)[1]	**174**	219
Realised manganese alloy sales price (US$/t)[1]	**964**	1,024
Ore operating unit cost (US$/t)[2]	**94**	97
Alloy operating unit cost (US$/t)[2][3]	**849**	946

(1) Volumes and prices do not include any third party trading that may be undertaken independently of equity production. Realised sales price is calculated as sales revenue divided by sales volume.

(2) Operating unit cost is Revenue less Underlying EBITDA divided by sales.

(3) Includes the cost of manganese ore acquired by TEMCO from GEMCO at market prices.

South32 share (US$M)	FY2015	FY2014
Revenue[1]	**595**	785
Underlying EBITDA	**243**	383
Underlying EBIT	**123**	276
Net operating assets	**1,384**	N/A
Capital expenditure	**98**	65
Exploration expenditure	**2**	3
Exploration expensed	**2**	3

(1) Revenues referring to sales from GEMCO to TEMCO are eliminated as part of the consolidation.

SOUTH AFRICA MANGANESE

SOUTH AFRICA MANGANESE COMPRISES HOTAZEL MANGANESE MINES AND METALLOYS ALLOY SMELTER

South Africa Manganese comprises Hotazel Manganese Mines (HMM), owned by Hotazel Manganese Mines Proprietary Ltd, and Metalloys. South32 Limited operates both HMM and Metalloys and has an effective 44.4 per cent ownership of HMM, by which Metalloys is 60 per cent owned.

South32 Limited holds a 60 per cent interest in Samancor Holdings (Pty) Ltd and Anglo American Plc holds the remaining 40 per cent. Samancor indirectly owns 74 per cent of Hotazel, which gives South32 Limited its ownership interest of 44.4 per cent. The remaining 26 per cent of Hotazel is owned by B-BBEE entities.

HMM is located in the manganese-rich Kalahari Basin in the Northern Cape, South Africa. The region is home to 80 per cent of the world's known manganese ore resources.

HMM has two operations, including the Wessels Mine and Mamatwan Mine.

The Wessels Mine has a higher-grade ore, which is mined 300m below the surface. It has vertical and incline shafts and uses the mechanised bord and pillar mining method. The Mamatwan Mine is an open-cut mine, which produces a lower-grade ore and uses the terrace mining method.

The Metalloys alloy plant one is of the largest smelters in the world, producing high-carbon ferromanganese (HCFeMn) and medium-carbon ferromanganese (MCFeMn) alloy. This operation is integrated with HMM with capacity to beneficiate up to 1 Mtpa of HMM's saleable manganese products. In June 2015, the joint venture decided to temporarily suspend a restart of three of the four high-carbon ferromanganese furnaces at Metalloys.

South32 share	FY2015	FY2014
Manganese ore production (kt)	**1,682**	1,566
Manganese alloy production (kt)	**246**	226
Manganese ore sales (kt)[1]	**1,636**	1,545
Manganese alloy sales (kt)[1]	**251**	240
Realised manganese ore sales price (US$/t)[1]	**112**	130
Realised manganese alloy sales price (US$/t)[1]	**876**	992
Ore operating unit cost (US$/t)[2]	**90**	80
Alloy operating unit cost (US$/t)[2][3]	**948**	1,096

(1) Volumes and prices do not include any third party trading that may be undertaken independently of equity production. Realised sales price is calculated as sales revenue divided by sales volume (manganese ore sales gross-up to reflect 60 per cent accounting effective interest).

(2) Operating unit cost is Revenue less Underlying EBITDA divided by sales (manganese ore sales gross-up to reflect 60 per cent accounting effective interest).

(3) Includes the cost of the manganese ore acquired by Metalloys from HMM at market prices.

South32 share (US$M)[1]	FY2015	FY2014
Revenue[2]	**420**	473
Underlying EBITDA	**32**	82
Underlying EBIT	**(20)**	29
Net operating assets	**530**	N/A
Capital expenditure	**41**	42
Exploration expenditure	**–**	–
Exploration expensed	**–**	–

(1) For accounting purposes South32 reported a 60 per cent effective interest in manganese ore until the B-BBEE vendor loans are repaid.

(2) Revenues referring to sales from HMM to Metalloys are eliminated as part of the consolidation.

CERRO MATOSO

CERRO MATOSO IN COLOMBIA IS A MAJOR WORLD PRODUCER OF FERRONICKEL AND HAS BEEN OPERATING FOR MORE THAN 30 YEARS

Cerro Matoso is a nickel mine and smelter located in the Cordoba area of northern Colombia, consisting of a truck and shovel open-cut mine and a processing plant. South32 Limited owns 99.94 per cent of Cerro Matoso. Current and former employees own 0.02 per cent, with the balance of shares held in a reserve account following a buy-back.

Ore mined is blended with ore from stockpiles. The ore is then dried in rotary kilns and smelted in two electric arc furnaces where ferro nickel is produced.

Cerro Matoso has a water management system that allows it to recycle 95 per cent of the water used in operations.

South32 share	FY2015	FY2014
Ore mined (kwmt)	**6,321**	8,490
Ore processed (kdmt)	**2,629**	2,493
Ore grade processed (per cent, Ni)	**1.7**	1.9
Payable nickel production (kt)	**40.4**	44.3
Payable nickel sales (kt)	**40.6**	45.1
Realised nickel sales price (US$/t)[1]	**14,606**	13,193
Operating unit cost (US$/t processed)[2]	**175**	201

(1) Inclusive of by-products. Realised sales price is calculated as sales revenue divided by sales volume.

(2) Operating unit cost is Revenue less Underlying EBITDA divided by ore processed.

South32 share (US$M)	FY2015	FY2014
Revenue	**593**	595
Underlying EBITDA	**133**	93
Underlying EBIT	**58**	5
Net operating assets	**763**	N/A
Capital expenditure	**36**	56
Exploration expenditure	**9**	8
Exploration expensed	**1**	2

CANNINGTON

CANNINGTON IS A FLY-IN, FLY-OUT SILVER, LEAD AND ZINC MINING AND PROCESSING OPERATION LOCATED IN NORTH-WEST QUEENSLAND, AUSTRALIA

Cannington is 100 per cent owned by South32 Limited and is one of the world's largest producers of silver and lead.

Cannington consists of three operations – an underground hard rock mine and surface processing facility, a road-to-rail transfer facility and a concentrate handling and ship loading facility at the Port of Townsville. Together, these operations form a world-class supply chain noted for its efficiency and reliability in providing approximately 7 per cent of the world's lead and 6 per cent of its silver.

Both open-stope and bench mining methods are used at Cannington, with approximately 3.2 Mt of ore processed each year. The ore travels to the surface from depths of up to 620m via two methods; either by a 9t capacity vertical shaft hoisting system or by 50t haul trucks. The ore is then stockpiled for processing.

The processes for extracting the silver, lead and zinc from the ore involve grinding, sequential flotation and leaching techniques that produce high-grade, marketable lead and zinc concentrates with a high silver content. A reduction in the silver ore grade is expected consistent with the mine plans.

South32 share	FY2015	FY2014
Ore mined (kt)	**3,418**	3,446
Ore processed (kt)	**3,289**	3,202
Ore grade processed (g/t, Ag)	**257**	296
Ore grade processed (%, Pb)	**6.7%**	7.1%
Ore grade processed (%, Zn)	**3.4%**	3.0%
Payable Silver production (koz)	**22,601**	25,161
Payable Lead production (kt)	**183**	187
Payable Zinc production (kt)	**72**	58
Payable Silver sales (koz)	**23,831**	26,160
Payable Lead sales (kt)	**189**	189
Payable Zinc sales (kt)	**66**	62
Realised Silver sales price (US$/oz)[1]	**17**	20
Realised Lead sales price (US$/t)[1]	**1,889**	2,344
Realised Zinc sales price (US$/t)[1]	**2,197**	2,000
Operating unit cost (US$/t ore processed)[2]	**170**	192

(1) Realised sales price is calculated as sales revenue divided by sales volume.

(2) Operating unit cost is Revenue less Underlying EBITDA divided by ore processed.

South32 share (US$M)	FY2015	FY2014
Revenue	**902**	1,079
Underlying EBITDA	**342**	465
Underlying EBIT	**287**	418
Net operating assets	**280**	N/A
Capital expenditure	**39**	60
Exploration expenditure	**5**	5
Exploration expensed	**5**	5

WE ARE A BUSINESS THAT LIVES BY OUR VALUES, IS SOCIALLY AND ENVIRONMENTALLY RESPONSIBLE AND SUPPORTS A BETTER FUTURE FOR OUR COMMUNITIES

SUSTAINABILITY

SECTION 4: SUSTAINABILITY

OUR APPROACH

We are a business that lives by our values of Care, Trust, Togetherness and Excellence; is socially and environmentally responsible; and supports a better future for our communities. We focus on continuous improvement. We strive, through the implementation of appropriate systems, to create safe, predictable and effective operations.

We are committed to sustainable development and define this as supporting the needs of the present without compromising the ability of future generations to meet their own needs.

Our Board has established a Sustainability Committee, a key role of which is to assist the Board in the oversight of our sustainability responsibilities. The Board governs the Company according to our Sustainability Policy, which is core to the way we work.

The Sustainability Policy defines our social, environmental and economic principles behind our decision making. The statements made in the Sustainability Policy reference our commitment to human rights, empowering people to make choices, the core international standard to which we adhere and continuous environmental, safety and health performance improvement. The Policy also references a clear commitment to governance and transparency.

OUR VALUES

CARE

We care about people, the communities we are a part of and the world we depend on.

TRUST

We deliver on our commitments and rely on each other to do the right thing.

TOGETHERNESS

We value difference, listen and share, knowing that together we are better.

EXCELLENCE

We are courageous and challenge ourselves to be the best in what matters.

OUR VALUES AND COMMITMENTS GUIDE THE OUTCOMES OUR BUSINESS STRIVES FOR: "STEWARDSHIP" AND "SHARED VALUE"

STEWARDSHIP

We define stewardship as the responsible management of entrusted resources. We believe that we have a responsibility, to ourselves and to those around us, to leave our organisation, community and environment, both at the local and at the global level, in a better place as a result of our involvement. Stewardship covers the commodities we extract, the natural resources we use and the people we involve as employees and stakeholders.

SHARED VALUE

At South32, we deliver shared value by identifying opportunities that create economic value, while also advancing the environmental and social outcomes of the communities and regions in which we operate.

KPMG has provided independent assurance on specific sustainability metrics in this Annual Report. A copy of KPMG's assurance report is on page 61.

The sustainability metrics cover "operated assets" that have been wholly owned and operated by South32 or the BHP Billiton Group, or that have been operated by South32 or BHP Billiton Group in a joint venture operation, from 1 July 2014 to 30 June 2015 (FY2015). Our assets include those under exploration, projects in development or execution phases and closed operations. Our Group functions and marketing are also included in these metrics.

At operated assets, South32 has the ability to set workplace health, safety, environment and community (HSEC) standards and enforce their application. At our non-operated assets, we provide our HSEC performance requirements and seek to influence the asset to follow them. An overview of our assets is available in section 3.

SOUTH32

SUSTAINABILITY POLICY

Adopted on 12 August 2015

South32 affirms our commitment to Sustainable Development, defined as supporting the needs of the present without compromising the ability of future generations to meet their own needs.

1. We monitor the external environment for opportunities to invest and develop natural resources that deliver shared value for society.

2. We work to achieve positive social, environmental and economic outcomes as a result of our decisions.

3. We uphold human rights, within our sphere of influence, as articulated in the International Council on Mining and Metals Sustainable Development Framework, Universal Declaration of Human Rights, Voluntary Principles on Security and Human Rights the International Covenant on Civil and Political Rights, the International Covenant on Economic Social and Cultural Rights and the International Labour Organization core conventions.

4. We support employment and community practices which empower people to make choices and have control over their process of development as it affects their lives, beliefs, institutions, well-being and the lands they occupy or otherwise use.

5. We continually improve safety, health and environmental practice, management systems and controls to ensure we avoid, mitigate and manage impact.

6. We practise responsible stewardship for the commodities we extract as well as the natural resources we consume.

7. We actively initiate and partake in conservation and rehabilitation activities to ensure ecosystems continue providing value to future generations.

8. We monitor our impact to ensure we do not compromise the ecosystems which provide resilience against climate change for our host communities. To meet the challenge of climate change, we work to reduce our greenhouse gas emissions.

9. We uphold stringent health, safety, environment and governance standards in all jurisdictions in which we operate.

10. We publicly report our progress and encourage high standards of transparency and accountability in our business governance, risk and government interactions.

WE PRACTISE RESPONSIBLE STEWARDSHIP AND SUCCEED IN CREATING SHARED VALUE:

Ensuring our people are safe and healthy: Our focus is to ensure that no person is harmed at work. Our processes aim to make sure our people are fit for work and our operations have systems in place to minimise health and safety risks. Our work is well designed, planned, executed and supervised by trained and competent people. Our key processes and equipment are governed by standards, which are tested and verified.

Managing our environmental impact: We are committed to responsible stewardship for the resources we extract and consume as we run our business. We operate our assets in compliance with applicable laws and regulations as well as our stringent internal standards. We seek opportunities to enhance the ecosystems in which we operate through sound biodiversity assessments, management and progressive rehabilitation.

Recognising Indigenous Peoples and respecting customary rights: In line with the International Council on Mining and Metals (ICMM) position, we recognise the cultural heritage of Indigenous Peoples and their traditional rights and values and work to provide opportunities for inclusion and advancement. Our engagement processes ensure Indigenous communities are able to participate in decision making in a meaningful way.

Respecting human rights principles in the way we work: Our businesses complete human rights impact assessments to identify risks and ensure measures are in place to manage and mitigate them.

Corporate citizenship: We are a member of the ICMM. This organisation is led by the Chief Executive Officers of each member company to act as a catalyst for continuous improvement in the mining and metals industry. We share ICMM's commitment to driving social, economic and environmental progress. We are also aligned to the objectives in the United Nations Global Compact.

We are committed to reporting to the Global Reporting Initiative G4 standard after a full financial year of operation. This reporting standard enables stakeholders to have transparency across material sustainability risks and opportunities for South32.

IDENTIFYING OUR MATERIAL SUSTAINABILITY ISSUES

We identify and respond to the sustainability issues that have a direct or indirect impact on our business, our immediate stakeholders and broader society. We consider that the following sustainability issues (Table 4.1) are key for South32 at the present time.

During FY2016, we will liaise with a broad range of stakeholders, from investors to host communities, to understand their views and engage with them on material sustainability issues relevant to our business and the regions in which we operate.

Table 4.1: Material sustainability issues FY2015

Governance	Stewardship				
	Health and Safety	**Environment**	**Community**	**Closure**	**Materials**
Operating to stringent standards and conducting business transparently	Keeping our people safe Focusing on the health of our people	Climate change and greenhouse gas reduction Biodiversity and ecosystems Effective management of water resources	Supporting and engaging with our communities Upholding human rights Delivering shared value to society	Ensuring that closure of operations is appropriately planned and executed	Promoting responsible use of products within our supply chain

GOVERNANCE, RISK AND TRANSPARENCY

Our governance practices support the achievement of good stewardship and shared value by facilitating effective decision making, providing clear lines of responsibility and accountability, and committing to transparent communications with shareholders and other stakeholders. In developing our corporate governance framework, we aim to adopt the more stringent standards applicable to South32, which leads to the best outcome from a governance perspective for our stakeholders. Further information on governance can be found in section 7 (p116).

The identification, assessment and management of risk is fundamental to our business. Our risk management and internal control framework are used to identify and assess risk events and to establish robust controls and mitigation strategies. 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 our Risk Management Standard. Further information on sustainability risks can be found in section 2 (p25) and section 7 (p123).

The South32 Code of Business Conduct (the Code) represents a commitment by all our employees, Directors, officers, contractors and suppliers to uphold ethical business practices and meet applicable legal requirements. We believe that through the fair allocation of resources, we will create value that can make a lasting difference to the communities in which we operate. We are committed to realising the potential of both human and mineral resources and recognise that bribery and corruption present challenges to the delivery of this commitment. We understand that corruption can negatively impact the lives of people in our host communities by driving up the costs of public services and works and through the misallocation of resources and the wastage of opportunities that arise from resource development. In keeping with local and international anti-corruption laws, we have a zero tolerance approach to all forms of bribery and corruption. Further information on promoting responsible and ethical behaviour can be found in section 7 (p124).

We are supportive of the Extractive Industry Transparency Initiative (EITI) and report payments of taxes and other royalties derived from resource developments for each country in which we operate in. In EITI compliant countries, we also report according to the EITI requirements in place.

Our report on tax can be found on our website: *www.south32.net/sustainabilityandcommunities/our-approach*

STEWARDSHIP

Stewardship applies to a number of elements, including water, land and community. We also use stewardship when talking about our people and their health, safety and well-being. We practise stewardship for the commodities we extract, as well as those we consume.

Good stewardship is instrumental to delivering shared value.

OUR PERFORMANCE

Key metrics

FY2015 fatalities	2
Total Recordable Injury Frequency[1]	5.81
Energy use	183.3 petajoules
Renewable energy	19% of total energy use
Greenhouse gas emissions[2]	8% decrease in FY2015
Community investment[3]	US$18.6 million

(1) Total Recordable Injury Frequency (TRIF): The sum of (fatalities + lost-time cases + restricted work cases + medical treatment cases) x 1,000,000 ÷ actual hours worked. Stated in units of per million hours worked. We adopt the United States Government Occupational Safety and Health Administration Guidelines for the recording and reporting of occupational injuries and illnesses.

(2) Greenhouse gas (GHG): Measured according to the World Resources Institute/World Business Council for Sustainable Development Greenhouse Gas Protocol (WRI/WBCSD GHG Protocol).

(3) Community investment includes donations and investment of funds in the broader community where the target beneficiaries are external to the company. The amount accounts for actual expenditures in the reporting period, not commitments, prepared on an accruals basis and representing South32's equity share for operated assets.

HEALTH

Our aim is to ensure the health of our employees and contractors is not adversely impacted, with a primary focus on controlling occupational exposures at their source. To ensure our people are fit for work, we require our operations to have systems in place to minimise the risk of health exposures. These systems include monitoring the incidence of occupational illness within our workforce and requiring our operations to develop and implement a fatigue-management plan and a risk-based drug and alcohol programme.

Potential occupational exposures at our operations include noise, manganese and carcinogenic substances, such as silica, diesel particulate matter, lead, nickel, fluorides and coal tar pitch.

We establish our own occupational exposure limits (OELs) when we believe local regulatory limits do not provide adequate protection for workers' health. All our operations are required to evaluate and implement exposure controls in project design and equipment selection. In situations where we cannot control the source of exposure, a range of measures are employed, including the provision of personal protective equipment to safeguard our people.

A multi-disciplined workgroup was established at our Khutala Colliery, South Africa to manage diesel particulate matter exposure. Following an improvement in engine efficiencies of underground earthmoving equipment, there were no exposures above the OEL during FY2015.

As part of our continuous monitoring and review process for our OELs, we reduced the Coal Tar Pitch Volatiles OEL in FY2015, which increased the number of exposures at four assets. This led to a 79 per cent increase in potential carcinogen exposures across all operations. Due to the implementation of a number of improvement projects, we recorded a decrease of 20 per cent in potential exposures to airborne contaminants. This resulted in an overall 6 per cent decrease in the total number of potential exposures to carcinogens and airborne contaminants compared with FY2014.

A project was initiated at our Cerro Matoso nickel processing plant to eliminate the potential for worker exposure to airborne contaminants. Compressed air was previously used to clean the nickel processing plant. This process generated particulate matter and required the use of personal protective equipment to mitigate the risk of potential worker exposures to dust. A new cleaning system was installed to allow the removal of fine material from the work areas through a vacuum system.

Our occupational illness rate for FY2015 and FY2014 is set out in the following table:

Occupational illness rate

Rate[1]	FY2015	FY2014
Musculoskeletal	1.19	0.95
Noise-induced hearing loss	1.95	0.57
Other	0.31	0.23
Total	**3.45**	**1.75**

(1) Number of Illnesses per million hours worked

The increase in occupational illness rate has largely been driven by improved application of the United States Government Occupational Safety and Health Administration (OSHA) reporting guidelines. The most significant increase was due to the identification of 85 noise-induced hearing loss cases in workers with potentially longstanding hearing loss that had been previously unrecognised.

SAFETY

Our key objective is that no person will be harmed at work. We aim to achieve this through well-designed, planned and executed work in supervised workplaces that are staffed by trained and competent people. This is, and will remain, our focus.

Our Safety Standard details minimum mandatory controls for eight key risk areas at our operations: confined space events; dropped and falling objects; fall/movement of ground; lifting events; light vehicle events; loss of containment of materials; mobile equipment events; and personnel falling from height. Our Aviation Standard provides a framework for aviation material risk management across our operations.

We have controls in place to understand, manage and, where possible, eliminate the risks to people in our business. Our operations are required to implement systems to identify and effectively manage foreseeable crises and emergencies. This ensures our operations can deal with potential casualties, to limit harm and to safely return to full function as soon as possible.

Regrettably, two fatalities occurred at our Worsley and Metalloys operations in FY2015. Also in August 2014, a contractor at our energy coal operations in South Africa sustained significant disabling injuries. Sadly in August 2015, this individual passed away and we are working to better understand the circumstances of the event. Independent investigations were undertaken for each incident, with remedial action taken and the findings shared across our Company.

In order to ensure that incident classification definitions are applied uniformly across our workforce, we adopt the United States Government OSHA guidelines for the recording and reporting of occupational injuries and illnesses.

The FY2015 total recordable injury frequency (TRIF) performance of 5.81 per million hours worked increased 23 per cent compared with FY2014. There were regional differences in the TRIF performance. The largest increases were seen in the Australian region, where sites reported a rise in the occurrence of strains, sprains and low-level injuries.

Total recordable injury frequency[1]

	FY2015	FY2014
Total	5.81	4.71

(1) Total recordable injuries per million hours worked.

Our approach to safety is underpinned by appropriately training our employees and having the systems, processes and equipment required to create safe operations.

Manganese South Africa identified "Safety Leadership" as a key component of its Five-Year Safety Plan and then selected two specific leadership interventions to achieve balanced development of leaders across safety and productivity. These programmes are:

- The Leadership Indaba programme
- The Safety Leadership Development programme

These programmes provide a full suite of tools to develop leaders at all levels (including contractors). The programmes aim to enhance existing safety initiatives and to drive sustained improvement in our safety performance.

The programme consists of a training phase, which was completed during FY2015, and an embedding phase which is planned to commence in FY2016.

ENVIRONMENT

We understand the important relationship between natural resource use and conservation. We strive to minimise environmental impacts at all our operations to ensure we do not compromise the ecosystems that provide resilience against climate change for our host communities.

Climate change and greenhouse gas reduction

We accept the findings of the Intergovernmental Panel on Climate Change, in particular, that human activity is changing the climate. We are taking action to reduce emissions. As a new company, we are actively working to understand which avenues, outside of greenhouse gas (GHG) reduction, we will pursue to address climate change. A comprehensive climate change strategy is being developed and will be approved by our Board, with input from the Sustainability Committee and our Executive Committee.

Carbon pricing

We apply an internal price on carbon and use this in our decision making for both current operations and new asset purchases. We believe that carbon pricing is an effective mechanism to achieve action on climate change. We support carbon pricing that is broad based, covering all industry sectors and all possible emission sources.

Coal

Coal is a component of our business. We produce both metallurgical coal and thermal coal. Metallurgical coal is used in the production of metal used for infrastructure, including renewable energy options. We are aware that commitments made in international forums such as the 21st Conference of the Parties to the United Nations Framework Convention on Climate Change, could have a long-term impact on the market for thermal coal. While there are some investor concerns around the structural decline of thermal coal prices, we have domestic and international demand for our thermal coal products. Coal will remain part of the energy mix in developing countries, including South Africa and India.

Reducing emissions

We understand the challenge of climate change and are working to reduce our GHG emissions. Our environment improvement teams monitor the GHG profile of our operations. They continuously look for opportunities to reduce GHG emissions, increase energy efficiency and work closely with the energy planning team and our operations to ensure that GHG reduction and minimisation are taken into account in future decision making.

Our Mozal aluminium smelter began using hydropower generated at Cahora Bassa Hydroelectric Station, in the north of Mozambique, in 2010. This source of clean power met more than 98 per cent of the total electricity requirements for Mozal during FY2015.

Greenhouse gas emissions and energy use

There was an 8 per cent decrease in our total GHG emissions for FY2015 compared with FY2014. This was primarily driven by improvements in the hydroelectric power supply at Mozal and the closure of Bayside aluminium smelter at South Africa Aluminium. The Bayside closure was also the main contributing factor to a 2 per cent reduction in energy consumption compared with FY2014.

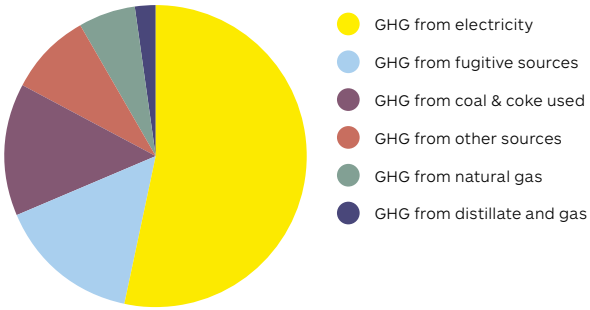
GHG emissions[1] (kilotonnes CO_2-e)

Rate	FY2015	FY2014
Scope 1[2]	11,212	11,048
Scope 2[3]	13,178	15,509
Total	**24,390**	**26,557**

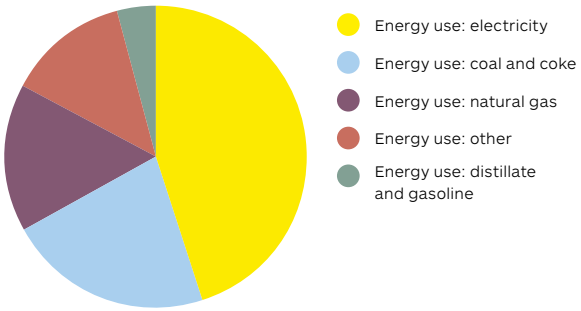
(1) GHG emissions measured according to the World Resources Institute/ World Business Council for Sustainable Development Greenhouse Gas Protocol (WRI/WBCSD GHG Protocol).
(2) Scope 1 refers to direct GHG emissions from our operated assets.
(3) Scope 2 refers to indirect GHG emissions from the generation of purchased electricity and steam that is consumed by our operated assets.

At our Illawarra Metallurgical Coal operation, West Cliff Colliery implemented a project in FY2014 to improve the extraction and utilisation capability of the mine's gas drainage system. This reduced GHG emissions in FY2014 by 221 kilotonnes CO_2-e with continued savings of approximately 190 kilotonnes CO_2-e during FY2015. In addition to the emissions savings, the project resulted in increased productivity and improved safety outcomes.

Greenhouse gas emissions by source



Energy use by source



Total energy consumption

Rate		FY2015	FY2014
Total energy	petajoules	183.3	187.5
Total energy from electricity	petajoules	82.0	87.4

In FY2015, 35 petajoules of energy was generated from renewable sources.

Biodiversity and ecosystems

Land and biodiversity management plans have been developed at all our operations. These plans specify measures to avoid, minimise, rehabilitate and apply compensatory actions, as appropriate, to manage the biodiversity and ecosystem impacts of our operations. We continually monitor indicators to understand any potential impacts on the environment, including the broader ecosystems in which our operations are located.

Land

As at 30 June 2015	Land set aside for conservation	Land rehabilitated	Land disturbed	Land owned/ leased/ managed
Hectares	767	13,843	23,880	524,035

Together with its contract partners, Illawarra Metallurgical Coal has developed a successful rehabilitation methodology that has achieved significant revegetation results and minimised erosion and soil instability. The methodology has been tested in both extreme drought conditions and in times of high rainfall (over a period of approximately 10 years). This testing has provided confidence in the approach and the results indicate that long-term stability and sustainability have been achieved. Much of the rehabilitation is now largely self-sustaining.

The rehabilitation methodology has evolved over time and is now considered to be leading practice with regards to water management, vegetation and habitat management and monitoring.

Water

We focus on effective management of the water resources that we share with our host communities and the environment. The sustainability of our operations relies on our ability to obtain an appropriate quality and quantity of water and to use and manage it responsibly, including accounting for natural supply variations.

Our operations are required to assess direct, indirect and cumulative impacts and risks to water resources by understanding the social, cultural, ecological and economic values of these resources within their area of influence.

To keep our water footprint as small as possible, South Africa Energy Coal commissioned a project to reuse water used in processing. The Middelburg Water Treatment Plant was commissioned in FY2015.

The plant treats mine-affected water and then discharges the clean water into a natural river system. The water is used downstream to support communities and ecosystems. A small volume of treated water is pumped to the existing Middelburg Colliery chlorination plant, eliminating the need for the purchase of external potable water for the operation.

The key water risks identified at our operations include water scarcity, water excess, water quality, water discharge and discharge into groundwater. Where water is identified as a material risk, our operations are required to implement controls to mitigate the risk and improve the management of water resources.

We report our water use according to the Minerals Council of Australia's Water Accounting Framework (WAF). This aims to improve data integrity and comparability across the sector to deliver improved outcomes. Our water reporting is consistent with this approach.

Under the WAF, water is categorised as Type 1 (close to drinking water standards), Type 2 (suitable for some purposes), and Type 3 (unsuitable for most purposes).

The variability of Type 1 water input is primarily driven by changes in climatic conditions. There has been a 13 per cent decrease in Type 1 water input for FY2015 compared with FY2014.

As part of our continuous improvement process, we endeavour to use water efficiently. A project was completed in June 2014 to reduce the volume of water entering the Worsley refinery contaminated water storage facility. This was achieved by reusing high-quality condensate in the powerhouse cooling tower. This resulted in a reduction of clean water use of more than 450,000kL in FY2015. To keep the zero-release contaminated water storage area as resilient as possible during periods of high rainfall, a number of other projects were also executed in FY2015, which have increased storage capacity by approximately 1.5 gigalitres.

COMMUNITY

We work to create shared value, that is, economic value while also making a positive contribution to the quality of life of the communities, regions and countries in which we operate. We work with our local communities to better understand and manage the impact of our operations. We also work to support community practices that empower people to make choices that give them control over the development of their lives, beliefs, institutions and well-being.

Engaging with our stakeholders

We respect the values and views of society and work to understand how our operations may impact stakeholders. Stakeholder engagement plans identify the interests, needs and relationships of our wide range of stakeholders. These plans contain a range of culturally and socially inclusive engagement activities to ensure open and collaborative communications.

We work to understand the potential impacts our business could have on the community. We implement processes to respond in a timely manner to community concerns, complaints and grievances.

Community complaints and grievances

Complaint type	Number received
Dust	11
Noise	112
Odour	4
Other	60
Total	**187**

There was one significant community event in FY2015, where a company vehicle was involved in a collision on a public road in Mozambique.

The regular forum that was established in response to a community protest in FY2014 at our Cerro Matoso asset in Colombia continues to engage with the communities located near our operation. This engagement forum facilitates the resolution of concerns and complaints at an early stage and provides ongoing support to these communities.

Making a positive contribution to society

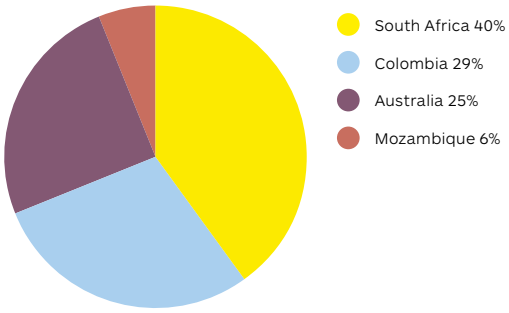
Our contribution is wide ranging and includes providing employment and procurement opportunities to those local communities in which we operate. We deliver commodities required for human development and contribute to areas of need for local communities, in the form of community investment. During FY2015, we contributed US$18.6 million consisting of cash, in-kind support and administrative costs.

As a new company, we are working to understand how we can uniquely engage and deliver shared value to society and our host communities over the long term.

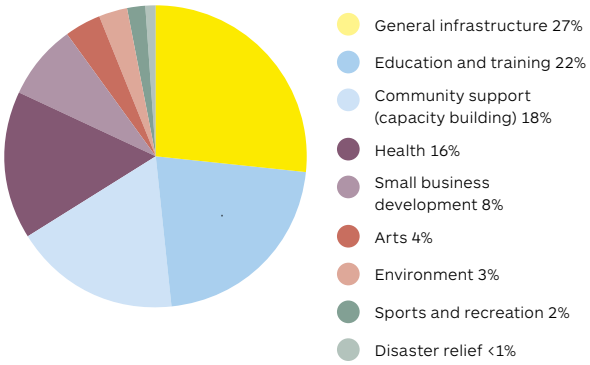
Our approach will seek to:

- Empower employees to contribute to their community and society
- Support local communities in areas of need
- Develop long-term projects focused on delivering sustainable outcomes for future generations

Community investment by country



Community investment by category



Transformation

South32 views transformation as fundamental to the sustainability of our business. It is a strategic imperative and a business opportunity that allows us to make a meaningful contribution to the social and economic development of each country in which we operate.

In South Africa, we are committed to the national transformation agenda as enacted in the B-BBEE Act and the Mining Charter. This is important for both the stability of the country, its economic well-being and the sustainability of our business. We aim to ensure that empowerment and sustainable growth in South Africa are enhanced through:

- Facilitation of economic empowerment through broad-based equity ownership structures
- Working towards equitable representation and the upskilling of our historically disadvantaged workforce at all levels
- Development of black small and medium enterprises and the creation of opportunities for growth for existing black enterprises
- Increasing our footprint through focused sustainable community development
- Improvement of housing and living conditions of our employees and ensuring that our plans are aligned with our values and the Mining Charter requirements

- Promotion of the use of employees for core production areas and recruiting from within our local communities

Recognising Indigenous Peoples and respecting customary rights

We recognise the traditional rights and values of Indigenous Peoples, respect their cultural heritage and provide opportunities for inclusion and advancement. Many of our operations are located on or near Indigenous lands. Of our community investment, US$1.86 million was directly invested in programmes with a focus on Indigenous communities.

We provide cultural awareness and competency training for employees who engage with Indigenous Peoples from host communities and implement Indigenous engagement programmes that are consistent with the ICMM Position Statement on Indigenous Peoples and Mining.

Our GEMCO operation, which is located on Groote Eylandt in the Northern Territory, Australia, works to support the local Indigenous community. We are partnering with the Graham (Polly) Farmer Foundation to support school-aged children on Groote Eylandt to gain literacy and numeracy skills. This development initiative was created to support a healthy, thriving community over the long term.

Committing to business practices that observe and respect human rights

Each of our operations is required to assess their potential to impact human rights to ensure potential risks are identified and measures are in place to effectively manage and mitigate risks. Through our commitment to the Voluntary Principles on Security and Human Rights, we protect people and property from risks presented by security threats while upholding the standard outlined in international human rights codes.

CLOSURE

South32 integrates closure considerations into its annual business planning process, as this is fundamental to creating lasting value for the communities in which we operate. We aim to have consistent and transparent closure practices by having a single point of accountability for closure planning in each region.

Closure plans are maintained for each operation and address the details of rehabilitation activities for disturbed land, remediation requirements for contaminated land and end uses for land and infrastructure. These plans provide the basis for estimating the closure costs and making the associated financial provisions.

MATERIALS STEWARDSHIP

The multi-commodity nature of our business means we have a diversified customer portfolio. We seek to work with those involved in the life cycles of our products to enhance environmental and social performance along the supply chain and to promote responsible use of our products.

As our main activities are resource extraction and primary processing, the majority of the life cycles of our products occur after our products have left our control. Through our membership of the ICMM, we have committed to implementing the ICMM Sustainable Development Framework, which requires us to facilitate and encourage responsible design, use, reuse, recycling and disposal of our products throughout the supply chain. Many of our products are required to have a specific safety data sheet. These sheets outline the relevant health, safety and environmental aspects of our products and are available to our customers and the transporters of our products. For products where chemical safety assessments are required by law, we also supply exposure scenario information to our customers; this covers risk-management measures for the identified uses of our products.

Under the International Maritime Solid Bulk Cargoes (IMSBC) code, we have been involved with the Australian Coal Association Research Program (ACARP) to investigate the behaviour of coal cargoes in ships. As a result, a new transportable moisture limit test method has been developed, accounting for the specific physical and chemical properties of coal, relating to its potential to liquefy. We continue to work within the industry to understand and manage the potential of other bulk cargoes to liquefy. We have documented moisture management plans to implement controls and provide assurance that our products will not liquefy while on board and compromise a vessel's stability.

We also work with the industry to proactively manage product stewardship issues, including the requirements to test and classify our products for compliance against the chemical hazard criteria specified in the IMSBC code.

In FY2015, we engaged in a number of product stewardship initiatives, including with the International Manganese Institute, International Aluminium Institute and the Nickel Institute. We provide ongoing technical assistance to our customers to better understand the properties of our products, including how they can be used more efficiently.

INDEPENDENT LIMITED ASSURANCE REPORT TO THE DIRECTORS AND MANAGEMENT OF SOUTH32 LIMITED

KPMG Independent limited assurance report to the Directors and management of South32 Limited

Our conclusion

Based on the procedures performed, as described below, nothing has come to our attention that would lead us to believe that the Sustainability Data identified below and included in the South32 Limited Annual Report for the year ended 30 June 2015, is not, in all material respects, prepared in accordance with South32 Limited's basis of preparation described in the Sustainability section of the Annual Report.

We have been engaged by South32 Limited, and are responsible, for providing a limited assurance conclusion in respect of the preparation of the Sustainability Data identified below and included in the South32 Limited Annual Report for the year ended 30 June 2015 in accordance with South32 Limited's basis of preparation described in the Sustainability section of the Annual Report.

Our assurance engagement is conducted in accordance with the International Standard on Assurance Engagements ISAE 3000 *Assurance Engagements other than Audits or Reviews of Historical Financial Information* and ISAE 3410 *Assurance on Greenhouse Gas Statements*. These standards require the assurance team to possess the specific knowledge, skills and professional competencies needed to provide assurance on sustainability information, and that they comply with the requirements of the Code of Ethics for Professional Accountants of the International Federation of Accountants to ensure their independence.

The Sustainability Data

The specific sustainability data covered by our limited assurance engagement includes the following totals:

- Recordable Injury Frequency statistic (TRIF) of 5.81,
- Scope 1 and 2 Greenhouse Gas Emissions (GHG emissions) of 24,390 kilo tonnes CO_2-e,
- Energy Use of 183.3 petajoules,
- Energy Use From Electricity of 82 petajoules, and
- Community Investment Spend of US$18.6 million,

(collectively the 'Sustainability Data') for the year ended 30 June 2015.

We have not been engaged to provide an assurance conclusion on any other information disclosed within the Annual Report.

Directors' and management's responsibilities

The directors and management of South32 Limited are responsible for the preparation and presentation of the Sustainability Data, specifically ensuring that in all material respects:

- the Sustainability Data is prepared and presented in accordance with the basis of preparation as described in the Annual Report;
- the basis of preparation is appropriate to meet South32 Limited's, and the intended users', needs;
- the basis of preparation of the Sustainability Data (including how it will be determined and compiled) is clearly and unambiguously set out in the Annual Report.

The directors and management have determined that this basis of preparation is appropriate to meet South32 Limited's and the intended users' needs. The responsibilities of the directors and management also include establishing and maintaining such internal controls and processes as the directors and management determine are necessary to enable the preparation and presentation of the Sustainability Data that is free from material misstatement whether due to fraud or error.

Limited assurance over the Sustainability Data

In forming our limited assurance conclusion over the Sustainability Data the procedures we performed were based on our professional judgement and consisted of making enquiries and applying analytical and other evidence gathering procedures including:

- interviews with senior management and relevant staff at corporate and 4 operating sites;
- assessment of the suitability and application of South32 Limited's basis of preparation (as described in the Annual Report) of the Sustainability Data;
- evaluation of the design and implementation of the key systems, processes and controls for collecting, managing and reporting the Sustainability Data within the Annual Report; and
- agreeing the Sustainability Data to relevant underlying sources on a sample basis.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement and consequently the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed. Accordingly, we do not express a reasonable assurance opinion.

Basis of preparation and restriction on distribution and use

The Sustainability Data has been prepared by the management of South32 Limited to meet South32 Limited's and the intended users' needs. As a result, the Sustainability Data may not be suitable for another purpose. Our report has been prepared for South32 Limited and its directors and management. We disclaim any assumption of responsibility for any reliance on this report, or on the Sustainability Data to which it relates, to any person other than South32 Limited and the directors and management of South32 Limited or for any other purpose than that for which it was prepared.

KPMG

KPMG
Melbourne
8 September 2015

OUR SECURITIES WERE LISTED ON THE ASX, LSE AND JSE ON 18 MAY 2015, FOLLOWING THE DEMERGER FROM BHP BILLITON

OPERATING AND FINANCIAL REVIEW

SECTION 5: OPERATING AND FINANCIAL REVIEW

INTRODUCTION

The following operating and financial review is intended to convey the South32 Directors' perspective of the South32 Group's operating performance and financial position, likely development and future prospects.

The following information forms part of this operating and financial review:

- Our Strategy in section 2 (p14) of the Annual Report and
- Risk Management in section 2 (p21) of the Annual Report, which includes the most significant risk factors

The economic separation of the South32 Group from BHP Billiton became effective on 25 May 2015. Prior to the demerger, the South32 Group and BHP Billiton Group were required to undertake a number of internal share and asset transfers in connection with the corporate restructure (Internal Restructure). As required for statutory reporting purposes, the statutory financial information for the South32 Group has been presented for the financial year ended 30 June 2015 and for the comparative financial year ended 30 June 2014. In this regard, the Group's statutory financial information only includes the results of the current Group's assets, other than Illawarra Metallurgical Coal, from the date of acquisition during the financial year under the Internal Restructure.

Accordingly, the statutory financial information for the years ended 30 June 2015 and 30 June 2014 does not reflect the performance of the South32 Group as it is currently structured.

To assist shareholders in their understanding of the Group, pro forma financial information for the years ended 30 June 2015 and 30 June 2014 has been prepared to reflect the business as it is now structured and as though it was in effect for the period 1 July 2013 to 30 June 2015. The basis of preparation for the pro forma financial information is set out on page 80.

A reconciliation between the pro forma financial information and the statutory financial information is included in this report.

The South32 Group uses a number of non-IFRS financial measures in addition to those reported in accordance with IFRS. The South32 Directors believe that these non-IFRS measures are important when assessing the underlying financial and operating performance of the South32 Group and its assets as set out below.

FINANCIAL KEY PERFORMANCE INDICATORS FOR FY2015

The two key measures used to monitor financial performance are Underlying earnings for the South32 Group as a whole and Underlying EBIT for the performance of the South32 Group individual assets.

FINANCIAL HIGHLIGHTS

	Pro forma[3]		Change	Statutory[3]	
US$M	**FY2015**	**FY2014**	**%**	**FY2015**	**FY2014**
Revenue[1]	**7,743**	8,344	(7%)	**3,843**	853
Profit/(loss) from continuing operations	**519**	319	63%	**(331)**	(59)
Profit/(loss) after taxation	**28**	64	(56%)	**(926)**	–
Basic earnings per share (US cents)[2]	**0.5**	1.2	(58%)	**(26.9)**	–
Other financial measures					
Underlying EBITDA	**1,849**	1,465	26%	**820**	114
Underlying EBITDA margin	**26.2%**	20.2%	6.0%	**23.4%**	13.4%
Underlying EBIT	**1,001**	642	56%	**345**	(56)
Underlying EBIT margin	**14.0%**	8.6%	5.4%	**9.7%**	(6.6%)
Underlying earnings	**575**	407	41%	**79**	4
Return on invested capital (ROIC)	**6.2%**	4.0%	2.2%	**N/A**	N/A

(1) Revenue includes revenue from third party products.

(2) Pro forma FY2015 and FY2014 basic earnings per share is calculated as pro forma profit after taxation from continuing operations divided by the number of shares on issue at 30 June 2015. Statutory FY2015 and FY2014 basic earnings per share is calculated as profit/(loss) after taxation from continuing operations divided by the weighted average number of shares outstanding during the period.

(3) The pro forma and statutory financial information reflects continuing operations and therefore excludes the contribution of the New Mexico Coal asset.

Underlying earnings, Underlying EBIT and Underlying EBITDA are defined below. These measures are included in note 5 Segment information to the financial statements, in accordance with AASB 8 'Operating Segments'. We believe that Underlying earnings, Underlying EBIT and Underlying EBITDA provide useful information, but should not be considered as an indication of, or an alternative to, profit/(loss) after taxation as an indicator of actual operating performance or as an alternative to cash flow as a measure of liquidity.

In calculating Underlying earnings and Underlying EBIT we adjust for certain items each period, irrespective of materiality. In addition, South32 management retains the discretion to adjust for other significant non-recurring items that are not considered reflective of the underlying performance of the South32 Group's assets. Refer to page 70 for further details of the South32 Group's policy for calculating Underlying earnings and Underlying EBIT.

The South32 Group also uses a number of non-IFRS financial measures in addition to those reported in accordance with IFRS. We believe that these non-IFRS measures, listed below, are important when assessing the underlying financial and operating performance of the South32 Group and the South32 Group's assets.

Segment measure	Definition
Underlying EBIT	Profit from continuing operations before net finance costs, taxation and any earnings adjustment items, including impairments. Underlying EBIT is reported inclusive of South32's share of net finance costs and taxation of equity accounted investments.
Underlying EBITDA	Underlying EBIT before depreciation and amortisation.
Underlying earnings	Profit after taxation and earnings adjustment items. Earnings adjustments represent items that do not reflect the underlying operations of South32.

Non-IFRS measures used in this report are defined below:

Non-IFRS measure	Definition
Underlying effective tax rate	Comprises pro forma Underlying income tax expense excluding royalty related taxation divided by pro forma Underlying profit before tax; both the numerator and denominator exclude equity accounted investments.
Underlying EBIT margin	Comprises Underlying EBIT excluding third party product EBIT, divided by revenue excluding third party product revenue.
Underlying EBITDA margin	Comprises Underlying EBITDA excluding third party product EBITDA, divided by revenue excluding third party product revenue.
Margin on third party products	Comprises Underlying EBIT on third party products, divided by third party product revenue.
Net debt	Comprises interest bearing liabilities, including finance leases, less cash and cash equivalents.
Net operating assets	Represents operating assets net of operating liabilities, excluding the carrying value of equity accounted investments and predominantly excludes cash balances, interest bearing liabilities and tax balances.
Return on invested capital (ROIC)	Calculated as pro forma Underlying EBIT less the discount on rehabilitation provisions included in net finance costs, tax effected by the South32 Group's Underlying effective tax rate, divided by the sum of fixed assets (excluding any rehabilitation asset and other non-cash adjustments) and inventories. Manganese is included in the calculation on a proportional consolidation basis.

EXTERNAL FACTORS AND TRENDS AFFECTING THE SOUTH32 GROUP'S RESULTS

The following describes some of the external factors and trends that have had a material impact on South32's financial position and results of operations. Details of the South32 Group's most significant risk factors can be found in section 2 (p21) of the Annual Report.

Management monitors particular trends arising from external factors with a view to managing the potential impact on the South32 Group's future financial position and results of operations.

COMMODITY PRICES

The prices the South32 Group obtains for its products are a key driver of its business, and fluctuations in these commodity prices affect its results, including cash flows and asset values. The estimated impact on pro forma Underlying EBIT for FY2015 of changes to commodity prices is set out below:

ESTIMATED IMPACT ON UNDERLYING EBIT OF A +/-10% CHANGE IN COMMODITY PRICE

US$M	FY2015
Aluminium	202
Alumina	174
Energy coal	92
Metallurgical coal	79
Manganese ore[1]	72
Manganese alloy[1]	38
Nickel	56
Silver	40
Lead	36
Zinc	16

(1) The sensitivity impact for manganese ore and manganese alloy are on a pre-tax basis. The Group's manganese assets are reported as an equity accounted investment. As a result, the profit after taxation for manganese is included in the Underlying EBIT of South32.

The following table shows prices of the South32 Group's most significant commodities for FY2015 and FY2014. These prices represent quoted prices from the relevant sources as indicated. These prices differ from the realised prices on the sale of production due to contracts to which the South32 Group is a party, differences in quotational periods, quality of products, delivery terms and the range of quoted prices that are used for contracting sales in different markets.

Year ended 30 June	FY2015 Closing	FY2014 Closing	FY2015 Average	FY2014 Average	FY2013 Average
Aluminium (LME Cash)[1] (US$/t)	**1,647**	1,851	**1,880**	1,764	1,938
Alumina[2] (US$/t)	**323**	312	**339**	321	327
Energy coal[3] (US$/t)	**59.8**	73.9	**64.7**	77.5	84.7
Metallurgical coal[4] (US$/t)	**88.0**	110.5	**102.9**	128.4	159.1
Manganese ore[5] (US$/dmtu)	**2.98**	4.20	**3.89**	4.95	5.29
Manganese alloy[6] (US$/t)	**821**	999	**879**	1,020	1,106
Nickel (LME Cash)[1] (US$/t)	**11,680**	18,715	**15,447**	15,225	16,390
Silver[7] (US$/oz)	**15.7**	20.9	**17.3**	20.6	28.9
Lead (LME Cash)[1] (US$/t)	**1,754**	2,129	**1,983**	2,105	2,131
Zinc (LME Cash)[1] (US$/t)	**1,994**	2,205	**2,205**	1,968	1,926

(1) LME Cash represents the Official Seller price for nickel, zinc and lead and the A.M. Official price for aluminium.
(2) Platts Alumina Index (PAX) Free on Board (FOB) Australia – market price assessment of calcined metallurgical/smelter grade alumina.
(3) Richards Bay Coal Terminal (RBCT) FOB (API 4).
(4) Platts Low-Vol Hard Coking Coal Index FOB Australia – representative of high-quality hard coking coals.
(5) Metal Bulletin manganese ore 44 per cent Mn CIF China.
(6) Bulk FerroAlloy high-carbon ferromanganese (HCFeMn) Western Europe DDP.
(7) Daily London Bullion Market Association (LBMA) Silver Fixing Process.

The following summarises the pricing trends of the most significant commodities for FY2015.

Aluminium: The average London Metal Exchange (LME) cash settlement price for the year was 7 per cent higher than that of FY2014, offset by lower premiums (in Japan, Europe and the United States), reflecting the market surplus from increased Chinese production and LME warehouse reforms. Those reforms increased the availability of metal, significantly reducing LME aluminium warehouse stocks.

Alumina: The average FOB Australia price increased 6 per cent during FY2015, supported by the Indonesian ore ban on bauxite export and growing aluminium demand from China.

Energy coal: The Richards Bay FOB average price decreased by 17 per cent during FY2015. The price decrease was driven by weaker import demand from China offsetting the import growth in India, and stable supply from key producing countries such as Australia, Indonesia and Russia.

Metallurgical coal: The average Platts Low-Vol Hard Coking Coal Index decreased by 20 per cent during FY2015. Demand growth in India was insufficient to offset the lower imports from China and Japan. The downward pressure on prices was compounded by continued supply growth from Australia.

Manganese: The Metal Bulletin manganese ore China CIF average price decreased 21 per cent during FY2015. Demand growth slowed, and the market remained well supplied amidst high Chinese inventories. The Western Europe spot high carbon ferromanganese average price decreased 14 per cent during FY2015, as a result of persistent oversupply and the currency depreciation of major producers in India, Australia, South Africa and Europe.

Nickel: The average LME nickel Settlement Daily Official price increased 1 per cent during FY2015.

Silver: The average daily London Bullion Market Association silver price decreased by 16 per cent during FY2015, with price movements in line with the strengthening US dollar.

Lead: The average LME lead Settlement Daily Official price decreased 6 per cent during FY2015 with the market well supplied as growth in consumption was met with increased supply from China.

Zinc: The average LME zinc Settlement Daily Official price increased by 12 per cent during FY2015 despite a surplus in the market, with price movements mainly driven by expectations of an emerging market deficit.

EXCHANGE RATES

The South32 Group is exposed to exchange rate risk on foreign currency sales, purchases and expenses, as no active currency hedging is undertaken. As the majority of sales are denominated in US dollars, and the US dollar plays a dominant role in South32's business, funds borrowed and held in US dollars provide a natural hedge to currency fluctuations. Operating costs and costs of locally sourced equipment are influenced by fluctuations in local currencies, primarily the Australian dollar, South African rand, Brazilian real and Colombian peso.

The South32 Group is also exposed to exchange rate translation risk in relation to net monetary liabilities, being foreign currency denominated monetary assets and liabilities, including debt, taxation and other long-term liabilities. Details of the exposure to foreign currency fluctuations are set out in note 19 Financial assets and financial liabilities to the financial statements.

The following table indicates the estimated impact on FY2015 Underlying EBIT of a change in the principal currencies to which the South32 Group is exposed against the US dollar. The sensitivities give the estimated impact on Underlying EBIT based on the exchange rate movement in isolation. The sensitivities assume all variables except for exchange rate remain constant. There is an inter-relationship between currencies and commodity prices where movements in exchange rates can cause movements in commodity prices and vice versa. This is not reflected in the sensitivities below. These sensitivities should therefore be used with care.

ESTIMATED IMPACT ON UNDERLYING EBIT OF A +/-10% CHANGE IN CURRENCY RELATIVE TO THE US DOLLAR

US$M	FY2015
Australian dollar	181
South African rand	148
Colombian peso	39
Brazilian real	16

The following table shows the average and period end exchange rates of the most significant currencies that affect the South32 Group's results:

	FY2015 Average	FY2014 Average	FY2015 Closing	FY2014 Closing
Australian dollar [1]	**0.84**	0.92	**0.77**	0.94
Brazilian real	**2.68**	2.29	**3.14**	2.20
Colombian peso	**2,257**	1,935	**2,585**	1,881
South African rand	**11.45**	10.39	**12.28**	10.60

(1) Displayed as US$ to A$1 based on common convention.

Weakening economic conditions in major producer regions combined with the market expectation that monetary policy would normalise in the United States impacted currencies in FY2015 and resulted in the depreciation of the Australian dollar, South African rand, Brazilian real and Colombian peso against the US dollar.

CHANGES IN PRODUCT DEMAND AND SUPPLY

Commodity prices continue to be driven by global demand and supply, fluctuations in which affect our results, including cash flows and asset values.

Chinese crude steel production growth stagnated in response to weaker demand particularly from the construction sector. Outside of China, global steel demand remains steady although constrained by high Chinese steel exports. Supply side response to weaker demand through production curtailments of high cost, marginal suppliers of metallurgical coal and manganese operations has been slower than anticipated, leading to a decrease in prices.

The energy coal market experienced high levels of exports from Australia, Russia and Indonesia keeping prices subdued. Robust import demand growth in India was more than offset by a decline in China's imports, causing the seaborne energy coal market to remain tepid.

Although aluminium demand grew in FY2015, increasing production from China meant supply exceeded consumption. The increased Chinese aluminium production resulted in additional demand for alumina that was primarily met from Chinese-based alumina refineries.

Nickel consumption decreased in comparison to FY2014, however recovered in the second half of FY2015 with increasing stainless steel production. The supply of nickel continues to exceed consumption.

Zinc consumption continued to grow over FY2015 as demand in China increased which was met by a rise in production from China, creating a market surplus. Similarly the lead market was finely balanced as growth in lead consumption over FY2015 was met by an increase in production from China.

OPERATING COSTS

As the prices for the South32 Group's products are determined by the global commodity markets in which the Group operates, South32 does not generally have the ability to offset cost pressures. Therefore, controlling operating costs is a key focus. Pro forma operating costs for the last two financial years are set out below.

OPERATING COSTS

US$M	FY2015	FY2014
Operating cash costs	**5,388**	5,944
Third party commodity purchases	**767**	1,226
Depreciation and amortisation expense	**848**	823
Total expenses included in Underlying EBIT	**7,003**	**7,993**

Operating cash costs benefited from a stronger US dollar in FY2015. Nevertheless, during FY2015 we continued to focus on reducing operating costs that form part of Underlying EBIT. This included a broad based approach focused on labour productivity, contractor usage and rates, maintenance planning and the more efficient use of various consumables, including fuel and energy.

US$282 million of productivity-led and other cost efficiencies were embedded during FY2015 as we fast-tracked the implementation of our regional operating model. This included the decision to close offices in Wollongong, Brisbane, Townsville and Australind (all Australia). As the next phase of the regional model is implemented we expect a further reduction in functional support and fewer layers of operational management. Significant savings are also being achieved in procurement and logistics following the aggregation and elevation of these commercial activities.

CAPITAL EXPENDITURE

Pro forma capital expenditure is disclosed for each South32 asset below (presented on a cash basis):

CAPITAL EXPENDITURE [1]

US$M	FY2015	FY2014
Worsley Alumina	**62**	56
South Africa Aluminium	**35**	28
Mozal Aluminium	**14**	8
Brazil Aluminium	**8**	9
South Africa Energy Coal	**98**	65
Illawarra Metallurgical Coal	**308**	309
Australia Manganese	**98**	65
South Africa Manganese	**41**	42
Cerro Matoso	**36**	56
Cannington	**39**	60
Group and unallocated items	**29**	(1)
Total capital expenditure	**768**	**697**
Equity accounting adjustment[2]	**(139)**	(107)
Total	**629**	**590**

(1) Capital expenditure is included on a cash basis and excludes capitalised interest. Australia Manganese and South Africa Manganese represent South32's 60 per cent equity share.

(2) The equity accounting adjustment reconciles the proportional consolidation of the manganese assets to the treatment of the manganese assets on an equity accounted basis.

Capital expenditure encompasses the following:

US$M	FY2015	FY2014
Major projects	**51**	92
Stay in-business, Minor discretionary and Deferred stripping (including underground development)	**578**	498
South32 Group share of equity accounted investments	**139**	107
Total	**768**	**697**

The Appin Area 9 underground extension at Illawarra Metallurgical Coal is the Group's sole major project in development. This project, which is now expected to be completed ahead of schedule and approximately 20 per cent under budget, also accounted for the majority of deferred stripping in FY2015.

Capital expenditure associated with the Premium Concentrate Ore project at GEMCO (Australia Manganese) and the second phase of the Central Block project at the Wessels mine (South Africa Manganese) is included in the share of capital expenditure associated with equity accounted investments.

Capital expenditure continues to be scrutinised in every location as we seek to sustainably de-capitalise the business and grow ROIC.

OPERATING RESULTS – UNDERLYING EARNINGS

In discussing the operating results of the South32 Group, the focus is on Underlying earnings. Underlying earnings is the key measure that is used to assess the performance of the South32 Group, make decisions on the allocation of resources and assess senior management's performance. In addition, the performance of each of the South32 Group assets and operational management are assessed based on Underlying EBIT. Management uses this measure because financing structures and tax regimes differ across the South32 Group's assets and substantial components of tax and interest charges are levied at a group level rather than an asset level. In order to calculate Underlying earnings, Underlying EBIT and Underlying EBITDA, the following items are adjusted as applicable each period, irrespective of materiality:

- Exchange rate gains/losses on restatement of monetary items
- Impairment losses/reversals
- Net gains/losses on disposal and consolidation of interests in businesses
- Fair value gains/losses on derivative instruments
- Major corporate restructures and
- The income tax impact of the above items

Items that do not reflect the underlying operations of the South32 Group, and are individually significant to the financial statements, are excluded to determine Underlying earnings. Significant items are detailed in note 5(b)(ii) to the financial statements.

Underlying earnings is included in note 5 Segment information to the financial statements. Pro forma Underlying earnings is reconciled to pro forma profit after taxation as set out below.

US$M	FY2015	FY2014
Pro forma profit after taxation	**28**	64
Earnings adjustments	**547**	343
Pro forma Underlying earnings	**575**	**407**

Pro forma Underlying EBIT is reconciled to pro forma profit from operations as set out below.

US$M	FY2015	FY2014
Pro forma profit from operations	**519**	319
Earnings adjustments	**482**	323
Pro forma Underlying EBIT	**1,001**	**642**

The following table shows the pro forma earnings adjustments to the pro forma consolidated income statements for FY2015 and FY2014.

US$M	FY2015	FY2014
Earnings adjustments to Underlying EBIT		
Exchange rate (gains)/losses on restatement of monetary items	**(93)**	(53)
Impairment	**594**	327
Impairment reversals	**–**	(8)
Fair value (gains)/losses on derivative instruments	**(25)**	2
Earnings adjustment included in operating loss of equity accounted investments	**6**	1
Other:		
Bayside closure costs (excluding impairments)	**–**	138
Gain on sale of Optimum coal rights	**–**	(84)
Total earnings adjustments to Underlying EBIT	**482**	**323**
Earnings adjustment to net finance cost		
Exchange rate variations on net debt	**(134)**	40
Total earnings adjustment to net finance cost	**(134)**	**40**
Earnings adjustments to income tax expense		
Tax effect of earnings adjustments to Underlying EBIT	**(134)**	(25)
Tax effect of earnings adjustment to net finance cost	**40**	(13)
Exchange rate variations on tax balances	**197**	(9)
Other:		
Non-recognition of tax benefits	**–**	27
Repeal of Minerals Resource Rent Tax legislation	**96**	–
Total earnings adjustments to income tax expense	**199**	**(20)**
Total earnings adjustments	**547**	**343**

Exchange rate gains/losses on restatement of monetary items

The South32 Group's functional and reporting currency is the US dollar. Realised and unrealised gains and losses on restatement of monetary items denominated in local currencies as a result of movements in exchange rates are recorded in profit or loss for the year.

Impairment losses and impairment reversals

Impairments for FY2015 include an adjustment to the carrying value of the Wolvekrans Middelburg Complex at South Africa Energy Coal of US$551 million (pre-tax) and the write-off of the Metallic Nickel Recovery project at Cerro Matoso of US$41 million (pre-tax). Impairments for FY2014 primarily included the impairment at South Africa Energy Coal for property, plant and equipment of US$244 million (pre-tax) and goodwill of US$48 million (pre-tax).

Fair value gains/losses on derivative instruments

Hillside sources power from Eskom, the South African state utility, under long-term contracts, with prices linked to the LME price of aluminium or the producer price indices for South Africa and the United States. The embedded derivatives in the host contracts are accounted for at fair value. The gain or loss on changes in the fair value of these derivatives is recorded in profit or loss for the year.

Bayside closure

As a result of the cessation of aluminium smelting activities at Bayside in June 2014, a charge of US$138 million was recorded (excluding US$29 million of impairment of property, plant and equipment), representing closure and cessation costs.

Optimum coal rights

Following the sale of the Optimum Colliery in FY2008, South32 retained the right to sell coal on behalf of the new owners, Optimum Coal Holdings (Pty) Ltd. This right was sold in FY2014 and generated a profit on disposal of US$84 million.

Earnings adjustment to net finance cost

Exchange rate variations on net debt are excluded from Underlying earnings, consistent with exchange variations excluded from Underlying EBIT.

Earnings adjustments to income tax expense

The earnings adjustments to income tax expense include the tax effect of the adjustments to Underlying EBIT and net finance cost. Exchange rate variations on tax balances relate to the impact on income tax expense for companies in the South32 Group where the functional currency for taxation purposes is not the US dollar. As a result, exchange gains and losses are calculated differently for accounting and tax purposes. The impact on income tax expense of the Minerals Resource Rent Tax legislation is excluded because the tax has been repealed.

FINANCIAL REVIEW SUMMARY

The Company's auditor issued an unmodified review report to the Directors of South32 Limited on the financial information included on pages 72 to 81. A review is substantially less in scope than an audit.

SUMMARY PRO FORMA CONSOLIDATED INCOME STATEMENTS

US$M	FY2015	FY2014
Revenue	**7,743**	8,344
Other income	**261**	269
Expenses excluding net finance cost	**(7,479)**	(8,399)
Share of (loss)/profit of equity accounted investments	**(6)**	105
Profit from operations	**519**	**319**
Net finance cost	**(60)**	(187)
Taxation expense	**(431)**	(68)
Profit after taxation	**28**	**64**
Basic earnings per share (US cents)	**0.5**	**1.2**
Other financial information		
Profit from operations	**519**	319
Earnings adjustments to derive Underlying EBIT	**482**	323
Underlying EBIT	**1,001**	**642**
Depreciation and amortisation	**848**	823
Underlying EBITDA	**1,849**	**1,465**
Profit after taxation	**28**	64
Earnings adjustments after taxation	**547**	343
Underlying earnings	**575**	**407**
Basic Underlying earnings per share (US cents)	**10.8**	**7.6**

A reconciliation between the pro forma financial information and the statutory financial information is included on pages 78 and 79.

The basis of preparation for pro forma financial information is described on page 80.

SUMMARY PRO FORMA FY2015 OPERATING CASH FLOW FROM CONTINUING OPERATIONS BEFORE FINANCING ACTIVITIES AND TAX AND AFTER CAPITAL EXPENDITURE

US$M	FY2015	FY2014
Profit from continuing operations	**519**	319
Non-cash items	**1,427**	1,129
Profit/(loss) from equity accounted investments	**6**	(105)
Change in working capital	**(114)**	15
Cash generated from continuing operations	**1,838**	**1,358**
Dividends received (including equity accounted investments)	**472**	206
Capital expenditure	**(629)**	(590)
Operating cash flows from continuing operations before financing activities and tax and after capital expenditure	**1,681**	**974**

The reconciliation between the pro forma cash flow statement and the statutory cash flow information is included in page 80.

PRO FORMA SEGMENT INFORMATION

The segment information reflects the South32 Group's interest in its manganese assets on a proportional consolidation basis, which is the measure that is used by management to assess the performance of the manganese assets. An equity accounting adjustment is shown to reconcile the treatment of the manganese assets on an equity accounted basis as set out in the pro forma financial information on page 72.

FY2015 US$M	Worsley Alumina	South Africa Aluminium	Mozal Aluminium	Brazil Aluminium	South Africa Energy Coal
Revenue					
Group production	656	1,541	630	497	1,315
Third party products[1]	–	–	–	–	–
Inter-segment revenue	635	–	–	–	–
Total revenue	**1,291**	**1,541**	**630**	**497**	**1,315**
Underlying EBITDA	**325**	**317**	**149**	**259**	**276**
Depreciation and amortisation	(151)	(67)	(37)	(78)	(182)
Underlying EBIT	**174**	**250**	**112**	**181**	**94**
Comprising:					
Group production	174	250	112	181	93
Third party products[1]	–	–	–	–	–
Share of profit of equity accounted investments[2]	–	–	–	–	1
Underlying EBIT	**174**	**250**	**112**	**181**	**94**
Net finance cost					
Income tax expense					
Underlying earnings					
Earnings adjustments					
Profit after taxation					
Capital expenditure	62	35	14	8	98
Investments accounted for using the equity method	–	–	–	–	12
Total assets[3]	**3,720**	**1,475**	**730**	**1,039**	**1,414**
Total liabilities[3]	**359**	**324**	**104**	**111**	**1,019**

(1) Third party product sold comprises US$667 million for aluminium, US$88 million for coal and US$40 million for others. Underlying EBIT on third party products comprises US$27 million for aluminium, US$1 million for coal and US$ nil for others.

(2) Share of profit of equity accounted investments includes the impacts of earnings adjustments to Underlying EBIT.

(3) Total segment assets and liabilities represent operating assets and liabilities which predominately exclude the carrying amount of cash, interest bearing liabilities and tax balances.

Illawarra Metallurgical Coal	Australia Manganese	South Africa Manganese	Cerro Matoso	Cannington	Group and unallocated items/ elimination	Equity accounting adjustment	Total South32
814	595	410	593	902	–	(1,005)	6,948
–	–	–	–	–	795	–	795
–	–	10	–	–	(635)	(10)	–
814	**595**	**420**	**593**	**902**	**160**	**(1,015)**	**7,743**
167	**243**	**32**	**133**	**342**	**(117)**	**(277)**	**1,849**
(197)	(120)	(52)	(75)	(55)	(6)	172	(848)
(30)	**123**	**(20)**	**58**	**287**	**(123)**	**(105)**	**1,001**
(31)	123	(20)	58	287	(151)	(103)	973
–	–	–	–	–	28	–	28
1	–	–	–	–	–	(2)	-
(30)	**123**	**(20)**	**58**	**287**	**(123)**	**(105)**	**1,001**
							(194)
							(232)
							575
							(547)
							28
308	98	41	36	39	29	(139)	629
–	–	–	–	–	–	1,695	1,707
1,782	**1,649**	**748**	**997**	**453**	**2,271**	**(789)**	**15,489**
264	**265**	**218**	**234**	**173**	**2,202**	**(819)**	**4,454**

PRO FORMA SEGMENT INFORMATION CONTINUED

FY2014 US$M	Worsley Alumina	South Africa Aluminium	Mozal Aluminium	Brazil Aluminium	South Africa Energy Coal
Revenue					
Group production	570	1,614	574	529	1,247
Third party products[1]	–	–	–	–	–
Inter-segment revenue	659	–	–	–	–
Total revenue	**1,229**	**1,614**	**574**	**529**	**1,247**
Underlying EBITDA	**162**	**201**	**65**	**127**	**224**
Depreciation and amortisation	(138)	(69)	(36)	(83)	(193)
Underlying EBIT	**24**	**132**	**29**	**44**	**31**
Comprising:					
Group production	24	132	29	44	21
Third party products[1]	–	–	–	–	–
Share of profit of equity accounted investments[2]	–	–	–	–	10
Underlying EBIT	**24**	**132**	**29**	**44**	**31**
Net finance cost					
Income tax expense					
Underlying earnings					
Earnings adjustments					
Profit after taxation					
Capital expenditure	56	28	8	9	65

(1) Third party product sold comprises US$802 million for aluminium, US$456 million for coal and US$2 million for others. Underlying EBIT on third party products comprises US$14 million for aluminium, US$18 million for coal and -US$2 million for others.

(2) Share of profit of equity accounted investments includes the impacts of earnings adjustments to Underlying EBIT.

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Illawarra Metallurgical Coal	Australia Manganese	South Africa Manganese	Cerro Matoso	Cannington	Group and unallocated items/ elimination	Equity accounting adjustment	Total South32
878	785	473	595	1,079	–	(1,258)	7,086
–	–	–	–	–	1,260	(2)	1,258
–	–	–	–	–	(659)	–	–
878	**785**	**473**	**595**	**1,079**	**601**	**(1,260)**	**8,344**
142	**383**	**82**	**93**	**465**	**(112)**	**(367)**	**1,465**
(170)	(107)	(53)	(88)	(47)	1	160	(823)
(28)	**276**	**29**	**5**	**418**	**(111)**	**(207)**	**642**
(28)	276	29	5	418	(141)	(305)	504
–	–	–	–	–	30	2	32
–	–	–	–	–	–	96	106
(28)	**276**	**29**	**5**	**418**	**(111)**	**(207)**	**642**
							(147)
							(88)
							407
							(343)
							64
309	65	42	56	60	(1)	(107)	590

RECONCILIATION OF PRO FORMA CONSOLIDATED INCOME STATEMENTS

FY2015 US$M	Statutory consolidated income statement	Demerger related pro forma adjustments	Pro forma consolidated financial information
Revenue	3,843	3,900	7,743
Other income	1,143	(882)	261
Expenses excluding net finance cost	(5,247)	(2,232)	(7,479)
Share of profit/(loss) of equity accounted investments	(70)	64	(6)
Profit/(loss) from continuing operations	**(331)**	**850**	**519**
Net finance cost	(67)	7	(60)
Taxation expense	(528)	97	(431)
Profit/(loss) after taxation from continuing operations	**(926)**	**954**	**28**
Profit from discontinued operations, net of tax	7	(7)	-
Profit/(loss) after taxation	**(919)**	**947**	**28**
Other financial information			
Profit/(loss) from continuing operations	(331)	850	519
Earnings adjustments	676	(194)	482
Underlying EBIT from continuing operations	**345**	**656**	**1,001**
Depreciation and amortisation	475	373	848
Underlying EBITDA from continuing operations	**820**	**1,029**	**1,849**
Profit/(loss) after taxation from continuing operations	(926)	954	28
Earnings adjustments after taxation	1,005	(458)	547
Underlying earnings from continuing operations	**79**	**496**	**575**

FY2014 US$M	Statutory consolidated income statement	Demerger related pro forma adjustments	Pro forma consolidated financial information
Revenue	853	7,491	8,344
Other income	30	239	269
Expenses excluding net finance cost	(942)	(7,457)	(8,399)
Share of profit/(loss) of equity accounted investments	-	105	105
Profit/(loss) from continuing operations	**(59)**	**378**	**319**
Net finance cost	(15)	(172)	(187)
Taxation benefit/(expense)	74	(142)	(68)
Profit/(loss) after taxation from continuing operations	**-**	**64**	**64**
Profit from discontinued operations, net of tax	46	(46)	-
Profit/(loss) after taxation	**46**	**18**	**64**
Other financial information			
Profit/(loss) from continuing operations	(59)	378	319
Earnings adjustments	3	320	323
Underlying EBIT from continuing operations	**(56)**	**698**	**642**
Depreciation and amortisation	170	653	823
Underlying EBITDA from continuing operations	**114**	**1,351**	**1,465**
Profit/(loss) after taxation from continuing operations	-	64	64
Earnings adjustments after taxation	4	339	343
Underlying earnings from continuing operations	**4**	**403**	**407**

RECONCILIATION OF PRO FORMA CONSOLIDATED CASH FLOW STATEMENTS

FY2015 US$M	Statutory consolidated cash flow statement	Demerger related pro forma adjustments	Pro forma consolidated financial information
Profit/(loss) from continuing operations	(331)	850	519
Non-cash items	1,036	391	1,427
(Profit)/loss from equity accounted investments	70	(64)	6
Change in working capital	(110)	(4)	(114)
Cash generated from continuing operations	**665**	**1,173**	**1,838**
Dividends received (including equity accounted investments)	-	472	472
Capital expenditure	(454)	(175)	(629)
Operating cash flows from continuing operations before financing activities and tax and after capital expenditure	**211**	**1,470**	**1,681**

FY2014 US$M	Statutory consolidated cash flow statement	Demerger related pro forma adjustments	Pro forma consolidated financial information
Profit/(loss) from continuing operations	(59)	378	319
Non-cash items	175	954	1,129
(Profit)/loss from equity accounted investments	-	(105)	(105)
Change in working capital	12	3	15
Cash generated from continuing operations	**128**	**1,230**	**1,358**
Dividends received (including equity accounted investments)	-	206	206
Capital expenditure	(309)	(281)	(590)
Operating cash flows from continuing operations before financing activities and tax and after capital expenditure	**(181)**	**1,155**	**974**

PRO FORMA FINANCIAL INFORMATION - BASIS OF PREPARATION

General information

To assist shareholders in their understanding of the South32 Group, pro forma financial information (non-IFRS financial information) for the years ended 30 June 2015 and 30 June 2014 has been prepared to illustrate financial information of the South32 Group as it is structured at 30 June 2015, and as though the Internal Restructure (refer note 4 of the financial statements) had occurred as at 1 July 2013 and was in effect for the period 1 July 2013 to 30 June 2015.

The South32 Group pro forma financial information has been derived from the statutory information of the South32 Group and material adjustments have been made to include the results of the current South32 Group operations prior to the Internal Restructure and other pro forma adjustments (as described below). The Directors are responsible for the preparation of the pro forma financial information and believe that the basis of preparation fairly presents the South32 Group's pro forma financial information for the years ended 30 June 2015 and 30 June 2014, including the pro forma consolidated income statements, pro forma consolidated cash flow statements before financing activities and tax and after capital expenditure, and pro forma segment information.

The South32 Group pro forma financial information has been prepared and is intended for illustrative purposes only and therefore does not purport to reflect the actual financial performance that the South32 Group would have obtained if the South32 Group had operated as a stand-alone entity for the periods presented.

The South32 Group's pro forma financial information has been prepared in accordance with the South32 Group's accounting policies, including the Basis of Preparation of the South32 Limited Financial Statements as set out in the Notes to the Financial Statements, including the recognition and measurement principles prescribed in IFRS and the election to account for the acquisition of entities and net assets as common control transactions; except that IFRS does not provide for:

- The preparation of Group financial information where the South32 Group did not constitute a separate legal group during the relevant period and
- The amendment of financial information for pro forma adjustments

Pro forma adjustments

Pro forma adjustments (including associated tax effect) have been made to the statutory financial information to reflect:

- The results of the current South32 Group operations between 1 July 2013 and their date of acquisition during the financial year as part of the Internal Restructure
- Exclusion of the results of New Mexico Coal for the period 1 July 2013 to 27 October 2014 being the date that it ceased to be part of the South32 Group as a result of the Internal Restructure (refer note 4(b) of the financial statements)
- Presenting South32 manganese assets (comprising South Africa Manganese, Australia Manganese and Samancor AG) on an equity accounted basis from 1 July 2013 including associated depreciation (refer note 4(c) to the financial statements)
- Additional corporate costs associated with South32 Limited becoming a stand-alone group of US$46 million (FY2014: US$53 million)
- Exclusion of net finance costs charged by the BHP Billiton Group of US$69 million (FY2014: US$84 million)
- Exclusion of demerger related set-up costs, stamp duty on the acquisition of assets, and major corporate restructuring costs of US$269 million (FY2014: US$ nil)
- Exclusion of the gain that arises on recording South Africa Manganese and Samancor AG at fair value on adoption of equity accounting of US$921 million (FY2014: US$ nil) and their subsequent impairment of US$770 million (FY2014: US$ nil). Refer note 5(b) to the financial statements and
- Excluding certain significant tax expense items such as the impact of the reset of Australian tax balances post-demerger and the Brazil Aluminium tax accounting adjustments of US$481 million (FY2014: US$44 million)

Pro forma adjustments do not include the effect of non-demerger related events since 1 July 2013.

The definitions of Underlying EBIT, Underlying EBITDA and Underlying earnings are set out in this section Financial Key Performance Indicators for FY2015 on page 65.

APPLICATION OF CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of the South32 Group's financial information requires management to make estimates and judgements that affect the reported amounts of assets and liabilities and the reported revenue and expenses during the periods presented therein. On an ongoing basis, management evaluates its estimates and judgements in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its estimates and judgements on historical experience and on various other factors it believes to be reasonable under the circumstances, the results of which form the basis of making judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions.

We have identified the following critical accounting policies under which significant judgements, estimates and assumptions are made and where actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods:

- Reserve estimates
- Exploration and evaluation expenditure
- Development expenditure, property, plant and equipment, intangible assets and investments accounted for using the equity method – recoverable amount
- Defined benefit pension schemes
- Provision for closure and rehabilitation and
- Taxation

CONSOLIDATED RESULTS – OVERVIEW

INCOME STATEMENT SUMMARY

South32 Limited took operational control of its assets on 1 February 2015 and was successfully demerged from BHP Billiton on 25 May 2015.

The South32 Group's pro forma revenue in FY2015 was US$7,743 million, a decrease of US$601 million, or 7 per cent, from US$8,344 million in FY2014. The revenue decrease can be largely attributed to a decrease in revenue from third party products, which decreased by US$463 million.

The decrease in revenue was offset by a decrease in operating cash costs of US$556 million and a decrease in third party commodity purchases of US$459 million. Overall pro forma Underlying EBITDA increased by US$384 million, or 26 per cent, to US$1,849 million in FY2015 (FY2014: US$1,465 million) as production records were achieved at four assets, namely Illawarra Metallurgical Coal, Australia Manganese, South Africa Manganese and Brazil Aluminium.

Pro forma depreciation and amortisation in FY2015 of US$848 million remained largely unchanged from the corresponding period.

Pro forma Underlying EBIT increased by 56 per cent to US$1,001 million (FY2014: US$642 million). A US$282 million increase in productivity-led cost efficiencies was the key driver of this year-on-year improvement, while contracted power sales in Brazil increased Underlying EBIT by a further US$53 million. Notably, the combined impact of weaker commodity prices (-US$268 million) and inflation (-US$197 million) was largely offset by the resurgence of the US dollar against a basket of producer currencies (+US$435 million).

Pro forma Underlying net finance costs in FY2015 were US$194 million (FY2014: US$147 million).

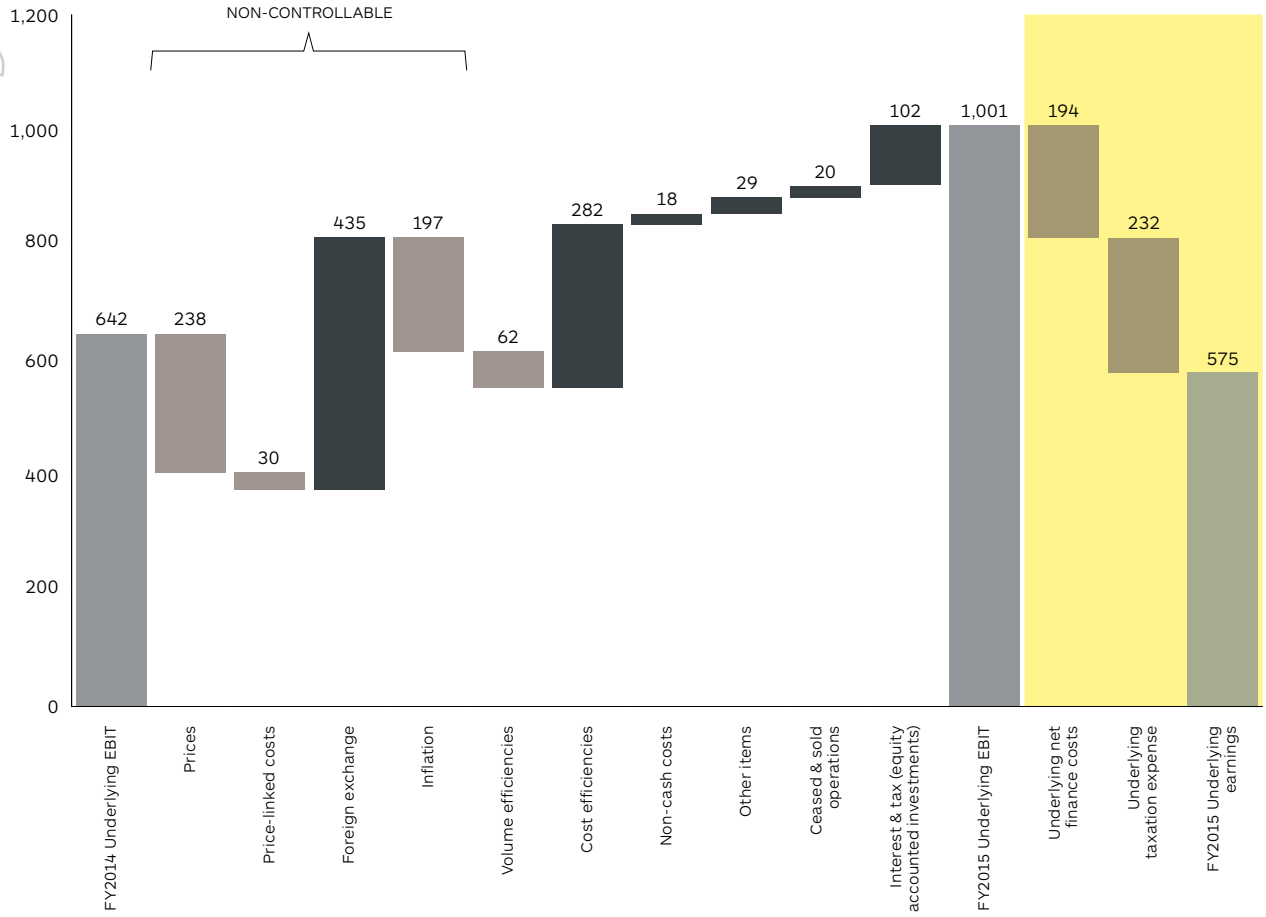
Pro forma Underlying income tax expense was US$232 million (FY2014: US$88 million), excluding taxation associated with equity accounted investments. This equates to an Underlying effective tax rate of 28.7 per cent.

Pro forma Underlying earnings increased by 41 per cent to US$575 million in FY2015 (FY2014: US$407 million). Consistent with our accounting policy, various adjustments have been made in arriving at Underlying earnings, as set out on page 70.

OPERATING RESULTS

The following table describes the approximate impact of the principal factors that affected Underlying earnings for FY2015:

Reconciliation of movements in pro forma Underlying earnings [1] (US$M)



(1) Underlying net finance costs and Underlying taxation expense are actual FY2015 results, not year-on-year variances.

The following commentary describes the principal factors outlined in the table above for FY2015:

Prices, foreign exchange rates and inflation

FY2015 was characterised by volatile commodity markets and a sharp contraction in prices towards the end of the period. Weaker commodity prices and inflationary pressures were, however, largely offset by a stronger US dollar.

Lower metallurgical and energy coal prices reduced Underlying EBIT by US$273 million, while significantly weaker manganese alloy and ore prices reduced Underlying EBIT by US$166 million. In contrast, stronger average realised prices for alumina and aluminium, and elevated aluminium premiums, increased Underlying EBIT by US$278 million. In aggregate, lower average realised prices reduced Underlying EBIT by US$238 million, while price-linked costs reduced Underlying EBIT by a further US$30 million.

Inflation reduced Underlying EBIT by US$197 million in FY2015. This was most pronounced at Brazil Aluminium and in our African operations, which collectively accounted for approximately 70 per cent of the total impact.

The resurgence of the US dollar against a basket of producer currencies, including the Australian dollar, South African rand, Colombian peso and Brazilian real, increased Underlying EBIT by US$435 million in the period.

Volume efficiencies

During FY2015, annual production records were achieved for alumina at Brazil Aluminium, coal at Illawarra Metallurgical Coal, alloy at Australia Manganese and ore at South Africa Manganese. Despite robust operating performance, sales volumes declined overall as manganese stockpiles were replenished and ore grades declined at Cannington and Cerro Matoso. In aggregate, lower sales volumes reduced Underlying EBIT by US$62 million.

Cost efficiencies

The implementation of the South32 Group's regional operating model and several initiatives designed to improve the competitiveness of our assets delivered another significant reduction in operating costs. This included a broad-based approach focused on labour productivity, contractor usage and rates, maintenance planning and the more efficient use of various consumables, including fuel and energy. In total, productivity-led cost efficiencies increased Underlying EBIT by US$282 million in FY2015.

Non-cash costs

A modest reduction in non-cash charges increased Underlying EBIT by US$18 million in the period. This reflected a reduction in other non-cash charges, which was only partially offset by an increase in depreciation and amortisation expense associated with continued investment in the business.

Other items

Other items increased Underlying EBIT by a net US$29 million as the last of three potlines at Brazil Aluminium was temporarily suspended and contracted power was preferentially sold into the grid. The combination of higher realised power prices and volumes increased Underlying EBIT by US$53 million.

Ceased and sold operations

Ceased and sold operations increased Underlying EBIT by US$20 million in the period. This variance reflects the closure of the higher-cost Bayside smelter in FY2014.

Interest and tax (equity accounted investments)

The South32 Group's manganese assets are jointly controlled by the South32 Group and Anglo American. The Underlying interest and taxation expense associated with these equity accounted investments declined by US$102 million in FY2015 as profitability declined with lower prices.

Net finance cost

Pro forma Underlying net finance cost totalled US$194 million (excluding equity accounted investments) in FY2015. The unwinding of the discount applied to the South32 Group's restoration and rehabilitation provisions accounted for US$120 million of the annual charge, while finance lease charges accounted for a further US$60 million. Pro forma net interest associated with equity accounted investments was US$28 million in the period.

The following table reconciles the pro forma FY2015 Underlying net finance cost to pro forma net finance cost.

PRO FORMA UNDERLYING NET FINANCE COST RECONCILIATION

US$M	FY2015
Unwind of discount applied to restoration and rehabilitation provisions	120
Finance lease charges	60
Other	14
Pro forma Underlying net finance cost	**194**
Add back earnings adjustment for exchange rate variations on net debt	(134)
Pro forma net finance cost	**60**

Taxation expense

Pro forma Underlying income tax expense totalled US$232 million (excluding equity accounted investments) in FY2015. The Underlying effective tax rate (excluding equity accounted investments) was 28.7 per cent. The pro forma tax expense for the South32 Group's equity accounted investments was US$47 million. This excluded royalty related taxation at GEMCO (Australia Manganese) which totalled US$30 million in the period.

The following table reconciles the pro forma Underlying income tax expense and Underlying effective tax rate for FY2015.

PRO FORMA UNDERLYING INCOME TAX EXPENSE RECONCILIATION AND UNDERLYING EFFECTIVE TAX RATE

US$M	FY2015
Underlying EBIT	1,001
Include: Underlying net finance revenue/(costs)	(194)
Remove: Share of loss of equity accounted investments	–
Underlying profit/(loss) before taxation	**807**
Pro forma income tax expense	**431**
Tax effect of earnings adjustments to Underlying EBIT	134
Tax effect of earnings adjustment to net finance cost	(40)
Exchange rate movements	(197)
Repeal of Minerals Resource Rent Tax legislation	(96)
Underlying income tax expense	**232**
Underlying effective tax rate	**28.7%**

CASH FLOW SUMMARY

On a pro forma basis, cash generated from continuing operations increased by 35 per cent to US$1,838 million in FY2015 (FY2014: US$1,358 million). This included an increase in working capital of US$114 million, primarily driven by payments from provisions in excess of amounts charged (-US$167 million), partly offset by a decrease in inventories (+US$98 million).

Pro forma capital expenditure (including equity accounted investments) is described on page 69.

BALANCE SHEET SUMMARY

The South32 Group's strong balance sheet represents a key point of differentiation in the currently volatile operating environment. At 30 June 2015, net debt (including finance leases of US$631 million) was US$402 million. The South32 Group's liquidity and flexibility is underpinned by an undrawn US$1.5 billion revolving credit facility.

Consistent with our commitment to maintain an investment grade credit rating, Standard and Poor's and Moody's assigned BBB+ and Baa1 credit ratings, respectively, to South32 on 22 May 2015.

ASSET ANALYSIS

The following table provides a summary of pro forma revenue and Underlying EBIT for the South32 Group assets for FY2015 and FY2014.

PRO FORMA ASSET TABLES

	Revenue		Underlying EBIT	
US$M	**FY2015**	**FY2014**	**FY2015**	**FY2014**
Worsley Alumina	**1,291**	1,229	**174**	24
South Africa Aluminium	**1,541**	1,614	**250**	132
Mozal Aluminium	**630**	574	**112**	29
Brazil Aluminium	**497**	529	**181**	44
South Africa Energy Coal	**1,315**	1,247	**94**	31
Illawarra Metallurgical Coal	**814**	878	**(30)**	(28)
Australia Manganese[1]	**595**	785	**123**	276
South Africa Manganese[1]	**420**	473	**(20)**	29
Cerro Matoso	**593**	595	**58**	5
Cannington	**902**	1,079	**287**	418
Third party products	**795**	1,260	**28**	30
Inter-segment	**(635)**	(659)	**(151)**	(141)
Total	**8,758**	**9,604**	**1,106**	**849**
Equity accounting adjustment[2]	**(1,015)**	(1,260)	**(105)**	(207)
South32 Group	**7,743**	**8,344**	**1,001**	**642**

(1) Revenue and Underlying EBIT reflect the South32 Group's proportionally consolidated interest in the manganese assets.

(2) The equity accounting adjustment reconciles the proportional consolidation of the South32 Group's manganese assets to the treatment of the manganese assets on an equity accounted basis.

WORSLEY ALUMINA (86 PER CENT SHARE)

Volumes

Worsley Alumina saleable production declined by 2 per cent (or 97 kt) to 3.8 Mt in FY2015 as planned maintenance reduced calciner availability. Record quarterly alumina hydrate production was, however, achieved in the June 2015 quarter as the input circuit operated at expanded capacity of 4.6 Mtpa (100 per cent basis).

Saleable production is expected to increase by 3 per cent to 3.95 Mt in FY2016, with a further lift to 3.96 Mt anticipated in FY2017. An increase in calciner availability and flow rates, and broader efficiency gains are expected to deliver the incremental production growth.

Costs

Operating unit costs declined by 9 per cent to US$250/t as labour productivity improved and the US dollar strengthened.

Energy costs are expected to decline in FY2016 as coal progressively replaces gas in the cogeneration fuel mix and the closure of the Australind office reduces overhead costs. Additional insourcing of contractor related maintenance activity is also planned.

Financial performance

Underlying EBIT increased by US$150 million in FY2015 to US$174 million. Higher average realised alumina prices (+US$91 million, net of price-linked costs) and a favourable movement in foreign exchange rate markets (+US$61 million) had the most significant influence on financial performance. Productivity-led cost efficiencies increased Underlying EBIT by US$19 million.

Capital expenditure of US$62 million was broadly unchanged from the prior period.

SOUTH AFRICA ALUMINIUM (100 PER CENT SHARE)

Volumes

South Africa Aluminium saleable production declined by 13 per cent (or 105 kt) to 699 kt in FY2015. The closure of the higher-cost Bayside smelter in June 2014 accounted for the majority (89 kt) of the decline. Efficiency gains underpinned largely unchanged annual production at Hillside (-2 per cent) despite a 104 per cent increase in load-shedding events and an increase in pot relining activity (136 pots FY2015 versus 58 FY2014).

Saleable production is expected to remain broadly unchanged across FY2016 and FY2017. The ability to maintain production will be contingent upon the frequency and intensity of electricity load-shedding events. South Africa Aluminium retains a strong working relationship with Eskom and load-shedding has remained within the allowable limits defined in our electricity supply contracts.

Costs

Operating unit costs remained largely unchanged at US$1,761/t. A favourable movement in foreign exchange rate markets and the closure of the higher-cost Bayside smelter was largely offset by higher costs associated with an increase in pot relining activity and general cost inflation.

Controllable costs are expected to be impacted by another increase in pot relining activity in FY2016 that forms part of the natural relining cycle. Hillside sources power from Eskom under long-term contracts. The price of electricity supplied to potlines one and two is linked to the LME aluminium price and the South African rand/US dollar exchange rate. The price of electricity supplied to potline three is South African rand based and linked to South African and United States producer price indices. A separate and fully utilised 75 MW power supply arrangement not covered by a long-term contract is priced at the same tariff as other South African industrial power users.

Financial performance

Underlying EBIT increased by US$118 million in FY2015 to US$250 million. The major contributors to the increase in profitability were higher average realised aluminium prices and premiums (+US$90 million, net of price-linked costs), and a favourable movement in foreign exchange rate markets (+US$34 million). The transfer of ownership of the Bayside aluminium cast house to Isizinda Aluminium occurred on 30 June 2015.

Capital expenditure of US$35 million was broadly unchanged from the prior period.

MOZAL ALUMINIUM (47.1 PER CENT SHARE)

Volumes

Mozal Aluminium saleable production was effectively unchanged at 265 kt in FY2015, despite a 50 per cent increase in load-shedding events reported during the period. This included a strong finish to the year (June 2015 quarterly production unchanged at 65 kt) even though load-shedding was skewed to the fourth quarter.

Saleable production is expected to remain broadly unchanged across FY2016 and FY2017. The ability to maintain production levels will be contingent upon the frequency and intensity of electricity load-shedding events. Load-shedding has remained within the allowable limits defined in Mozal Aluminium's electricity supply contracts. The smelter utilises hydroelectric power under a long-term contract that is generated by Hidroeléctric Cahora Bassa (HCB). HCB delivers power into the South African grid to Eskom and Mozal Aluminium sources the power via the Mozambique Transmission Company (Motraco).

Costs

Operating unit costs declined by 4 per cent to US$1,762/t. Lower coke and pitch prices, higher labour productivity, a reduction in the level of pot relining activity and a favourable movement in foreign exchange rate markets all contributed.

Cost reduction and efficiency initiatives are expected to be broadly offset by an increase in pot relining activity in FY2016 that forms part of the natural relining cycle.

Financial performance

Underlying EBIT increased by US$83 million in FY2015 to US$112 million. Higher realised aluminium prices and premiums increased Underlying EBIT by US$48 million (net of price-linked costs). Productivity-led cost efficiencies, including lower input and contractor costs, increased Underlying EBIT by US$21 million. A favourable movement in foreign exchange rate markets increased Underlying EBIT by a further US$20 million.

Capital expenditure of US$14 million was broadly unchanged from the prior period.

BRAZIL ALUMINIUM (ALUMINA 36 PER CENT SHARE, ALUMINIUM 40 PER CENT SHARE)

Volumes

Brazil Aluminium saleable alumina production increased by 5 per cent (or 66 kt) to a record 1.3 Mt in FY2015 as the refinery exceeded nameplate capacity. Conversely, saleable aluminium production declined by 62 per cent (or 64 kt) to 40 kt following the decision to suspend production in the last of three potlines from April 2015.

Saleable alumina production is expected to be broadly unchanged across FY2016 and FY2017. All three potlines at the smelter remain temporarily suspended and contracted electricity has been forward sold until the end of the December 2016 half year. This temporary curtailment of smelting capacity will be the subject of ongoing review.

Costs

Alumina operating unit costs declined by 16 per cent to US$215/t as incremental production growth delivered additional economies of scale. Greater stability in the refinery also led to a reduction in maintenance costs, while the US dollar strengthened against the Brazilian real.

Financial performance

Underlying EBIT increased by US$137 million in FY2015 to US$181 million. The major contributors to the significant increase in profitability were higher realised alumina and aluminium prices, and premiums (+US$49 million, net of price-linked costs), and a favourable movement in foreign exchange rate markets (+US$64 million). The combination of higher realised power prices and an increase in the volume of contracted power sales increased Underlying EBIT by US$53 million. Conversely, inflationary pressures in Brazil reduced Underlying EBIT by US$25 million.

While the volume of contracted power forward sold in FY2016 will increase, the average margin achieved is expected to be significantly lower than that achieved in FY2015. Underlying EBIT generated from the unhedged forward sale of power will be approximately BRL255 million in FY2016 (FY2015: BRL300 million).

Capital expenditure of US$8 million was broadly unchanged from the prior period.

SOUTH AFRICA ENERGY COAL (90 PER CENT SHARE)[1]

Volumes

South Africa Energy Coal saleable production increased by 13 per cent (or 3.9 Mt) to 34.3 Mt in FY2015. The continued optimisation of equipment availability and mine planning also underpinned a 23 per cent and 13 per cent increase in export and domestic sales, respectively. Saleable coal production in the June 2015 quarter declined by 8 per cent (or 728 kt) following the curtailment of mining activity at the Khutala open-cut mine. The Khutala open-cut mine contributed 1.4 Mt of domestic coal production in FY2015.

Saleable coal production is expected to decline to approximately 32.0 Mt in FY2016 and 31.0 Mt in FY2017 largely as a result of the curtailment of mining activity at the Khutala open-cut mine and the sequencing of pits in the Wolvekrans Middelburg Complex. The majority of the impact will be reflected in domestic coal sales, which are forecast to be approximately 1.5 Mt lower in FY2016.

1 The South32 Group's interest in South Africa Energy Coal is accounted at 100 per cent until employee share ownership plan and B-BBEE vendor loans are repaid.

Costs

Operating unit costs declined by 14 per cent to US$30/t as additional economies of scale were realised with stronger volumes, the US dollar strengthened against the rand and the strip ratio fell.

The insourcing of key activities currently performed by contractors, associated labour productivity and the renegotiation of contracts on more favourable terms is expected to deliver another reduction in controllable costs in FY2016.

Financial performance

Underlying EBIT increased by US$63 million in FY2015 to US$94 million. Productivity-led cost efficiencies increased Underlying EBIT by US$84 million while lower depreciation associated with prior impairments increased Underlying EBIT by another US$39 million. The combination of lower product prices (-US$78 million, net of price-linked costs) and inflation (-US$63 million) more than offset the benefit associated with a stronger US dollar (+US$65 million).

A US$33 million increase in capital expenditure to US$98 million reflected an increase in dewatering activities and the purchase of mobile equipment as we continued to insource contractor activities.

ILLAWARRA METALLURGICAL COAL (100 PER CENT SHARE)

Volumes

Illawarra Metallurgical Coal saleable production increased by 19 per cent (or 1.4 Mt) to a record 8.9 Mt in FY2015. An improvement in longwall availability and utilisation, and a 22 per cent increase in washed tonnes from the West Cliff coal processing plant, underpinned record metallurgical coal production.

Total saleable coal production is expected to be broadly unchanged at approximately 8.9 Mt in FY2016, although three longwall moves are planned (compared to two in FY2015), including one in the December 2015 half year. The ramp-up of the Appin Area 9 project from FY2016 is expected to see Illawarra volumes maintained at capacity of approximately 9.0 Mt as the West Cliff operation is depleted.

The product mix at Illawarra is set to change in FY2016 as the mine plan moves through seams that will alter average product yields. In this regard, marginally lower metallurgical coal production is expected to be offset by a modest increase in energy coal output. This trend reverses in FY2017, when the mine plan favours metallurgical coal production.

Costs

Operating unit costs declined by 24 per cent in FY2015 to US$74/t. This significant reduction in costs was driven by a favourable movement in foreign exchange rate markets and broader cost savings initiatives. For example, a significant reduction in contractor rates has been achieved and is reflected in our forward plans.

The continual improvement in the planning and execution of maintenance activity, and a broader increase in labour productivity is expected to contribute to a reduction in controllable operating costs in FY2016. Illawarra Metallurgical Coal is currently negotiating the Dendrobium mine Enterprise Agreement.

Financial performance

Underlying EBIT decreased by US$2 million in FY2015 to a loss of US$30 million. Lower realised coal prices (-US$164 million) were offset by an equivalent improvement in cost related efficiencies (+US$165 million).

Capital expenditure was unchanged from the prior period. The Appin Area 9 project is 86 per cent complete and is now expected to be commissioned ahead of schedule in the second half of FY2016, approximately 20 per cent below the original budget of US$845 million. Total capital expenditure for FY2015 was US$308 million.

AUSTRALIA MANGANESE (60 PER CENT SHARE)

Volumes

Australia Manganese saleable ore production increased by 3 per cent (or 76 kt) to 2.9 Mt in FY2015 as plant throughput and concentrator yields improved. Near record production at GEMCO was supported by an increase in total material movement as the waste-to-ore strip ratio increased to 3.0:1 (FY2014: 2.6:1). An increase in ore inventories was recorded over the course of the year as stockpiles returned to normalised levels. Record annual alloy production was achieved at TEMCO.

Manganese ore production is expected to increase to approximately 3.05 Mt in FY2016 as mining rates are increased to match plant capacity. Another rise in ore production to 3.25 Mt is expected in FY2017 as the Premium Concentrate Ore project is completed. TEMCO manganese alloy production is expected to remain broadly unchanged, subject to market conditions.

Costs

Manganese ore operating unit costs declined by 3 per cent to US$94/t. The waste-to-ore strip ratio is expected to increase to 3.2:1 and then 3.7:1 in FY2016 and FY2017, respectively. A rise in labour productivity and broader cost saving initiatives are expected to largely offset this impact.

Financial performance

Underlying EBIT declined by US$153 million in FY2015 to US$123 million. Lower manganese ore and alloy prices reduced Underlying EBIT by US$105 million (net of price-linked costs), while a decline in sales volumes reduced Underlying EBIT by a further US$30 million. In contrast, a favourable movement in foreign exchange rate markets increased Underlying EBIT by US$28 million. A rise in non-cash charges reduced Underlying EBIT by US$36 million, largely reflecting the ramp-up of the Groote Eylandt Expansion Project (GEEP) 2.

Capital expenditure increased by US$33 million to US$98 million. This included a US$41 million investment in the Premium Concentrate Ore (PCO2) project. The PCO2 project increases manganese ore production capacity by 0.5 Mt. The project is 48 per cent complete and remains on schedule for completion in the second half of FY2016. The original budget of US$139 million (100 per cent basis) remains unchanged.

SOUTH AFRICA MANGANESE (ORE 44.4 PER CENT SHARE[2], ALLOY 60 PER CENT SHARE)

Volumes

South Africa Manganese saleable ore production increased by 7 per cent (or 116 kt) to a record of 1.7 Mt in FY2015 as equipment availability and recoveries continued to improve. Manganese alloy production increased by 9 per cent (or 20 kt) to 246 kt in FY2015. Metalloys production declined substantially in the June 2015 quarter as a fatality led to the initial suspension of operations, before a decision was taken to restart only one of the four furnaces in response to challenging market conditions.

Subject to market demand and the continuing review of our manganese assets, saleable ore production is expected to decline marginally to approximately 1.65 Mt for both FY2016 and FY2017. Only one of the four furnaces at Metalloys is currently in operation.

Costs

Manganese ore operating unit costs increased by 13 per cent to US$90/t as broader inflationary pressure more than offset the benefit associated with a stronger US dollar. Conversely, alloy operating unit costs declined by 13 per cent to US$948/t, despite the temporary suspension of production in three of the four furnaces at Metalloys towards the end of the period.

2 For accounting purposes the South32 Group reports a 60 per cent effective interest in manganese ore production until the B-BBEE vendor loans are repaid.

Financial performance

Underlying EBIT declined by US$49 million to a loss of US$20 million. Lower realised manganese ore and alloy prices reduced Underlying EBIT by US$61 million (net of price-linked costs), although this was partially offset by a favourable movement in foreign exchange rate markets (+US$17 million) and productivity-led cost efficiencies (+US$20 million).

Capital expenditure of US$41 million was broadly unchanged from the prior period and included a US$9 million investment in the second phase of the Central Block project at Wessels. This project increases ROM production capacity at Wessels to 1.5 Mtpa (100 per cent basis). The US$31 million (100 per cent basis) project is 44 per cent complete and remains on schedule and budget with first production expected in the first quarter of FY2017.

CERRO MATOSO (99.9 PER CENT SHARE)

Volumes

Cerro Matoso payable nickel production declined by 9 per cent (or 3.9 kt) to 40 kt in FY2015 as a result of an 11 per cent reduction in the average ore grade and a 17 day strike in April 2015.

Payable nickel production is expected to decline to approximately 36.5 kt in FY2016, with a similar rate of production anticipated in FY2017. The associated reduction in ore grades is consistent with the life-of-mine plan.

If developed, the higher grade La Esmeralda deposit has the potential to deliver an uplift in ore grades between FY2018 and FY2022. The application process for a new social and environmental licence to allow access to La Esmeralda has commenced.

Costs

Operating unit costs declined by 13 per cent to US$175/t, largely as a result of the stronger US dollar. Various cost savings initiatives, including the rebasing of contractor usage and rates, are expected to deliver a significant reduction in controllable costs in FY2016.

Financial performance

Underlying EBIT increased by US$53 million in FY2015 to US$58 million. The strength of the US dollar was the major contributor (+US$63 million), although this was partially offset by inflationary pressures (-US$16 million) and weaker realised prices (-US$8 million, net of price-linked costs). While underlying costs benefited from an increase in labour productivity and an improvement in maintenance planning, this was offset by the impact of the April 2015 strike. A reduction in non-cash charges increased Underlying EBIT by US$28 million.

Capital expenditure declined considerably in FY2015 to US$36 million.

CANNINGTON (100 PER CENT SHARE)

Volumes

Payable silver production declined by 10 per cent (or 2.6 Moz) to 22.6 Moz in FY2015 as an increase in milling rates mitigated the impact of a 13 per cent decline in the average silver ore grade. With declining ore grades, the paste plant will play a critical role in increasing mining rates. Annual paste fill production increased by 3 per cent during the period.

Payable lead production declined by a lesser 2 per cent (or 4 kt) in FY2015, while a significant increase in the average zinc ore grade and processing recoveries led to a 24 per cent (or 14 kt) increase in payable zinc production.

Silver and lead production is expected to decline over the next two years as ore grades decline, although this will be partially offset by an increase in zinc ore grades and production.

Costs

Operating unit costs declined by 11 per cent in FY2015 to US$170/t. This largely reflected a favourable movement in foreign exchange rate markets, a reduction in both the cost and volume of consumables used and a reduction in labour costs.

Another reduction in controllable costs is anticipated in FY2016. This is expected to be achieved by further improving maintenance planning and reducing contractor and consumable costs.

Financial performance

Underlying EBIT declined by US$131 million in FY2015 to US$287 million. Lower average realised prices reduced Underlying EBIT by US$114 million (net of price-linked costs). Finalisation adjustments and the provisional pricing of Cannington concentrates reduced Underlying EBIT by US$43 million (FY2014: +US$29 million; December 2014 half year: -US$40 million). The outstanding concentrate sales (containing 8.6 Moz of silver, 7.0 kt of lead and 1.5 kt of zinc) were revalued at 30 June 2015. The final price of these sales will be determined in FY2016. The impact of lower sales volumes (-US$59 million) was offset by productivity-led cost efficiencies (+US$29 million) and a favourable movement in foreign exchange rate markets (+US$35 million).

Capital expenditure declined by 35 per cent to US$39 million.

THIRD PARTY SALES

The South32 Group differentiates the sale of its production from the sale of third party products due to the significant difference in profit margin earned on these sales. The table below shows the breakdown between the South32 Group's production and third party products:

US$M	FY2015	FY2014
South32 Group production		
Pro forma revenue	**6,948**	7,086
Related operating costs (net of other income and share of profit/(loss) of equity accounted investments)	**(5,975)**	(6,476)
Pro forma Underlying EBIT	**973**	610
Underlying EBIT margin	**14.0%**	8.6%
Third party products		
Pro forma revenue	**795**	1,258
Related operating costs	**(767)**	(1,226)
Pro forma third party Underlying EBIT	**28**	32
Margin on third party products	**3.5%**	2.5%

The South32 Group engages in third party trading for the following reasons:

- Production variability and occasional shortfalls from the South32 Group assets means that the South32 Group sometimes sources third party materials to ensure a consistent supply of product to its customers
- To optimise its supply chain outcomes, the South32 Group may buy physical product from third parties and
- In order to support the development of liquid markets, the South32 Group will sometimes source third party physical product and manage risk through both the physical and financial markets

NET DEBT AND SOURCES OF LIQUIDITY

Our policies on debt and treasury management are as follows:

- Commitment to maintain an investment grade credit rating
- Diversification of funding sources and
- Generally maintain borrowings and excess cash in US dollars

GEARING AND NET DEBT

The table below presents gearing, as the ratio of net debt to net debt plus net assets, based on the balance sheet as at 30 June 2015:

US$M	FY2015
Cash and cash equivalents	644
Current external debt	(364)
Non-current external debt	(682)
Net debt	**(402)**
Net assets	11,035
Gearing	**4%**

FUNDING SOURCES

During FY2015, the South32 Group entered into a US$1.5 billion revolving credit facility, which is a standby arrangement to the South32 Group's US$1.5 billion US commercial paper programme, also entered into in FY2015. This borrowing facility is not subject to financial covenants at our current credit rating. Certain financing facilities in relation to specific operations are the subject of financial covenants that vary from facility to facility, however these are considered normal for such facilities.

As at 30 June 2015, the South32 Group's cash and cash equivalents on hand were US$644 million. Details of major standby and support arrangements are as follows:

US$M	Available 2015	Used 2015
Commercial paper programme[1]	1,500	–
Total standby and support arrangements	**1,500**	**–**

(1) The Group has an undrawn US$1.5 billion revolving credit facility, which is a standby arrangement to the US$1.5 billion US commercial paper programme. The multi-currency revolving credit facility is due for expiry in February 2020 and has two one-year extension options.

Additional information regarding the maturity profile of our debt obligations and details of our standby and support agreements are included in note 19 Financial assets and financial liabilities to the financial statements.

CREDIT RATING

On 22 May 2015, Moody's Investors Service assigned a long-term credit rating of Baa1 (the short-term credit rating is P-2). Standard and Poor's Ratings Services assigned a long-term credit rating of BBB+ (the short-term credit rating is A-2).

OUTLOOK

Information on likely developments in the South32 Group's business strategies, prospects and operations for future financial years and the expected results that could result in unreasonable prejudice to the Group (for example, information that is commercially sensitive, confidential or could give a third party a commercial advantage) has not been included below. The categories of information omitted include forward looking estimates and projections prepared for internal management purposes, information regarding the South32 Group's assets and projects, which is developing and susceptible to change, and information relating to commercial contracts.

Details regarding the most significant risk factors for the South32 Group, and how these are managed, are set out in section 2 (p21). These include risks that could adversely affect the South32 Group's financial prospects for future financial years. In addition, information regarding external factors and trends that may impact on the South32 Group's performance and position are set out on page 65.

PRODUCTION

The majority of the South32 Group's assets occupy the first and second quartiles of their respective industry cost or margin curves. For those assets, we typically endeavour to maximise production, safely and sustainably. For example, at Worsley Alumina, incremental production growth is being pursued given the potential to realise additional economies of scale. Similarly, at Cannington, by stretching the performance of the paste plant and underground mine we are seeking to minimise the impact of grade decline. Conversely, the decision to temporarily suspend cash flow negative downstream processing capacity at Metalloys (South Africa Manganese) and Brazil Aluminium reflects our commitment to maximise financial performance per share, rather than volume.

We will continue to take decisive action where appropriate. For example, a review of South Africa Manganese is currently underway to ensure it is appropriately structured for the current environment. While a final decision is yet to be taken, this may lead to a further reduction in planned alloy and ore production.

Production guidance for FY2016 and FY2017 for our assets as set out on pages 86 to 92, reflects the targets that have been set for our operations in the current environment. We will deviate from this guidance should superior long-term returns be attainable by varying the output of any asset.

The plans for our downstream assets differ depending on their unique circumstances.

Efficiency gains at our South Africa Aluminium and Mozal Aluminium smelters have continued to mitigate the increasing prevalence of electricity load-shedding events. Metal production is expected to remain broadly unchanged at both smelters in FY2016 and FY2017. That being said, electricity grid stability and the frequency of load-shedding events remains an ever present risk to these targets, notwithstanding the fact that load-shedding has remained within the permissible limits defined by our electricity supply agreements.

At Brazil Aluminium, all three potlines remain temporarily suspended and contracted electricity has been forward sold until the end of December 2016. This temporary curtailment of smelting capacity will be the subject of ongoing review.

Based on current plans, alloy production at TEMCO (Australia Manganese) is expected to remain broadly unchanged from FY2015. In contrast, Metalloys (South Africa Manganese) remains under review and is currently operating only one of its four furnaces in response to challenging market conditions.

CONTROLLABLE COSTS

We are seeking to reduce controllable costs by at least US$350 million (including equity accounted investments) by the end of FY2018. This represents approximately 7.5 per cent of our controllable cost base and excludes the influence of foreign exchange rate movements, inflation, price-linked costs, non-recurring set-up related activities and cost variances associated with discontinued or suspended operations. If the current environment persists, these factors would provide a significant additional net benefit to costs.

At an asset level, the mines and refineries offer the greatest potential. Critical enablers include:

- A reduction in contractor usage and rates
- The optimisation of energy fuels (particularly at Worsley Alumina) and broader consumables usage
- Equipment and labour productivity and
- Numerous procurement initiatives

Greenfield exploration opportunities are currently being assessed and a modest investment in this category is incorporated in our plans. Exploration activity focussed on our existing assets of approximately US$20 million is anticipated in FY2016 (FY2015: US$21 million; including US$13 million exploration expense).

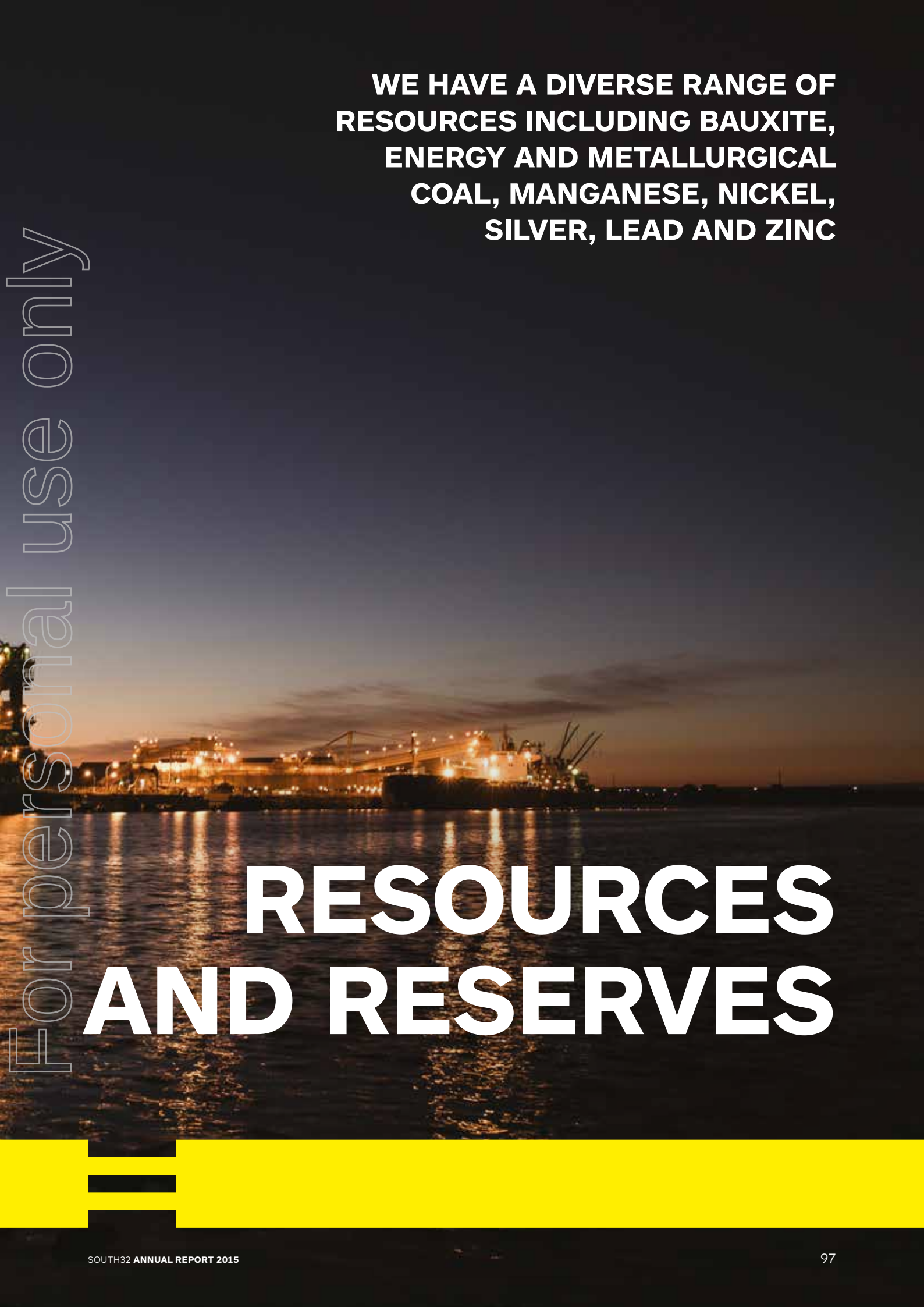
Non-recurring set-up costs associated with the establishment of South32 (pre-funded by BHP Billiton) of approximately US$130 million are expected in FY2016. These costs, primarily related to the establishment of the South32 Group's IT infrastructure and broader restructuring activities, will be excluded from our Underlying measures.

CAPITAL EXPENDITURE

Sustaining capital expenditure, comprising stay-in-business, minor discretionary and deferred stripping capital expenditure, accounts for a significant component of South32 cash flow. In FY2016, this category of expenditure is expected to decline by 9 per cent (or US$67 million) to US$650 million (including equity accounted investments). While rarely linear from year to year, this rate of expenditure is expected to be sustainable, on average, across our planning horizon in real terms, barring any significant movement in exchange rates or the closure of operations.

Capital expenditure associated with the Premium Concentrate project at GEMCO (Australia Manganese) and the Central Block project at Wessels (South Africa Manganese) is included in the South32 Group's share of capital expenditure associated with equity accounted investments. This category, which is included in the sustaining capital expenditure guidance noted above, is expected to account for approximately US$100 million of capital expenditure in FY2016 (FY2015: US$139 million).

Total capital expenditure (including equity accounted investments) of approximately US$700 million is anticipated in FY2016, including approximately US$50 million for major projects. The Appin Area 9 project (Illawarra Metallurgical Coal) is the Group's sole major project in the execution phase. It is expected to be commissioned ahead of schedule in the second half of FY2016, approximately 20 per cent below the original budget of US$845 million. Major project capital expenditure guidance includes approximately US$10 million for feasibility studies, primarily associated with the Klipspruit Life Extension project (South Africa Energy Coal).



WE HAVE A DIVERSE RANGE OF RESOURCES INCLUDING BAUXITE, ENERGY AND METALLURGICAL COAL, MANGANESE, NICKEL, SILVER, LEAD AND ZINC

RESOURCES AND RESERVES

MINERAL RESOURCES AND ORE RESERVES

Our reporting of the Mineral Resources and Ore Reserves (including Coal Resources and Coal Reserves) is done in accordance with the 2012 edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (the JORC Code) as required by the ASX Listing Rules.

The information in this report relating to Mineral Resources and Ore Reserves has been provided by our Competent Persons who have sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and to the activity being undertaken to qualify as a Competent Person as defined by the JORC Code. Each Competent Person consents to the inclusion in this report of the matters based on their information in the form and context in which it appears. The Competent Persons, their professional affiliation, employer and areas of accountabilities are shown on page 99. Unless otherwise noted, all Competent Persons listed are full-time employees of South32 or its related entities.

Unless otherwise stated, Mineral Resources and Ore Reserves are reported in 100 per cent terms and represent estimates as at 30 June 2015. Mineral Resource information is inclusive of Mineral Resources that have been modified to produce Ore Reserves. All volumes are reported as dry metric tonnes, unless otherwise stated. All tonnes and grade information have been rounded to reflect relative uncertainty of the estimate, hence small differences may be present in the totals.

Commodity price and exchange rates used to estimate the economic viability of Ore Reserves are based on our long-range forecasts. The Ore Reserves reported are within existing, permitted mining tenements. Mineral leases are of sufficient duration, or convey a legal right to renew for sufficient duration, to enable all reserves on the leased properties to be mined in accordance with current production schedules. Ore Reserves may include areas where some additional approvals remain outstanding, but where, based on knowledge and experience of the approvals process and technical investigations carried out as part of our planning process, it is expected that such approvals will be obtained as part of the normal course of business and within the timeframe required by the current production schedule.

South32 has internal company standards for public reporting to support regulatory requirements. We apply a comprehensive programme of reviews and audits aimed at providing assurance in respect of Ore Reserve and Mineral Resource estimates. These include:

- Annual review of Mineral Resources and Ore Reserves declarations and reports
- Annual review of reconciliation performance metrics for operating mines
- Independent audit of new or materially changed Mineral Resources or Ore Reserves

Independent audits of resources and reserves for each asset are undertaken periodically. In FY2015, the company has undertaken three such audits. The frequency and scope of the audits are a function of the perceived risks and/or uncertainties associated with a particular Ore Reserve and Mineral Resource.

Mineral Resources and Ore Reserves are presented in the accompanying tables.

EXPLORATION RESEARCH AND DEVELOPMENT

Companies within our Group carry out exploration and research and development necessary to support their activities. Our exploration activities primarily support brownfield expansion of mineral deposits connected to our existing assets and focus on the delineation and categorisation of those deposits. On a pro forma basis, exploration expenditure for FY2015 was US$21 million (FY2014: US$24 million).

COMPETENT PERSONS

METAL - AUSTRALIA REGION

Mineral Resources

Cerro Matoso: I Espitia (MAusIMM)

GEMCO: D Hope (MAusIMM)

Worsley: J Binoir (MAusIMM), J Engelbrecht (MAusIMM)

Cannington: T Fouet (MAusIMM)

Ore Reserves

Cerro Matoso: F Fuentes (MAusIMM)

GEMCO: M Bryant (MAusIMM), employed by Bryant Mining Pty Ltd.

Worsley: G Burnham (MAusIMM)

Cannington: M Dowdell (MAusIMM)

COAL - AUSTRALIA REGION

Mineral Resources

Appin, West Cliff, Dendrobium and Cordeaux: H Kaag (MAusIMM)

Ore Reserves

Appin, West Cliff and Dendrobium: M Rose (MAusIMM), M Pierce (MAusIMM)

METAL - AFRICA REGION

Mineral Resources

Wessels and Mamatwan: E P Ferreira (Pr. Sci. Nat., SACNASP), C Nengovhela (Pr. Sci. Nat., SACNASP)

Ore Reserves

Wessels and Mamatwan: D Mathebula (MSAIMM), D Takalani (MSAIMM)

COAL - AFRICA REGION

Mineral Resources

Khutala: G Gemmell (Pr. Sci. Nat., SACNASP)

Wolvekrans: S Kara (Pr. Sci. Nat., SACNASP)

Middelburg: L Visser (Pr. Sci. Nat., SACNASP)

Klipspruit, Leandra North, Leandra South, Davel, Naudesbank and Weltevreden: P Maseko (Pr. Sci. Nat., SACNASP)

Ore Reserves

Khutala, Wolvekrans, Middelburg and Klipspruit: I Thomson (MSAIMM)

BRAZIL ALUMINIUM

Mineral Resources

MRN: R S Aglinskas (MAusIMM), employed by Mineração Rio do Norte

Ore Reserves

MRN: R S Aglinskas (MAusIMM), employed by Mineração Rio do Norte

AUSTRALIA REGION

CANNINGTON

Silver, Lead, Zinc

MINERAL RESOURCES

As at 30 June 2015

		Measured Resources				Indicated Resources			
Deposit	**Ore Type**	**Mt**	**g/t Ag**	**% Pb**	**% Zn**	**Mt**	**g/t Ag**	**% Pb**	**% Zn**
Cannington[1][2]	UG Sulphide	47	201	5.53	3.66	14	127	3.91	2.81
	OC Sulphide	13	90	3.66	2.21	7.9	58	2.51	1.83

ORE RESERVES

As at 30 June 2015

		Proved Ore Reserves				Probable Ore Reserves			
Deposit	**Ore Type**	**Mt**	**g/t Ag**	**% Pb**	**% Zn**	**Mt**	**g/t Ag**	**% Pb**	**% Zn**
Cannington[1][3][4][5]	UG Sulphide	18	226	5.97	3.83	3.3	222	5.54	3.79

(1) Cut-off grade: All metals used in the net value calculation for Mineral Resources and Ore Reserves were recovered into concentrate and sold.

Mineral Resources

UG Sulphide: Net value cut-off incorporating material revenue and cost factors and includes metallurgical recovery. Mineralisation at A$90/t averages 39g/t Ag, 1.36% Pb and 1.67% Zn.

OC Sulphide: Net value cut-off incorporating material revenue and cost factors and includes metallurgical recovery. Mineralisation at A$45/t averages 21g/t Ag, 0.69% Pb and 0.77% Zn.

Ore Reserves

UG Sulphide: Net value cut-off incorporating material revenue and cost factors and includes metallurgical recovery (see footnote 5 for averages). Mineralisation at A$120/t averages 81g/t Ag, 3.63% Pb and 2.66% Zn.

(2) Increase in Mineral Resources was due to revised price and cost assumptions.

(3) Approximate drillhole spacings used to classify the reserves were:

Proved Ore Reserves 12.5m sectional x 15m vertical

Probable Ore Reserves 25.0m sectional x 25.0m vertical

(4) Ore delivered to process plant.

(5) Metallurgical recovery: 87% Ag, 87% Pb and 79% Zn.

Inferred Resources				Total Resources				South32 Interest	As at 30 June 2014 Total Resources			
Mt	g/t Ag	% Pb	% Zn	Mt	g/t Ag	% Pb	% Zn	%	Mt	g/t Ag	% Pb	% Zn
10	82	3.00	1.95	71	170	4.86	3.26	100	60	197	5.57	3.50
-	-	-	-	21	78	3.23	2.07		16	70	3.01	2.06

Total Ore Reserves				Reserve Life	South32 Interest	As at 30 June 2014 Total Ore Reserves				Reserve Life
Mt	g/t Ag	% Pb	% Zn	Years	%	Mt	g/t Ag	% Pb	% Zn	Years
21	225	5.90	3.82	8.0	100	21	239	6.35	3.93	9.0

AUSTRALIA REGION

CERRO MATOSO (COLOMBIA)

Nickel

MINERAL RESOURCES

As at 30 June 2015		Measured Resources		Indicated Resources		Inferred Resources		Total Resources		South32 Interest	As at 30 June 2014 Total Resources	
Deposit	Ore Type	Mt	% Ni	Mt	% Ni	Mt	% Ni	Mt	% Ni	%	Mt	% Ni
Cerro Matoso[1][2][3]	Laterite	66	1.2	170	0.9	44	0.8	280	0.9	99.94	289	0.9
	SP	8.5	1.2	43	1.0	-	-	52	1.1		51	1.1
	MNR - Ore	17	0.2	-	-	-	-	17	0.2		17	0.2

ORE RESERVES

As at 30 June 2015		Proved Ore Reserves		Probable Ore Reserves		Total Ore Reserves		Reserve Life	South32 Interest	As at 30 June 2014 Total Ore Reserves		Reserve Life
Deposit	Ore Type	Mt	% Ni	Mt	% Ni	Mt	% Ni	Years	%	Mt	% Ni	Years
Cerro Matoso[1][3][4][5][6]	Laterite	17	1.1	2.9	1.0	20	1.1	14	99.94	24	1.1	15
	SP	7.0	1.2	18	1.3	25	1.3			24	1.3	

(1) Cut-off grade:
Mineral Resources: Laterite ≥ 0.6% Ni; SP ≥ 0.6% Ni; MNR Ore ≥ 0.12% Ni
Ore Reserves: ≥ 0.6% Ni for Laterite and SP.
(2) Mineral Resources for Laterite upgraded due to additional drilling and updated resource model.
(3) Mineral Resources and Ore Reserves from the stockpile reclassified based on extraction performance.
(4) Ore delivered to process plant.
(5) Approximate drillhole spacings used to classify the reserves were:
Proved Ore Reserves In situ: ≤ 35m with three drillholes; Stockpiles: ≤12.5m with one drillhole
Probable Ore Reserves In situ: 35m to 100m with three drillholes; Stockpiles: historical production information.
(6) Metallurgical recovery: 83% (reserves to metal).

AUSTRALIA REGION

AUSTRALIA MANGANESE (GEMCO)

Manganese

MINERAL RESOURCES

As at 30 June 2015		Measured Resources			Indicated Resources			Inferred Resources			Total Resources			South32 Interest	As at 30 June 2014 Total Resources		
Deposit	Ore Type	Mt	% Mn	% Yield	Mt	% Mn	% Yield	Mt	% Mn	% Yield	Mt	% Mn	% Yield	%	Mt	% Mn	% Yield
GEMCO[1][4]	ROM[2]	106	45.2	48	29	43.4	47	35	42.6	49	169	44.3	48	60	175	44.8	48
	Sands[3]	-	-	-	13	20.8	-	2.3	20.0	-	15	20.7	-		15	20.7	

ORE RESERVES

As at 30 June 2015		Proved Ore Reserves			Probable Ore Reserves			Total Ore Reserves			Reserve Life	South32 Interest	As at 30 June 2014 Total Ore Reserves			Reserve Life
Deposit	Ore Type	Mt	% Mn	% Yield	Mt	% Mn	% Yield	Mt	% Mn	% Yield	Years	%	Mt	% Mn	% Yield	Years
GEMCO[1][5][6][7][9]	ROM	60	45.3	55	22	43.2	55	82	44.8	55	10	60	94	44.6	58	11
	Sands[8]	-	-	-	7.6	40.0	33	7.6	40.0	33			-	-	-	

(1) Cut-off grade for Mineral Resources and Ore Reserves: >40% Mn washed product and ≥ 1m ore thickness for ROM, > 0% Mn in situ for Sands.
(2) Mineral Resource ROM tonnes are stated as in situ, manganese grades are given as per washed ore sample and should be read together with their respective tonnage yields.
(3) Mineral Resource Sands tonnes and manganese grades are reported as in situ.
(4) Upgrading of Mineral Resources due to additional drilling and updated resource model.
(5) Ore Reserve tonnes are stated as ROM, manganese grades are reported as expected product and should be read together with their respective tonnage yeilds.
(6) Approximate drillhole spacings used to classify the reserves were:
Proved Ore Reserves 60m x 120m and 60m x 60m
Probable Ore Reserves 120m x 120m
(7) For metallurgical recovery, see yield in the Ore Reserves table.
(8) Ore Reserves declared for sand tailings following Premium Concentrate Project (PCO2) approval.
(9) Ore delivered to Process Plant.

AUSTRALIA REGION

WORSLEY ALUMINA

Aluminium

MINERAL RESOURCES

As at 30 June 2015

		Measured Resources			Indicated Resources		
Deposit	**Ore Type**	**Mt**	**% $A.Al_2O_3$**	**% $R.SiO_2$**	**Mt**	**% $A.Al_2O_3$**	**% $R.SiO_2$**
Worsley[1]	Laterite	339	31.1	1.5	354	32.0	2.3

ORE RESERVES

As at 30 June 2015

		Proved Ore Reserves			Probable Ore Reserves		
Deposit	**Ore Type**	**Mt**	**% $A.Al_2O_3$**	**% $R.SiO_2$**	**Mt**	**% $A.Al_2O_3$**	**% $R.SiO_2$**
Worsley[1][2][3][4]	Laterite	253	31.1	1.6	25	30.5	1.7

(1) Cut-off grade for Mineral Resources and Ore Reserves were variable ranging from 24–29.5% $A.Al_2O_3$, ≤ 3% $R.SiO_2$ and ≥ 1m thickness.
(2) Approximate drillhole spacings used to classify the reserves were:
Proved Ore Reserves Maximum 80m
Probable Ore Reserves Maximum 160m
(3) Metallurgical recovery at Worsley refinery: 89%.
(4) Ore delivered to Process Plant.

Inferred Resources			Total Resources			South32 Interest	As at 30 June 2014 Total Resources		
Mt	% $A.Al_2O_3$	% $R.SiO_2$	Mt	% $A.Al_2O_3$	% $R.SiO_2$	%	Mt	% $A.Al_2O_3$	% $R.SiO_2$
418	31.2	2.6	1,110	31.4	2.2	86	1,140	31.4	2.2

Total Ore Reserves			Reserve Life	South32 Interest	As at 30 June 2014 Total Ore Reserves			Reserve Life
Mt	% $A.Al_2O_3$	% $R.SiO_2$	Years	%	Mt	% $A.Al_2O_3$	% $R.SiO_2$	Years
278	31.0	1.6	17	86	295	31.0	1.6	17

AUSTRALIA REGION

ILLAWARRA METALLURGICAL COAL

Coal

COAL RESOURCES

As at 30 June 2015

			Measured Coal Resources				Indicated Coal Resources			
Deposit[1][2]	**Mining Method**	**Coal Type**	**Mt**	**% Ash**	**% VM**	**% S**	**Mt**	**% Ash**	**% VM**	**% S**
Appin	UG	Met/Th	153	11.2	23.8	0.37	254	12.6	24.2	0.36
West Cliff	UG	Met/Th	17	12.4	21.5	0.35	20	11.9	20.7	0.34
Dendrobium[3]	UG	Met/Th	77	29.4	23.7	0.59	125	29.8	23.0	0.58
Cordeaux	UG	Met/Th	5.2	28.7	21.1	0.58	119	29.2	21.5	0.56

COAL RESERVES

As at 30 June 2015

			Proved Coal Reserves	Probable Coal Reserves	Total Coal Reserves	Proved Marketable Coal Reserves			
Deposit[4][5][6][7][8]	**Mining Method**	**Coal Type**	**Mt**	**Mt**	**Mt**	**Mt**	**% Ash**	**% VM**	**% S**
Appin[9]	UG	Met/Th	34	118	152	29	8.9	24.1	0.37
West Cliff	UG	Met/Th	2.4	-	2.4	1.6	8.9	20.2	0.34
Dendrobium	UG	Met/Th	17	22	38	-	-	-	-
	UG	Met	-	-	-	7.3	9.7	23.8	0.60
	UG	Th	-	-	-	4.9	27.0	-	-

(1) Tonnages are in situ moisture basis and quality are on an air-dried basis.

(2) No seam thickness cut-off applied because the minimum thickness is economic.

(3) Dendrobium- Mineral Resources were upgraded from Inferred to Indicated Coal Resources as a result of additional drilling and updated resource model.

(4) Only geophysically logged, fully analysed cored holes with greater than 95% recovery were used to classify the reserves. Drillhole spacing was determined by geostatistical analyses. The range of maximum spacing was:

	Proved Coal Reserves	Probable Coal Reserves
Appin	700m	1500m
West Cliff	700m	1500m
Dendrobium	700m	1500m

(5) **Process recoveries for the operations:**

Appin 84%
West Cliff 67%
Dendrobium 75%

(6) Total Coal Reserves are at the moisture content when mined (6% Appin and West Cliff, 7% Dendrobium) . Total Marketable Coal Reserves are the tonnes of coal available at moisture content (9% Appin and West Cliff, 15.5% Dendrobium Met, 7% Dendrobium Th) and air-dried qualities, for sale after the beneficiation of the Total Coal Reserves.

(7) Coal delivered to wash plant.

(8) The cut-off criteria applied was ≥ 1.8m seam thickness.

(9) Appin- Ore Reserves were upgraded from Probable to Proved Coal Reserves as final approval was granted for longwall panels.

Inferred Coal Resources				Total Coal Resources				South32 Interest	As at 30 June 2014 Total Coal Resources			
Mt	% Ash	% VM	% S	Mt	% Ash	% VM	% S	%	Mt	% Ash	% VM	% S
289	13.5	23.8	0.36	696	12.7	24.0	0.36	100	702	12.7	24.0	0.36
68	13.9	20.0	0.33	105	13.3	20.3	0.34	100	110	13.3	20.3	0.34
83	29.3	23.0	0.58	285	29.5	23.2	0.58	100	295	29.6	23.2	0.58
75	29.5	22.2	0.57	199	29.3	21.8	0.57	100	199	29.0	21.8	0.57

Probable Marketable Coal Reserves				Total Marketable Coal Reserves				Reserve Life	South32 Interest	As at 30 June 2014 Total Marketable Coal Reserves				Reserve Life
Mt	% Ash	% VM	% S	Mt	% Ash	% VM	% S	Years	%	Mt	% Ash	% VM	% S	Years
98	8.9	25.0	0.36	127	8.9	24.8	0.36	23	100	132	8.9	24.7	0.36	25
-	-	-	-	1.6	8.9	20.2	0.34	0.8	100	4.1	8.9	20.6	0.36	2.0
-	-	-	-	-	-	-	-	7.6	100	-	-	-	-	8.9
9.8	9.7	24.1	0.59	17	9.7	24.0	0.59			18	9.7	24.0	0.59	
6.7	27.0	-	-	12	27.0	-	-			12	23.0	-	-	

AFRICA REGION

SOUTH AFRICA MANGANESE

Manganese

MINERAL RESOURCES

As at 30 June 2015

		Measured Resources			Indicated Resources		
Deposit[1]	**Ore Type**	**Mt**	**% Mn**	**% Fe**	**Mt**	**% Mn**	**% Fe**
Wessels[2]	Lower Body-HG	8.3	47.8	11.6	15	47.7	12.3
	Lower Body-LG	8.4	42.0	13.6	19	41.7	14.2
	Upper Body	-	-	-	94	41.4	18.3
Mamatwan[3]	M, C, N Zones	22	37.6	4.4	47	37.0	4.5
	Top Cut (balance I&O)	8.6	30.6	6.3	21	29.5	6.4
	X Zone	2.8	37.9	4.7	4.8	36.4	4.8

ORE RESERVES

As at 30 June 2015

		Proved Ore Reserves			Probable Ore Reserves		
Deposit[1][4][5][6]	**Ore Type**	**Mt**	**% Mn**	**% Fe**	**Mt**	**% Mn**	**% Fe**
Wessels[2]	Lower Body-HG	1.8	47.7	11.8	7.8	47.6	12.2
	Lower Body-LG	2.5	41.5	12.9	10	41.6	14.2
	Upper Body	-	-	-	51	41.4	18.3
Mamatwan[3]	M, C, N Zones	18	37.6	4.4	39	37.2	4.5
	X Zone	2.3	38.0	4.7	1.7	36.8	4.8

(1) Cut-off grade for Mineral Resources and Ore Reserves- Wessels ≥ 45% Mn for Lower Body-HG; ≥ 37.5% Mn for Lower Body-LG and Upper Body; Mamatwan ≥ 35% Mn for M, C, N and X Zones; ≥ 28% Mn for Top Cut (balance I&O).

(2) Addition to Mineral Resources and Ore Reserves at Wessels was due to additional drilling and updated resource and reserve model.

(3) Upgrading of Mineral Resources and Ore Reserves at Mamatwan was due to additional drilling and updated resource and reserve model.

(4) Approximate drillhole spacing used to classify the reserves was:

	Proved Ore Reserves	**Probable Ore Reserves**
Wessels	Defined as rim +50m wide around mined out areas, supplemented by some economically viable remnant blocks within mined-out areas.	Defined as all ground beyond 50m.
Mamatwan	80m x 80m	160m x 160m

(5) Metallurgical recoveries for the operations:
Wessels 88%
Mamatwan 96%

(6) Ore delivered to process plant.

Inferred Resources			Total Resources			South32 Interest	As at 30 June 2014 Total Resources		
Mt	% Mn	% Fe	Mt	% Mn	% Fe	%	Mt	% Mn	% Fe
-	-	-	23	47.7	12.1	44.4	19	47.9	12.2
-	-	-	27	41.8	14.0		29	41.9	13.3
-	-	-	94	41.4	18.3		92	41.4	18.3
0.3	37.0	5.0	69	37.2	4.5	44.4	69	37.4	4.5
0.1	28.8	8.3	30	29.8	6.4		34	29.9	6.4
-	-	-	7.6	37.0	4.8		7.3	37.3	4.8

Total Ore Reserves			Reserve Life	South32 Interest	As at 30 June 2014 Total Ore Reserves			Reserve Life
Mt	% Mn	% Fe	Years	%	Mt	% Mn	% Fe	Years
9.6	47.6	12.1	49	44.4	8.4	47.7	12.3	46
13	41.6	13.9			15	41.7	13.0	
51	41.4	18.3			46	41.4	18.2	
56	37.3	4.4	17	44.4	60	37.3	4.5	18
4.0	37.5	4.7			4.0	37.3	4.8	

AFRICA REGION

SOUTH AFRICA ENERGY COAL

Energy Coal

COAL RESOURCES

As at 30 June 2015

			Measured Coal Resources					Indicated Coal Resources				
Deposit[1][2]	**Mining Method**	**Coal Type**	**Mt**	**% Ash**	**% VM**	**% S**	**KCal/kg CV**	**Mt**	**% Ash**	**% VM**	**% S**	**KCal/kg CV**
South Africa - Operating mines												
Khutala[3]	OC	Th	1,070	31.0	22.4	1.19	4,830	-	-	-	-	-
	UG	Th	251	35.4	20.3	0.87	4,350	-	-	-	-	-
Wolvekrans	OC	Th	483	26.0	23.2	1.16	5,580	18	30.0	22.7	1.02	5,130
Middelburg	OC	Th	201	27.6	21.5	1.02	5,330	-	-	-	-	-
Klipspruit	OC	Th	125	28.1	22.3	1.25	5,180	-	-	-	-	-
South Africa - Projects												
Davel	UG	Th	-	-	-	-	-	-	-	-	-	-
Leandra North	UG	Th	210	27.7	23.1	1.30	4,990	194	27.3	23.4	1.24	5,030
Leandra South	UG	Th	10	28.1	20.8	0.93	4,700	132	27.1	22.0	1.02	4,910
Naudesbank[4]	OC/UG	Th	96	25.4	25.4	1.09	5,550	124	24.9	25.5	1.06	5,610
Weltevreden[5]	OC/UG	Th	230	29.8	22.2	1.25	5,090	188	31.3	21.7	1.12	4,960

COAL RESERVES

As at 30 June 2015

			Proved Coal Reserves	Probable Coal Reserves	Total Coal Reserves	Proved Marketable Coal Reserves				
Deposit[1][2][6][7][9]	**Mining Method**	**Coal Type**	**Mt**	**Mt**	**Mt**	**Mt**	**% Ash**	**% VM**	**% S**	**KCal/kg CV**
South Africa - Operating mines										
Khutala[8]	UG	Th	54	-	54	50	35.5	20.3	0.70	4,360
	OC	Th	-	-	-	-	-	-	-	-
Wolvekrans	OC	Th	374	17	391	262	21.8	23.4	0.47	6,010
Middelburg	OC	Th	91	-	91	76	23.2	23.0	0.47	5,890
Klipspruit	OC	Th Export	38	-	38	11	14.2	25.9	0.52	5,910
	OC	Th	-	-	-	19	29.1	8.5	2.37	4,370

(1) Tonnages and qualities are reported on an air-dried basis.

(2) Cut-off criteria:

Deposit	Coal Resources	Coal Reserves
Khutala	≥ 1.0m seam thickness for OC, ≥ 2.5m seam thickness for UG, ≤ 45% ash and ≥ 24% dry ash-free volatile matter.	≥ 1.0m seam thickness for OC and ≥ 3.6m seam thickness for UG.
Klipspruit	≥ 1.0m seam thickness, ≤ 45% ash and ≥ 24% dry ash-free volatile matter.	≥ 1.0m seam thickness, varying ≥ 3,580KCal/kg to ≥ 4,300KCal/kg, ≤ 45% ash.
Middelburg	≥ 1.0m seam thickness, ≤ 45% ash, ≥ 17.9% volatile matter.	≥ 1.0m seam thickness, ≥ 2,870KCal/kg CV, ≤ 45% ash, ≥ 17.9% volatile matter.
Wolvekrans	≥ 1.0m seam thickness, ≤ 45% ash, ≥ 17.9% volatile matter.	≥ 1.0m seam thickness, ≥ 2,870KCal/kg CV, ≤ 45% ash, ≥ 17.9% volatile matter.
Davel	≥ 1.2m seam thickness, ≥ 24% dry ash-free volatile matter.	
Leandra North	≥ 1.8m seam thickness.	
Leandra South	≥ 1.8m seam thickness.	
Naudesbank	≥ 0.5m to 0.8m seam thickness, ≤ 45% ash, ≥ 22% dry ash-free volatile matter.	
Weltevreden	≥ 0.8m seam thickness, ≤ 45% ash.	

(3) Khutala- Underground layout modified to include some of the Coal Resources earmarked for open-cast mining.

Inferred Coal Resources					Total Coal Resources					South32 Interest	As at 30 June 2014 Total Coal Resources				
Mt	% Ash	% VM	% S	KCal/kg CV	Mt	% Ash	% VM	% S	KCal/kg CV	%	Mt	% Ash	% VM	% S	KCal/kg CV
-	-	-	-	-	1,070	31.0	22.4	1.19	4,830	90	1,143	31.5	22.3	1.16	4,790
-	-	-	-	-	251	35.4	20.3	0.87	4,350		188	33.7	20.5	0.88	4,480
118	30.2	23.1	1.06	5,130	619	26.9	23.2	1.14	5,480	90	632	26.8	23.2	1.14	5,490
6.4	24.4	22.3	0.88	5,640	207	27.5	21.5	1.02	5,340	90	218	27.9	21.7	1.04	5,420
1.1	29.8	21.5	1.28	4,950	126	28.1	22.3	1.25	5,180	90	139	27.6	22.4	1.23	5,220
226	22.8	27.2	1.49	5,790	226	22.8	27.2	1.49	5,790	90	244	23.9	26.4	1.52	5,700
103	27.0	23.5	1.23	5,060	507	27.4	23.3	1.26	5,020	90	507	27.4	23.3	1.26	5,020
938	26.0	22.4	1.00	5,030	1,080	26.2	22.3	1.00	5,010	90	1,080	26.2	22.3	1.00	5,010
53	25.3	25.2	1.08	5,580	273	25.1	25.4	1.07	5,580	90	289	25.2	25.4	1.08	5,580
142	31.0	21.7	1.16	5,020	560	30.6	21.9	1.18	5,030	90	547	30.3	21.9	1.21	5,050

Probable Marketable Coal Reserves					Total Marketable Coal Reserves					Reserve Life	South32 Interest	As at 30 June 2014 Total Marketable Coal Reserves					Reserve Life
Mt	% Ash	% VM	% S	KCal/ kg CV	Mt	% Ash	% VM	% S	KCal/ kg CV	Years	%	Mt	% Ash	% VM	% S	KCal/ kg CV	Years
-	-	-	-	-	50	35.5	20.3	0.70	4,360	12	90	33	33.6	20.3	0.76	4,440	5.8
-	-	-	-	-	-	-	-	-	-			1.3	35.7	21.1	1.15	4,640	
12	22.5	23.7	0.45	5,950	274	21.8	23.4	0.46	6,010	21	90	285	21.8	23.4	0.46	6,010	21
-	-	-	-	-	76	23.2	23.0	0.47	5,890	23	90	80	23.2	23.0	0.47	5,890	23
					11	14.2	25.9	0.52	5,910	5.0	90	36	23.0	23.3	0.82	5,800	6.0
					19	29.1	8.5	2.37	4,370			-	-	-	-	-	

(4) Naudesbank- Re-interpretration resulted in small increase in situ geological losses.
(5) Weltevreden- Coal Resources upgraded due to additional drilling and updated resource model.
(6) Approximate drillhole spacings used to classify the reserves were:

	Proved Coal Reserves	Probable Coal Reserves
Khutala	>8 Boreholes per 100ha	4 to 8 Boreholes per 100ha
Wolvekrans	>8 Boreholes per 100ha	4 to 8 Boreholes per 100ha
Middelburg	>8 Boreholes per 100ha	4 to 8 Boreholes per 100ha
Klipspruit	>8 Boreholes per 100ha	4 to 8 Boreholes per 100ha

(7) Process recoveries for the operations:

	Process Recovery
Khutala	92%
Wolvekrans	70%
Middelburg	84%
Klipspruit	84%

(8) Khutala- The increase in Proved Coal Reserves was due to extension of underground layout into areas previously earmarked for open-cast mining.
(9) Coal delivered to wash plant.

BRAZIL ALUMINIUM

MINERAÇÃO RIO DO NORTE

Aluminium

MINERAL RESOURCES

As at 30 June 2015

		Measured Resources			Indicated Resources		
Deposit	**Ore Type**	**Mt**	**% A. Al_2O_3**	**% R. SiO_2**	**Mt**	**% A. Al_2O_3**	**% R. SiO_2**
MRN(1)(2)(3)	MRN Washed	351	49.8	4.3	58	49.6	4.6

ORE RESERVES

As at 30 June 2015

		Proved Ore Reserves			Probable Ore Reserves		
Deposit	**Ore Type**	**Mt**	**% A. Al_2O_3**	**% R. SiO_2**	**Mt**	**% A. Al_2O_3**	**% R. SiO_2**
MRN(1)(2)(4)(5)(6)	MRN Washed	63	49.1	4.5	20	49.7	4.7

(1) Cut-off grade for Mineral Resources and Ore Reserves- MRN Washed ≥ 46% A.Al_2O_3, ≤ 7% SiO_2, ≥ 1m thickness and ≥ 30% recovery on weight per cent basis.
(2) MRN Washed tonnes and grades represent the expected product based on forecast beneficiation yield.
(3) Upgrading of Inferred to Measured Resources was due to additional drilling in Jamari, Rebolado and Cruz Alta and updated resource model.
(4) Ore delivered to the Process Plant.
(5) Approximate drillhole spacing used to classify the reserves was:

Proved Ore Reserves A bauxite intersection grid of 200m, plus at least 10 samples reached by search ellipsoid. Mining and metallurgical characterisation (test pit/bulk sample), plus a reliable suite of chemical and size distribution data.

Probable Ore Reserves Those areas with a bauxite intersection grid spacing of less than 400m and/or a 400m spaced grid with a 200m offset fill in, plus a minimum of 7 samples reached by search ellipsoid, plus a reliable suite of chemical and size distribution data.

(6) Metallurgical recovery for the operation: 96% of A.Al_2O_3.

Inferred Resources			Total Resources			South32 Interest	As at 30 June 2014 Total Resources		
Mt	% A. Al_2O_3	% R. SiO_2	Mt	% A. Al_2O_3	% R. SiO_2	%	Mt	% A. Al_2O_3	% R. SiO_2
134	49.9	3.7	543	49.8	4.2	14.8	527	50.2	4.2

Total Ore Reserves			Reserve Life	South32 Interest	As at 30 June 2014 Total Ore Reserves			Reserve Life
Mt	% A. Al_2O_3	% R. SiO_2	Years	%	Mt	% A. Al_2O_3	% R. SiO_2	Years
83	49.2	4.5	5.1	14.8	98	49.4	4.6	6.1

OUR PURPOSE IS TO MAKE A DIFFERENCE BY DEVELOPING NATURAL RESOURCES AND IMPROVING PEOPLE'S LIVES NOW AND FOR GENERATIONS TO COME

CORPORATE GOVERNANCE STATEMENT

SECTION 7: CORPORATE GOVERNANCE

GOVERNANCE AT SOUTH32

The purpose of South32 Limited (the Company or South32) is to make a difference by developing natural resources and 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.

Our governance practices support the achievement of this purpose, by facilitating effective decision making, providing clear lines of responsibility and accountability, and committing to transparent communications with shareholders and other stakeholders.

This Corporate Governance Statement explains the corporate governance framework and practices adopted by South32. In developing this framework, the Board has had regard to the standards of corporate governance applicable in each of the jurisdictions in which South32 is listed. Our aim is to adopt the better of those standards that are applicable to us which leads to the best outcome from a governance perspective for our stakeholders.

Under ASX Listing Rule 4.10.3, ASX-listed entities are required to benchmark their corporate governance practices against the 3rd edition of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (ASX Recommendations), which have been developed to promote investor confidence and to assist companies in meeting stakeholder expectations. The ASX recommendations are available at *www.asx.com.au/documents/asx-compliance/cgc-principles-and-recommendations-3rd-edn.pdf*

South32 complies with all ASX recommendations with the exception of Recommendation 1.5(c) regarding setting measurable gender diversity objectives and 1.6(a) disclosing the process for evaluating the performance of the Board, its committees and individual Directors. Further explanation can be found within this Corporate Governance Statement under the following headings 'Diversity and Inclusions at South32' and 'Board, Committee and Director Evaluations'.

Copies of our Board Charter, Committee Terms of Reference and other corporate governance documents referred to in this Corporate Governance Statement can also be found in the corporate governance section of the website.

BOARD OF DIRECTORS

The Board currently comprises eight Directors, including seven Non-Executive Directors. All Directors have served for less than one year. The Directors are:

- David Crawford AO - Chairman and Independent Non-Executive Director
- Graham Kerr - Chief Executive Officer and Executive Director
- Frank Cooper AO - Independent Non-Executive Director
- Peter Kukielski - Independent Non-Executive Director
- Ntombifuthi (Futhi) Mtoba - Independent Non-Executive Director
- Xolani Mkhwanazi - Non-Executive Director
- Keith Rumble - Independent Non-Executive Director
- Wayne Osborn - Independent Non-Executive Director

Further details of the Directors can be found in section 2 (p15). These details include the period of office for each Director, their qualifications, experience and special responsibilities and directorships held in other companies.

Structure and composition of the Board

South32 is committed to ensuring that the composition of the Board includes Directors who bring an appropriate mix of skills, experience, expertise and diversity to Board decision making.

The Board has collective business expertise in the areas of mining, refining, smelting and processing of minerals, and project development as well as experience in the countries in which we have assets and the jurisdictions where our shares are listed.

The initial composition of the Board reflects a range of geographical backgrounds, including Australia, South Africa and the United Kingdom. Regard has also been given to the need for diversity, in its broadest context.

Director skills, experience and attributes

The Board considers that our Directors and senior management have the combined skills and experience to discharge their respective responsibilities in a publicly listed, globally diversified metals and mining company.

Non-Executive Directors David Crawford, Keith Rumble and Xolani Mkhwanazi have a deep knowledge and understanding of our assets through their prior roles within the BHP Billiton Group. David Crawford brings broad governance experience, including skills and experience in the areas of risk and financial controls in the metals and mining sector and other industries. Keith Rumble and Xolani Mkhwanazi have extensive commercial and operational experience in both the metals and mining sector and in the regions where we operate, especially in South Africa.

The appointments of Non-Executive Directors Frank Cooper, Peter Kukielski, Futhi Mtoba and Wayne Osborn in May 2015 further enhanced the extensive mining, exploration, commercial and financial experience of the Board. They bring broad international business experience across multiple industries, with a particular focus on finance, processing of minerals and mining. These appointments were the culmination of an extensive global search conducted by an external search firm, which included appropriate background checks (including criminal, bankruptcy, education, qualifications and reference checks) in respect of each Director candidate.

Graham Kerr, as the Executive Director, brings to Board debates and discussion his unique knowledge and experience of, and perspective on, our assets.

Table 7.1 sets out the skills and experience considered by the Board to be important for its Directors to collectively have.

In addition to the skills and experience set out in Table 7.1, the Board considers that each Director has the following attributes:

- Honesty and integrity
- The ability to think strategically
- The time available to devote to South32's business
- A willingness to question and challenge
- A commitment to the highest standards of governance

All Directors are expected to use their range of relevant skills, knowledge and experience and to apply their judgement to all matters discussed at Board meetings.

Table 7.1 Summary of board skills and experience

Skills/Experience	Description
Leadership	Successful senior executive.
International/global business experience	Senior management or equivalent experience, or exposure to political, regulatory and business environments, in multiple global locations, especially Africa.
Corporate governance/ regulatory	Commitment to high standards of governance in countries in which the Company is listed and an ability to assess the effectiveness of senior management, i.e. experience with a large organisation that is subject to similarly rigorous governance standards.
Strategy/risk	Developing and implementing a successful strategy (including appropriately probing and challenging management on the delivery of agreed strategic planning objectives) over the long-term that remains resilient to systemic risk.
Financial acumen	Senior executive or equivalent experience in financial accounting and reporting, corporate finance and internal financial controls, including ability to probe the adequacies of financial and risk controls.
Commercial capability	Broad range of commercial skills and experience, including strategy and development, acquisitions and divestments, negotiation, planning and execution phases.
Capital projects	Experience working in an industry with projects involving large-scale capital outlays and longer-term investment horizons, in both the planning and execution phases.
Health, safety and environment	Experience related to workplace health and safety, and environmental responsibility regarding the broad impacts of climate change.
Executive sustainable development	Experience related to socially responsible development and operation and managing broader community impacts.
Human resources	Senior management or equivalent experience with remuneration, including incentive programmes and pensions/superannuation, leadership development and industrial relations.
Metals/mining	Senior executive or long-term Board experience in a medium to large metals and mining organisation, with strong operational experience, including in a cost-constrained environment, combined with an understanding of South32's corporate purpose.
Smelting/processing	Senior executive experience in a medium to large smelting/refining/ processing organisation, with strong operational experience, including in a cost-constrained environment, combined with an understanding of South32's corporate purpose.
Trading/marketing	Senior executive experience in trading or marketing of commodities.
Public policy	Experience in regulatory policy, government and stakeholder relations, including implications for corporations.

In facilitating the development of the skills summary above, each Director undertook a self-assessment of their skills and experience (see Table 7.1).

Our Board represents a range of nationalities and backgrounds and currently includes one female Director. Future Director appointments provide an opportunity to appoint additional female Directors to the Board.

While our initial Board composition meets our current needs (see Diagram 7.1), this skills and experience analysis will assist to identify opportunities for Director training and development and to inform skills gaps that may be addressed through future Board appointments.

Further details regarding our approach to diversity and inclusion can be found later in this Corporate Governance Statement.

Diagram 7.1 - Board skill/experience matrix

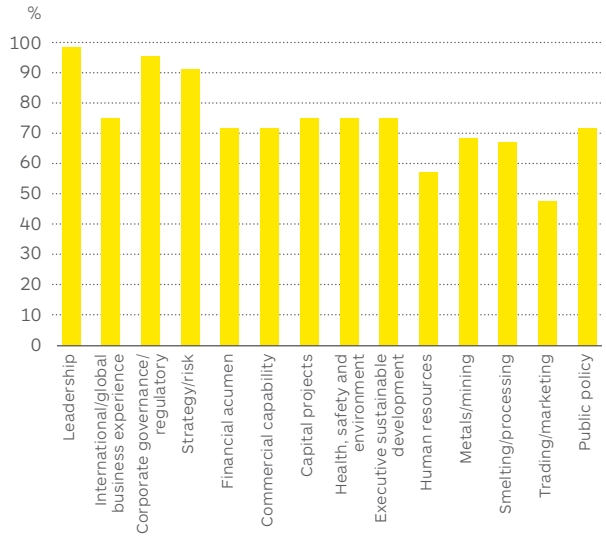


Diagram 7.1 reflects the collective level of experience under each category.

Diagram 7.2 - Director location

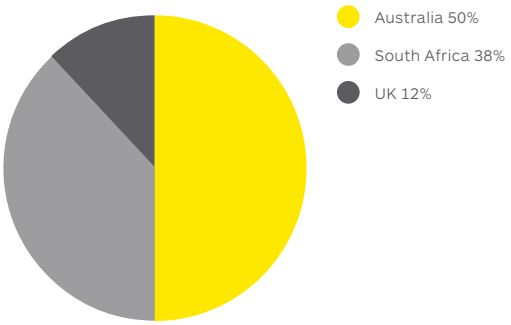


Diagram 7.2 reflects the geographic location of Directors

Role and responsibilities of the Board

The role of the Board is to represent shareholders and to promote and protect the interests of South32.

We aspire to be a trusted corporate citizen. The Board governs with regard to the interests of our shareholders as a whole, the communities in which we operate and our partners and people.

The Board, through the Chief Executive Officer (CEO), instils a culture of care, trust, togetherness and excellence.

The Board Charter sets out the Board's role and responsibilities and describes those matters expressly reserved for the Board and those matters delegated to management through the CEO.

The CEO has responsibility for the day-to-day management of the Group, and is supported in this function by the Executive Committee. However, the ultimate responsibility for governance and strategy rests with the Directors. Details regarding the members of the Executive Committee and their role are set out on page 122 within this Corporate Governance Statement.

The Board has specifically reserved certain matters for its decision. It delegates authority for all other matters that are necessary for the management of the Group's business to management through the CEO, within authority limits approved from time to time.

The responsibilities reserved by the Board for its decision include:

- Reviewing, ratifying and overseeing systems of risk management and internal control and ethical and legal compliance, including matters of health, safety, environment and community
- Approving major capital expenditure, acquisitions, divestitures and capital management decisions
- Developing and reviewing the application of corporate governance principles and policies, including approval of the Company's diversity policy and measurable objectives for achieving gender diversity
- Approving material documents such as financial statements
- Appointing and conducting performance appraisals of the CEO and overseeing succession planning for the CEO and Executive Committee
- Reviewing and approving contractual arrangements, remuneration and benefits in relation to the CEO and Executive Committee
- Reviewing the size and composition of the Board, undertaking Board and Director performance evaluations and succession planning for Non-Executive Directors

Independence

The Board Charter requires that a substantial majority of Directors (including the Chairman) be independent.

The independence of a Director is assessed according to our Policy on Independence of Directors, which is available on our website.

The assessment is carried out on appointment annually and when a Director's circumstances change in a manner that warrants re-assessment.

The test of independence used by the Board to determine a Director's independence is whether the Director is "Independent of management and free of any interest, position, association or other relationship that could materially influence (or be reasonably perceived to materially influence) the exercise of objective, unfettered or independent judgement by the Director or the Director's ability to act in the best interests of the Group or its shareholders generally".

When making assessments of independence, the Board takes into account all relevant facts and circumstances. The Board has adopted thresholds to assist it in determining materiality of customer and supplier relationships with the South32 Group when considering the independence of its Directors as follows:

- A supplier to South32 will be material if:
  - a) the supplier accounts for more than 2 per cent of South32 Group's expenditure or
  - b) South32 Group accounts for more than 2 per cent of the supplier's consolidated gross revenue
- A customer of South32 will be material if:
  - a) the customer accounts for more than 2 per cent of South32 Group's consolidated gross revenue or
  - b) South32 Group accounts for more than 2 per cent of the customer's group expenditures

Independence continued

The Board has reviewed the independence of each of the current Directors and determined that six of the eight Directors are independent.

Graham Kerr is not considered independent as he is the CEO and a member of South32's management.

Xolani Mkhwanazi is not considered independent because of his employment in an executive capacity within the last three years with subsidiary companies that form part of the Group post the demerger from BHP Billiton.

Relationships and associations of other Directors

Both David Crawford and Keith Rumble were former directors of BHP Billiton Limited and BHP Billiton plc (BHP Billiton), however they resigned from these positions in November 2014 and May 2015, respectively. BHP Billiton Limited was previously the controlling shareholder of South32, but is no longer a substantial shareholder following the demerger. David Crawford and Keith Rumble have no ongoing connection with BHP Billiton following their retirement as directors.

David Crawford is an advisory Board member of Bank of America Merrill Lynch Australia (BAML). BAML is one of several transactional bankers for South32, however BAML is currently not considered to be a material supplier to South32. David Crawford is also an advisory Board member of Allens. Allens is one of several law firms that provide services to South32 and is not considered a material supplier to South32.

Futhi Mtoba was a Partner of Deloitte & Touche South Africa until 2014. An analysis of services provided by Deloitte & Touche South Africa to the Group found that the services were of a consulting/advisory nature, were not connected with the external audit of the Group in South Africa, and the amount charged for the services provided was not material to either South32 or Deloitte & Touche South Africa.

Frank Cooper was a Partner of PwC Australia until his resignation in December 2012. An analysis of services provided by PwC Australia has found that the services were of a consulting/advisory nature, were not connected with the external audit of the Group in Australia, and the amount charged for the services provided was not material to either South32 or PwC Australia.

Wayne Osborn is a Non-Executive Director of Alinta Holdings, an electricity generator and retailer and gas retailer that is a supplier of energy products to the Worsley alumina refinery. He is also a Non-Executive Director of Wesfarmers Limited, which supplies services to the Worsley refinery. The amount charged for the services from Alinta and Wesfarmers is not material to either South32 or the supplier entities.

For the reasons set out above, the Board has assessed David Crawford, Keith Rumble, Futhi Mtoba, Frank Cooper and Wayne Osborn as independent, notwithstanding the existence of these relationships.

Chairman

The Chairman, David Crawford AO, is considered by the Board to be independent. He has been a Non-Executive Director of the Group since 2 February 2015.

The principal role of the Chairman is to provide leadership to the Board, to ensure the Board works effectively and discharges its responsibilities, and to encourage a culture of openness and debate fostering a high-performing and collegial team. The Chairman will not be the same person as the CEO to ensure there is effective Board oversight of management's activities.

The Chairman:

- Represents the Board to the shareholders and communicates the Board's position
- Serves as the primary link between the Board and management
- Sets the agenda for each Board meeting in consultation with the CEO and Company Secretary and is responsible for ensuring that all Directors are adequately briefed in relation to issues addressed at Board meetings

The Board is conscious of the time commitment required of Directors and the Chairman in particular. The Board is satisfied that David Crawford makes sufficient time available to serve the Group effectively and that none of David Crawford's other commitments interfere with the discharge of his responsibilities to the Group.

Director appointment, election and re-election

All new Non-Executive Directors are required to sign a letter of appointment that sets out the terms and conditions of their appointment, including role and responsibilities, time commitment envisaged and the requirement to participate in a performance evaluation process.

Under our Constitution, with the exception of the Managing Director, Directors may not hold office without re-election beyond the third Annual General Meeting (AGM) following their election or most recent re-election.

Any Director appointed to fill a casual vacancy since the previous AGM must submit themselves to shareholders for election at the next AGM. Dr Xolani Mkhwanazi, having been appointed by the Board on 2 July 2015 to fill a casual vacancy, will stand for election at the 2015 AGM.

To facilitate an orderly rotation among the other Non-Executive Directors, the Chairman of the Board David Crawford will retire from the Board and will offer himself for re-election at the 2015 AGM.

We will provide our shareholders with information relevant to a Director's election or re-election in the Notice of Meeting.

Director selection and succession planning

The Nomination and Governance Committee will implement a succession planning process for the identification of suitable candidates for appointment to the Board.

The Committee will, in a structured manner and taking a multi-year view, regularly assess:

- The overall skills, experience, independence and knowledge required to competently discharge the Board's duties, having regard to the strategic direction of the Group
- The diversity (including gender, nationality and geography) aspirations of the Board
- The extent to which these are reflected in the existing Board composition from time to time

The skills matrix set out earlier in Diagram 7.1 is an output of this process.

Director selection and succession planning continued

The Committee will also assist the Board in undertaking appropriate checks before appointing a new Director, or putting forward to shareholders a potential candidate for election as a Director, including checks as to the person's character, experience, education, criminal record and bankruptcy status.

Director induction and continuing education

All Non-Executive Directors participated in an induction training programme prior to the demerger from BHP Billiton. Similar induction training will be provided to all new Directors in future.

Additional training and induction sessions were held in conjunction with the first Board and Committee meetings. These sessions included detailed briefings by the CEO and his leadership team on our strategy, culture and values, governance framework, financial, operational and risk management processes. Sessions were also held on working for an Australian company with multinational mining operations.

Visits to our assets have been built into the Board and Committee meetings programme and will form an important part of ongoing Director education.

As set out in their letters of appointment, Directors are expected to participate in continuous education programmes at the Company's expense. Some programmes will be conducted internally and some will involve attendance at industry seminars and other continuing professional development programmes.

Board, Committee and Director evaluations

The South32 Board intends to conduct regular performance evaluations of the Board, Board Committees and individual Directors.

As the Board has only recently been formed, and we have only recently established our corporate governance framework, we are still in the process of establishing a procedure for evaluating the Board, Board Committees and individual Directors. Therefore, no Board, Board Committee or Director performance evaluations were conducted during the period. It was not practical to comply with Corporate Governance Council recommendation 1.6(a). However, it is intended that a review will be conducted in FY2016.

The Nomination and Governance Committee is responsible for developing and overseeing the performance evaluation process. Details of the performance evaluation process will be provided in future years' Annual Reports.

The results of reviews of individual Directors will be taken into account by the Board in determining its support for any Director re-election.

BOARD COMMITTEES

To assist the Board in discharging its responsibilities effectively and efficiently, the Board has established a number of Board Committees. This allows for additional and more focused time to be spent on specific matters.

Each Committee operates within its Board-approved Terms of Reference, which set out the roles, responsibilities, membership requirements and meeting procedures for the relevant Committee. The Committee Terms of Reference are reviewed regularly and will be updated as required.

Each Committee will meet as frequently as required but not less than four times a year, with the exception of the Nomination and Governance Committee, which is required to meet not less than three times a year.

All Directors have a standing invitation to attend Committee meetings with the consent of the relevant Committee Chair. Papers prepared for the Committees are made available to all Directors.

The four permanent Board Committees are the:

- Nominations and Governance Committee
- Remuneration Committee
- Risk and Audit Committee
- Sustainability Committee

A copy of each of the Committee's Terms of Reference is available on our website in the Corporate Governance section.

Nomination and Governance Committee

Membership and attendees

Under the Nomination and Governance Committee Terms of Reference, the Committee must consist of at least three members and be comprised of only Non-Executive Directors, a majority of whom will be independent Directors (including the Committee Chairman).

The Committee comprises six independent Non-Executive Directors of South32:

- David Crawford (Chairman)
- Frank Cooper
- Peter Kukielski
- Futhi Mtoba
- Wayne Osborn
- Keith Rumble

The CEO and the Company Secretary support the work of the Committee and will regularly be invited to attend and present at Committee meetings.

Role and responsibility

The Committee assists the Board in overseeing:

- Succession planning processes for the:
  - Board and its Committees
  - Board Chairman, CEO and Executive Committee
- Board and Director performance evaluation
- The provision of appropriate training and development opportunities for Directors
- The independence of Non-Executive Directors
- The time commitment required of Non-Executive Directors
- Our corporate governance practices, including our compliance with the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations and other applicable governance requirements

The Committee will also assist the Board in its annual review of the relative proportion of men and women in our workforce and our progress in achieving our diversity objectives.

Remuneration Committee

Membership and attendees

Under the Remuneration Committee Terms of Reference, the Committee must consist of at least three members and be comprised of only Non-Executive Directors, a majority of whom will be independent Directors (including the Committee Chairman).

The Committee comprises four independent Non-Executive Directors:

- Wayne Osborn (Chairman)
- Frank Cooper
- Peter Kukielski
- Keith Rumble

The CEO and the CEO's nominees, principally the Chief People Officer, support the work of the Committee and will regularly be invited to attend and present at Committee meetings. The CEO and the CEO's nominees are not present when their remuneration is considered and discussed.

Role and responsibility

The Committee assists the Board in overseeing the:

- Remuneration policy and framework (including short and long-term incentive plans), its specific application to the CEO and the Executive Committee and its general application to all employees
- Operation and administration of all Company incentive plans
- Determination of levels of reward to the CEO and the Executive Committee
- Annual evaluation of the performance of the CEO and the Executive Committee
- Company's compliance with applicable legal and regulatory requirements associated with remuneration matters
- Preparation of the Remuneration Report
- Communication to shareholders on remuneration policy and the Committee's work on behalf of the Board

Further details regarding the role and activities of the Remuneration Committee are provided in section 8 (p132).

Risk and Audit Committee

Membership and attendees

Under the Risk and Audit Committee Terms of Reference, the Committee must consist of at least three members and be comprised of only independent Non-Executive Directors and have an independent Chairman who is not the Chairman of the Board. The Committee members between them have the financial and accounting expertise and a sufficient understanding of the industry in which we operate to be able to discharge the Committee's mandate effectively.

The Committee comprises three independent Non-Executive Directors:

- Frank Cooper (Chairman)
- David Crawford
- Futhi Mtoba

Details of the relevant qualifications and experience of the members of the Risk and Audit Committee can be found in section 2 (p15).

The CEO and the CEO's nominees, principally the Chief Financial Officer (CFO), the Group Financial Controller and the Head of Risk and Assurance, support the work of the Committee and will be regularly invited to attend and present at Committee meetings.

The Committee appoints the Head of Risk and Assurance who is accountable to both the Committee and the CEO for the performance of the internal audit function.

The Committee meet with the Head of Risk and Assurance without other members of management being present on a regular basis and whenever deemed appropriate by the Committee Chairman.

The Committee will also meet with the External Auditor, without members of management being present, on a regular basis and whenever deemed appropriate by the Committee Chairman.

Role and responsibility

The Committee assists the Board in overseeing the:

- Integrity of Financial Statements and the Annual Report
- Appointment, monitor and review of the independence and performance of the External Auditor and the integrity of the audit process as a whole
- Review and monitor the provision of additional services by the External Auditor
- Effectiveness of the systems of internal control and risk management
- Plans, performance, objectivity and leadership of the internal audit function and the integrity of the internal audit process as a whole
- Systems for compliance with applicable legal and regulatory requirements within the Committee's area of responsibility
- Other matters requiring the approval of the Committee under the Authorities Framework or referred by the Board from time to time, including matters relating to the capital structure of the Group

Sustainability Committee

Membership and attendees

Under the Sustainability Committee Terms of Reference, the Committee must consist of at least three members and be comprised of only Non-Executive Directors, a majority of whom are independent Directors (including the Committee Chairman). Each Committee member must be appropriately skilled in health, safety and environment (HSE), and/or community matters.

The Committee comprises four Non-Executive Directors, three of whom are independent:

- Keith Rumble (Chairman)
- Peter Kukielski
- Xolani Mkhwanazi
- Wayne Osborn

The CEO and the CEO's nominees, principally the Chief Operating Officer (Australia), the Chief Operating Officer (Africa) and the Chief People Officer, support the work of the Committee and will regularly be invited to attend and present at Committee meetings.

Sustainability Committee continued

Role and responsibility

The Committee assists the Board in its general oversight of:

- The adequacy of our HSE and community (together, HSEC) framework and management system
- Our compliance with applicable legal and regulatory requirements associated with HSEC matters
- Performance, resourcing and leadership of the HSE teams in each Region and also of the community and sustainability component of the people function
- Our performance in relation to HSEC matters, including the HSE and community sustainability components of the annual incentive plan for the CEO and the other Executive Committee members

BOARD AND COMMITTEE MEETINGS AND DIRECTOR ATTENDANCE

Meeting attendance details for the period from 7 May 2015 (the day of the first Board meeting after the demerger was approved by BHP Billiton shareholders) to 30 June 2015 are provided in Table 7.2.

Board and Committee meetings were held in June over a three-day period and included a detailed discussion of the South32 strategy.

The FY2016 Board meeting schedule provides for at least seven Board and Committee meetings of two to three days duration in Australia and South Africa. Other locations relevant to South32 can be accommodated. The scheduled meetings will be supplemented by teleconferences where required to deal with other business between face-to-face meetings.

MANAGEMENT OF SOUTH32

Role of Management

The role of the Executive Committee is to lead and promote the safe operation and development of South32, consistent with our values, purpose and strategy.

The Executive Committee is led by the CEO and in addition, comprises the following roles:

- Chief Financial Officer
- Chief Operating Officer and President – Africa
- Chief Operating Officer and President – Australia
- Chief Legal Officer and Company Secretary
- Chief People Officer
- Chief Transformation Officer
- Chief Commercial Officer (position vacant)

Each member of the Executive Committee is employed under an individual Executive Services Agreement, on broadly consistent terms. The key terms for the CEO and certain members are summarised in the Remuneration Report in section 8 (p137). The experience and qualifications of the members of the Executive Committee are set out in section 2 (p17).

In a continuously changing internal and external environment, the CEO and the Executive Committee strive to create a culture and discipline that will deliver sector-leading total shareholder returns over a sustained period. Specific duties of the team include:

- Defining the values and purpose of the organisation and demonstrating these through their actions and behaviours at all times
- Determining the way South32 will operate by setting the organisation's structure and operating model
- In conjunction with the Board, developing and executing the corporate strategy
- Managing the Group's operating and financial performance
- Reviewing and managing the Group's material risks
- Leading and developing the Group's people and ensuring talent processes are in place
- Considering and endorsing other matters that are subject to approval by the Board

Table 7.2 - Board and Board Committee meeting attendance

Director	Board		Risk and Audit Committee		Remuneration Committee		Sustainability Committee[4]		Nomination and Governance Committee	
	Held[1]	Attended[2]	Held[1]	Attended[2]	Held[1]	Attended[2]	Held[1]	Attended[2]	Held[1]	Attended[2]
D Crawford[3]	2	2	1	1					1	1
G Kerr (CEO)[3]	2	2								
P Kukielski	2	2			1	1	1	1	1	1
F Mtoba	2	2	1	1					1	1
K Rumble	2	2			1	1	1	1	1	1
F Cooper	2	2	1	1	1	1			1	1
W Osborn	2	2			1	1	1	1	1	1

Member Chairman

Notes:
(1) "Held" indicates the number of meetings held during the period the Director was a member of the Board and/or Committee.
(2) "Attended" indicates the number of meetings attended during the period the Director was a member of the Board and/or Committee.
(3) The Chairman and CEO regularly attend all Committee meetings where appropriate.
(4) X Mkhwanazi was appointed by the Board on 2 July 2015 to fill a casual vacancy and will stand for election at the 2015 AGM.

Role of Management continued

The Senior Management Team, comprising those who directly report to the Executive Committee, are also key leaders within the business. These roles support and assist the Executive Committee in their duties through the direct leadership of their teams and broader participation in the leadership of our business.

Performance evaluation of the Executive Committee

The performance of the Executive Committee is reviewed on an ongoing basis and measured annually through a formal performance evaluation process. Key Performance Indicators (KPIs) are established to align with our business strategy and plan. Performance evaluation includes consideration of contribution, engagement and interactions at the Board level. The demonstration of behaviours that are aligned to our values is taken into account.

The CEO performs evaluations of all Executive Committee members.

The first performance evaluations of the members of the Executive Committee occurred in August 2015 in respect of FY2015 performance, and were reviewed and approved by the Board.

COMPANY SECRETARIES

The Company Secretaries, through the Chairman, are accountable to the Board for the effectiveness of corporate governance processes, ensuring adherence to the Board's principles and procedures and co-ordinating all Board business. All Directors have access to the Company Secretaries.

The following individuals are Company Secretaries of South32:

Nicole Duncan BA (Hons), LLB, MAICD, FGIA, FCIS

Nicole Duncan is the Chief Legal Officer and Company Secretary of South32. Ms Duncan was appointed a Company Secretary in January 2015. Ms Duncan previously held various legal and commercial roles with BHP Billiton, including Vice President, Company Secretariat. Ms Duncan graduated from the Australian National University with a degree in law and an Honours degree in History. More information on Ms Duncan can be found in section 2 (p18).

Sue Wilson LLB, BJuris, FGIA, FCIS, FAICD

Sue Wilson is Head of Secretariat of South32. Ms Wilson was appointed a Company Secretary on 18 June 2015. Ms Wilson was previously General Counsel and Company Secretary at Bankwest and HBOS Australia and a partner of legal firm Parker & Parker (now part of Herbert Smith Freehills). Ms Wilson is also Pro Chancellor at Curtin University and Deputy Chairman of the WA Council of the Governance Institute of Australia (GIA).

REMUNERATION

Details of our remuneration policies and practices and the remuneration paid to the Directors (Executive and Non-Executive) and other Key Management Personnel are set out in the Remuneration Report in section 8. Shareholders will be invited to consider and to approve the Remuneration Report at the 2015 AGM.

RISK MANAGEMENT AND INTERNAL CONTROLS

Risk management framework

The Board is responsible for reviewing, ratifying and overseeing systems of risk management and internal control and ethical and legal compliance.

Our overall approach to risk management has been defined in the Risk Management Framework approved by the Board (a copy of which is available in the Corporate Governance section of our website). The objectives of this framework are to:

- Ensure our strategic direction is appropriate in light of the economic, social, political, legal and regulatory environments in which we operate
- Provide a means of identifying priorities (in terms of relative risk levels) and allocating resources effectively and efficiently
- Provide a means of demonstrating due diligence in discharging legal and regulatory obligations and meeting the expectations and standards of external stakeholders
- Provide a means to maximise the value from assets, projects and other business opportunities and to assist in encouraging enterprise and innovation, with a view to enhancing the value of shareholders' investments

To meet these key objectives, we undertake the following activities:

- Identify the potential for impacts on the achievement of our purpose and business generally through risk assessments using approved materiality and tolerability criteria
- Conduct a risk assessment (risk identification, risk analysis, including the likelihood and impact assessment, and risk evaluation) for material risk issues
- Design, implement, operate and assess controls to ensure residual risks are tolerable
- Establish performance standards for critical controls over material risks with supporting verification processes

The Group's risk issues are identified, analysed and assessed in a consistent manner.

The Board will review and consider our risk profile on a regular basis to ensure it supports the achievement of our strategy, including determining the nature and extent of risks we are prepared to take in the pursuit of our objectives.

In addition, the Board is responsible for reviewing, endorsing and overseeing our risk management framework, at least annually, and satisfying itself that it continues to be sound and that we are operating within the risk appetite set by the Board. The Board is assisted in this oversight of the risk management function by the Risk and Audit Committee, whose role is to:

- Review the effectiveness of our systems of risk management and internal control and seek to gain assurance that risks that are material to the achievement of our corporate objectives, strategy and plans have been, and will continue to be, identified and managed
- Report the results of the review and any recommended action resulting from the review to the Board

Risk management framework continued

As our risk management framework has only been in place for the short time since the demerger from BHP Billiton, a formal review of the risk management framework has not yet occurred. However, the Board intends to undertake a review based on the process outlined on the previous page in FY2016.

Risk and Assurance

The Corporate Function known as Risk and Assurance performs our internal audit function. The Head of Risk and Assurance is supported by a combination of internal and co-sourcing resources to conduct internal audit reviews.

Our Risk and Assurance function evaluates whether:

- Material risks are appropriately identified and managed
- Internal controls are both designed and operate effectively
- Significant financial, HSEC, operational and managerial information is accurate, reliable and timely
- Resources are acquired economically, used efficiently and adequately protected
- Significant legislative or regulatory issues impacting us are recognised and appropriately addressed by management
- The requirements set out in policies, standards and authorities are complied with
- Fraud or business conduct matters identified or brought to the attention of the function are appropriately addressed

Material risks

Details regarding the most significant risks currently identified for the Group and how these are managed, including material economic, environmental and social sustainability risks, are set out in the risk management section at section 2 (p21) and the sustainability section at section 4 (p53).

Risk management and financial reporting

One of the key focuses of the Board, Risk and Audit Committee and Executive Committee is the management of risk related to the Group's financial reporting processes and financial risk more generally, in accordance with South32's governance and risk management framework. Management is responsible for implementing and maintaining internal controls to manage financial and financial reporting risks. The Board establishes and oversees the risk management framework.

Because of inherent limitations, internal controls over financial reporting may not prevent or detect misstatements and, even when determined to be effective, can only provide reasonable assurance with respect to financial statement preparation and presentation. Additionally, changes in conditions may impact on the effectiveness of risk controls in relation to future periods, and the degree of compliance with South32's risk management policies or procedures may deteriorate. For this reason, South32 considers that it is critical to continually review the effectiveness of its internal controls for managing financial reporting risk. As outlined above, the effectiveness of our risk management system is evaluated by the Board on an annual basis.

Further information in relation to the financial risk management objectives and policies of South32 is set out in Note 19a to the financial statements.

CEO and CFO certifications

Before the Board approves the financial statements for each of the half year and full year, it will receive from the CEO and CFO a declaration that, in their opinion, the Group's financial records have been properly maintained and that the financial statements comply with the relevant accounting standards and give a true and fair view of the consolidated Group's financial position and performance, and that this opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

Before approving the FY2015 Consolidated Financial Statements for the Group, the Board received these declarations from the CEO and CFO.

PROMOTING RESPONSIBLE AND ETHICAL BEHAVIOUR

We have established various policies and procedures that set out our values and expectations as to how we will work and behave towards each other.

Code of Business Conduct

The South32 Code of Business Conduct (the Code) represents a commitment by all our employees, Directors, officers, contractors and suppliers to uphold ethical business practices and meet or exceed applicable legal requirements. It sets the standard for behaviour and provides guidance which in turn assists in building trusting relationships with our communities, governments, suppliers, business partners, customers and our teams.

We have independent external systems in place for employees and contractors to be able to anonymously report concerns regarding the behaviour of our employees, or those representing us, in a way that protects their identity.

Failure to comply with the Code is viewed as a serious matter, which may lead to disciplinary action, including dismissal and/or legal action.

A copy of the Code can be found on our website in the Corporate Governance section.

Anti-corruption

We believe that through the fair allocation of resources, we will create value which can make a lasting difference to the communities in which we operate. We are committed to realising the potential of both human and mineral resources, recognising that bribery and corruption presents a challenge to the delivery of this commitment. We understand that corruption can negatively impact the lives of people in our host communities by driving up the costs of public services and works, and through the misallocation of resources and wasting of opportunities that arise from resource development. Corruption can affect the poorest people in society and undermine the integrity of government, reinforcing poverty, and improperly influencing government and community decision making.

We recognise that compliance with anti-corruption laws is essential to protect our reputation and to preserve our social licence to operate in keeping with local and international anti-corruption laws. We have zero tolerance of all forms of bribery and corruption and we also prohibit facilitation payments. We prohibit authorising, offering, giving or promising anything of value directly or indirectly (via a third party) to government officials to influence official action, or to anyone to encourage them to perform their work disloyally or otherwise improperly.

Conflicts of interest

General guidelines in relation to managing conflicts of interest can also be found in our Code, and a number of measures have been adopted to ensure compliance. South32 maintains a Conflict of Interest Register. Employees and agency contractors are required to record any actual conflict of interest or any appearance of one.

In accordance with the requirements of the Australian Corporations Act 2001, Directors who have a material personal interest in a matter that is being considered at a Directors' meeting must not be present while the matter is being considered. The other Directors may, however, allow such Directors to participate and vote in relation to the issue if they are satisfied that the interest should not disqualify the Director(s) from voting or being present.

Sustainability

The Sustainability Policy defines the South32 social, environmental and economic principles behind our decision making. The statements made in the Sustainability Policy (section 4 (p51)) reference a commitment to human rights, empowering people to make choices, the international standards to which we adhere and continuous environmental, safety and health performance. The Sustainability Policy also references a clear commitment to governance and transparency. The Board has established a Sustainability Committee, a key role of which is to assist the Board in the oversight of our sustainability responsibilities.

DEALINGS IN SOUTH32 SECURITIES

South32 has adopted a Securities Dealing Policy and Procedure (Securities Dealing Policy), with the purpose of:

- Ensuring that public confidence is maintained in the reputation of the Group, its Directors and employees and in the trading of the Company's securities
- Explaining the Company's policy and procedures for the dealing in securities
- Recognising that some types of dealing in securities are also prohibited by law

The Securities Dealing Policy applies to all our employees, Directors and contractors. There are also additional requirements that apply to Directors and members of the Executive Committee (together, Persons Discharging Managerial Responsibilities, or PDMRs) and employees who have been advised by Company Secretariat that they are subject to additional requirements under this Policy.

PDMRs and their Connected Persons (which includes certain family members and entities that the PDMR has the ability to control) must not deal in the Company's securities during certain blackout periods (from the end of the half year or full year until the release of the results and any other period specified by the Board). There are limited exceptions.

Outside blackout periods, PDMRs must seek prior approval for a proposed dealing in the Company's securities.

The Securities Dealing Policy also sets out our policy on hedging arrangements, further details of which are set out the Remuneration Report in section 8 (p133).

A copy of the Policy can be found on our website in the Corporate Governance section.

MARKET DISCLOSURE AND COMMUNICATIONS WITH SHAREHOLDERS

South32 places importance on effective communication with our shareholders, prospective shareholders and market participants and is committed to promoting high standards of disclosure to ensure that trading in our shares occurs in an efficient and well-informed market.

Market disclosure and communications

We have disclosure obligations under Australian, United Kingdom and South African regulations.

To safeguard the effective dissemination of information and to ensure that Directors and employees are aware of their obligations, we have adopted a Market Disclosure and Communications Policy that outlines:

- The standards adopted by the Company for meeting its disclosure requirements
- The roles and responsibilities of the Board, Disclosure Officers, CEO and Company Secretariat in ensuring we comply with our obligations
- The standards we adopt for ensuring effective communication with shareholders and market participants

All employees play an important role in enabling us to comply with these obligations. We have established a disclosure process that is aimed at ensuring that information that may need to be disclosed is reported in a timely manner.

A copy of the Policy can be found on our website in the Corporate Governance section.

Shareholder engagement

South32 is committed to effective two-way communication with shareholders and other financial market participants through our investor relations, electronic communications and engagement programmes.

Our investor relations programme aims to allow investors and other financial market participants to gain a greater understanding of our business, governance, financial performance and prospects. It provides a forum for investors and other financial market participants to express their views to us on matters of concern and interest to them.

Our investor relations team will assess and evaluate shareholder feedback, received through calls to the team, question-and-answer sessions at the AGM, and questions raised at investment briefings and strategy days.

Shareholders can send and request to receive communications and other shareholding information electronically.

Engagement between our Directors, shareholders and other financial market participants is an important part of our communication process, in that it builds alignment and better long-term relationships. While acknowledging and valuing continuous disclosure obligations, it is important for Directors and the Board to understand different perspectives and be prepared to respond to feedback.

We are committed to an annual programme of engagement with shareholders and other financial market participants which will involve meetings that encourage constructive dialogue with the Chairman of the Board on governance and strategy matters, and with the Chairman of the Remuneration Committee on the Remuneration Report and related matters.

Feedback from these communication programmes is reported to the respective Committees and to the Board. This ensures that all Directors have an understanding of shareholder perspectives on important matters.

Annual General Meeting

The AGM provides an important occasion to update shareholders on our performance and offers an opportunity for shareholders to ask questions of and to hear from the Board. It also allows the Board to listen to and respond to feedback. It is intended that all our Directors and members of the Executive Committee will attend the 2015 AGM, as well as the External Auditor, who will be available to answer questions relevant to the audit.

Voting rights are an important tool for shareholders to cast their views on significant matters affecting our business. The Notice of Meeting will explain how shareholders can appoint proxies and how questions can be registered prior to the meeting. Shareholders will also be able to submit proxies electronically through a link to our share registry.

The AGM will be webcast so that shareholders who are unable to attend the AGM will have the opportunity to listen to the meeting. Copies of the Chairman's and CEO's speeches will be lodged with the relevant exchanges immediately prior to the meeting, while the results of any voting at the AGM will be lodged with the relevant stock exchanges and made available on our website as soon as practicable after the AGM.

DIVERSITY AND INCLUSION AT SOUTH32

Our values, along with the Diversity and Inclusion Policy, guide our approach to diversity and inclusion. We believe our success relies on having a team comprised of the best people, each bringing different skills, perspectives and experiences, and an inclusive work environment where these differences are valued.

Our Diversity and Inclusion Policy was approved by the Board in May 2015 and responsibility for its oversight rests with the Nomination and Governance Committee. A copy of the Policy is available on our website.

Our vision for diversity in South32 reflects the broadest definition of difference, where we attract, retain and develop people who differ by gender, ethnicity, disability, age, thought, education, experience, family responsibilities and sexuality. We aspire to have a workforce that reflects the communities we are a part of.

Our Board has set a goal to improve the representation of employees from diverse ethnic backgrounds in our workforce and to progress towards balanced gender representation at Board and senior management levels. Our Board approves South32's measurable objectives for diversity and inclusion each year and will monitor our progress towards achieving these objectives on an annual basis.

Progress during FY2015

Because we demerged from BHP Billiton shortly before the end of FY2015, our Diversity and Inclusion Policy was only recently adopted and the Board did not have the opportunity to set measurable objectives for FY2015. Therefore, it was not practical to comply with Corporate Governance Council recommendation 1.5(c). Despite this, we undertook a number of key diversity initiatives during FY2015, including the development and adoption of our Diversity and Inclusion Policy and the recruitment of our leadership teams.

The formation of South32 provided an opportunity to craft the composition of our leadership teams. Achieving diversity within those teams received particular focus.

One of our eight Board Directors is female (12.5 per cent), and our Board represents a diverse mix of experience and backgrounds. For further information see section 2 (p15). In addition:

- Two of the seven members of our Executive Committee are women (29 per cent)
- Our senior leadership team (those Executives who report directly to the Executive Committee) overall comprises 26 per cent women. This includes 27 per cent female representation in the Africa Region Lead Team, 33 per cent female representation in the Australia Region Lead Team and 21 per cent female representation in the Corporate Function Lead Team
- Of the total workforce of 15,545 female representation is 14.5 per cent

We improved the gender balance of our graduate intake from 33 per cent female in FY2014 to 52 per cent female in FY2015. We are committed to continuing to improve female representation in the workforce overall and in senior roles.

We have implemented a Parental Leave Standard that supports our commitment to gender equality and a diverse and inclusive workplace; satisfies our legal obligations relating to parental leave; and contributes to our position as an employer of choice for both men and women. Our Code of Business Conduct states our commitment to equality in employment practices and zero tolerance for harassment or bullying and sets out our expectations of all employees in this regard.

Focus areas for FY2016

Measurable objectives have been set by the Board in respect of FY2016 consistent with our aim to progress towards a balanced gender and an ethnically diverse representation at Board, senior management and across all areas of our business.

We aim to achieve a year-on-year increase in overall female participation and at least 30 per cent female representation in our leadership teams (Board, Executive Committee, Corporate Functions and Regions) by FY2018. In addition, we are committed to supporting the spirit and intent of transformation and empowerment in South Africa and we will continue to pursue targets for the representation of people from different ethnic backgrounds in our workforce.

Building a pipeline of diverse talent is also a focus and to achieve this, we will pursue a target of balanced gender representation in our graduate intake and monitor the diversity profile of leadership teams and of successors for key leadership roles.

We will monitor our progress in creating an inclusive work environment through our employee survey and a gender-based comparison of remuneration outcomes will be conducted.

Our regions are making progress in developing Diversity and Inclusion Plans that will deliver our objectives. Our progress in achieving our objectives will be assessed and the results reported in our FY2016 Annual Report.

This Corporate Governance Statement is current as at 22 September 2015 and has been approved by the Board on this date.

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WE HAVE A CONSIDERED APPROACH TO EXECUTIVE REMUNERATION IN SUPPORT OF OUR STRATEGY

REMUNERATION REPORT

SECTION 8: REMUNERATION REPORT

LETTER FROM REMUNERATION COMMITTEE CHAIRMAN

Dear Shareholder

I am pleased to introduce South32's inaugural Remuneration Report for the financial year to 30 June 2015.

This report outlines the remuneration arrangements put in place as part of our transition from BHP Billiton into a demerged and separate company, as well as our remuneration philosophy and framework for FY2016 and beyond.

As noted in the BHP Billiton *South32 ASX Information Memorandum* of March 2015, the South32 Board recognises that remuneration has an important role to play in supporting the implementation and achievement of South32's strategy and ongoing performance. As such, the remuneration philosophy, framework and ongoing arrangements have been designed to ensure alignment between the activities that management undertakes and the interests of you, our shareholders.

As you will see in this report, a number of replacement and transitional awards were made to key South32 Executives in FY2015 to replace existing entitlements to BHP Billiton awards. The granting of such awards is intended to be a transition of the remuneration arrangements for our senior team in a way that immediately focuses them on sustained South32 shareholder value creation.

For our ongoing remuneration arrangements, the Remuneration Committee's approach to executive remuneration has been driven by the view that the fundamental driver of remuneration outcomes should be business performance, and in particular shareholder value creation. In addition, we have taken an approach of providing appropriate remuneration to attract, motivate and retain the best people to lead our Company.

To this end, a competitive level of fixed remuneration is paid to the executives, whilst a relatively high proportion of remuneration is comprised of "at risk" elements. This ensures that Executives focus on the strategic priorities for South32 that ensure sustained business performance and take a longer-term approach to decision making, that will drive business growth and success over time.

In reflecting on FY2015, the Remuneration Committee considers it a successful year, as we demerged from BHP Billiton, established ourselves as an independent, stand-alone company and put in place the plans to make us an outstanding organisation. In assessing the incentive outcomes for the South32 Executive KMP, performance for the whole financial year was taken into account, including both South32 business performance (which included the demerger process) as well as performance in prior BHP Billiton roles, as outlined in this report.

We trust that you find the following report informative and we welcome your feedback.

Wayne Osborn
Chairman, Remuneration Committee

CONTENTS

The following sections of the Remuneration Report have been audited:

- Overview
- Remuneration governance
- Remuneration of Executive KMP (including the CEO)
- Remuneration opportunities and outcomes for Executive KMP
- Remuneration of Non-Executive Directors
- Other statutory disclosures

OVERVIEW

Introduction

This Remuneration Report has been prepared in accordance with section 300A of the Corporations Act 2001 (Cth) (Act).

For the purposes of this Remuneration Report, the terms 'Company' and 'South32' refer to South32 Limited and 'Group' refers to South32 Limited and its controlled entities.

The 2015 financial year marked a significant milestone for the Group. On 6 May 2015, shareholders of BHP Billiton Limited approved the demerger of South32 to create a separate listed entity on the ASX with secondary listings on the LSE and JSE (demerger). Effective 25 May 2015, South32 ceased to be a wholly owned subsidiary of BHP Billiton Limited. Accordingly, this Remuneration Report covers two distinct periods:

- The period from 1 July 2014 to 24 May 2015 as a subsidiary of BHP Billiton Limited (pre-demerger)
- The period from 25 May 2015 to 30 June 2015 as an independent entity (post-demerger)

South32 is required to prepare a Remuneration Report in respect of the Group's key management personnel (KMP), being those people who have the authority and responsibility for planning, directing and controlling our activities, either directly or indirectly, including any Director. In respect of the post-demerger period, we determined that our KMP are Graham Kerr, Brendan Harris, Ricus Grimbeek and Mike Fraser (collectively referred to as Executive KMP) and the Non-Executive Directors. In respect of the pre-demerger period, the decisions and actions of the Executive KMP were subject to oversight by BHP Billiton directors and senior management. Accordingly, the only KMP of the South32 Group for the pre-demerger period were the Directors of South32 (including the CEO) who are automatically captured under the legal and accounting standard definition of KMP.

This report focuses on the remuneration arrangements of South32 as a separately listed entity post-demerger, including our remuneration policy, opportunities and components that will apply with effect from FY2016. However, in order to provide shareholders with a full and complete picture, and to comply with applicable statutory requirements, the report includes information on the transitional remuneration arrangements that will apply for those members of our KMP who were previously employed by BHP Billiton. The report also includes the required statutory disclosures in relation to the Directors of South32 in the pre-demerger period.

For details of remuneration received by persons referred to in this report in their capacity as KMP of BHP Billiton, please see BHP Billiton's Remuneration Report for FY2015.

Details of KMP

The table below sets out details of those persons who were KMP of the Group for FY2015. Following the end of the financial year, we announced the appointment of Xolani Mkhwanazi as a Non-Executive Director with effect from 2 July 2015.

Table 8.1 – Members of KMP

Executive Members of KMP (post-demerger)[1]

Name	Title	Commencement as KMP[1]
G Kerr	Chief Executive Officer and Executive Director	21 January 2015
B Harris	Chief Financial Officer	25 May 2015
R Grimbeek	President and Chief Operating Officer, Australia	25 May 2015
M Fraser	President and Chief Operating Officer, Africa	25 May 2015

Non-Executive Members of KMP (post-demerger)

Name	Title	Commencement as KMP[1]
D Crawford	Chairman and Independent Non-Executive Director	2 February 2015
K Rumble	Independent Non-Executive Director	27 February 2015
F Cooper	Independent Non-Executive Director	7 May 2015
P Kukielski	Independent Non-Executive Director	7 May 2015
N Mtoba	Independent Non-Executive Director	7 May 2015
W Osborn	Independent Non-Executive Director	7 May 2015

Additional persons who were KMP in the pre-demerger period[2]

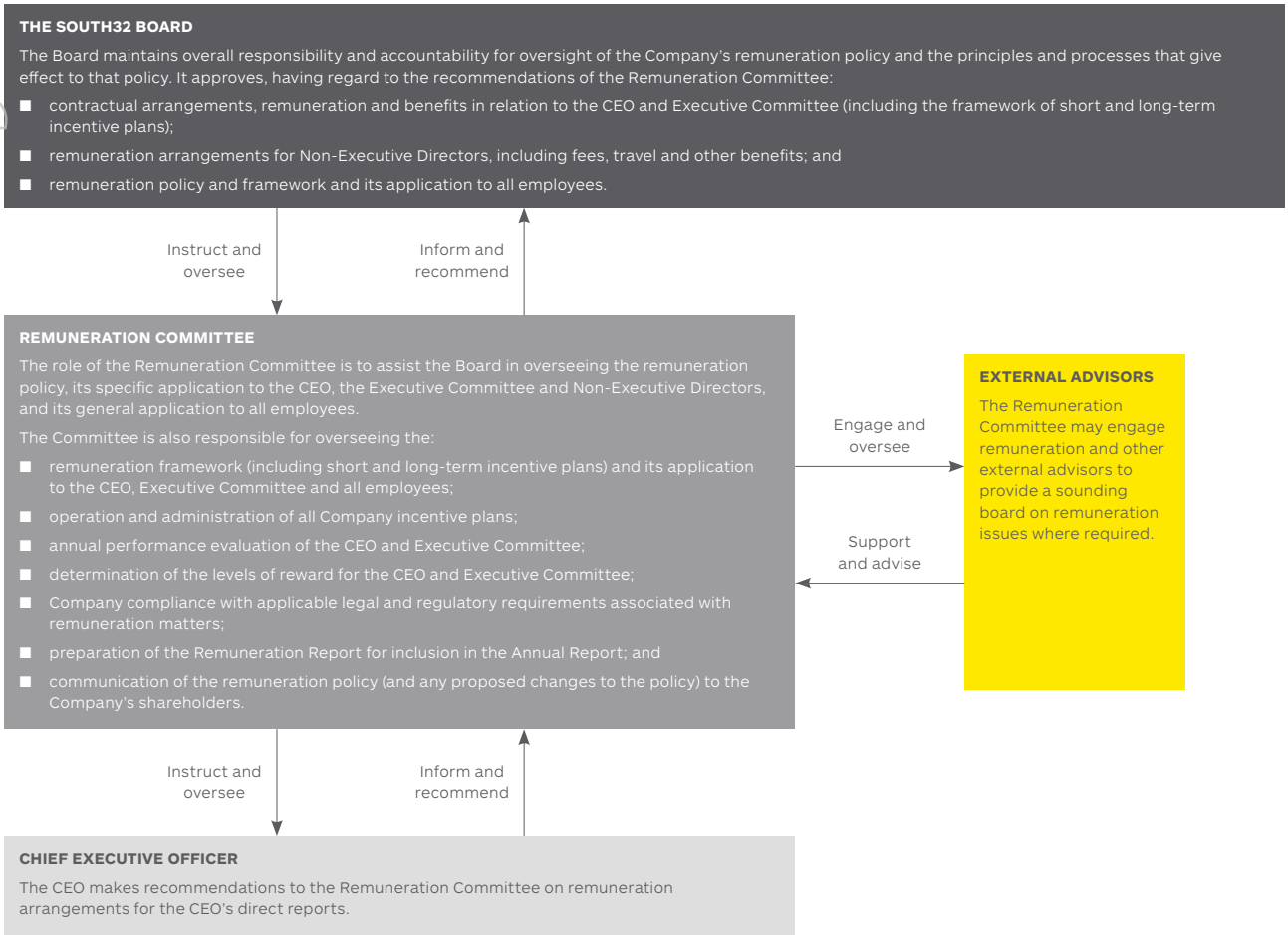
Name	Title	Commencement as KMP	Cessation date
N Duncan	Non-Executive Director	21 January 2015	27 February 2015
J Parker	Non-Executive Director	19 July 2013	21 January 2015
G Oberholzer	Non-Executive Director	19 July 2013	21 January 2015

(1) For Directors, the date on which they were appointed to the Board is their commencement date as KMP. For other executives, they did not commence as KMP until legal separation of South32 from BHP Billiton on 25 May 2015.

(2) These individuals are considered KMP on the basis that they are "statutory"' Directors of South32 because they are deemed by Australian legislation to have acted in the capacity as a Director during the financial year ended 30 June 2015. However, they did not receive any remuneration in relation to their service as Directors of South32.

REMUNERATION GOVERNANCE

Diagram 8.1 - Remuneration governance structure



Board oversight and the Remuneration Committee

The Board has established a Remuneration Committee to assist it in ensuring that remuneration arrangements are equitable and aligned with our risk framework and the long-term interests of our shareholders. The Board regards it as critical that the Committee is independent, and is seen to be independent, from management when making decisions affecting the remuneration of Executive KMP and other employees.

To safeguard the independence of remuneration-setting procedures, the Remuneration Committee is comprised solely of Non-Executive Directors, all of whom are independent. The Committee regularly invites other Directors, members of management and senior members of the Human Resources and Company Secretarial function to attend meetings (providing that person's remuneration is not being considered) to provide reports and updates to the Committee to ensure that it is fully informed.

To ensure the Remuneration Committee is appropriately informed, it is entitled to seek advice from professional advisers, all of whom are independent from the South32 Group, including remuneration consultants.

Further details regarding the membership and meetings of the Remuneration Committee are provided within section 7 (p121).

Informed decision making

The Remuneration Committee seeks information and analysis from a variety of sources in making decisions on remuneration matters. The Committee relies on members of senior management (including the CEO, the Chief People Officer and the Head of Reward) to provide it with information and insights regarding current and emerging issues affecting our business, and to put forward proposals on remuneration matters for consideration by the Committee. Where appropriate, the Committee supplements the information and analysis provided by management with advice from external advisors, including remuneration consultants. If a formal recommendation is sought from an external advisor on issues related to KMP remuneration, the advisor will be directly engaged by and report to the Remuneration Committee.

The Remuneration Committee considers that receiving appropriate information and analysis is a critical foundation for good decision making. Independent remuneration advisors can provide an objective perspective on our remuneration practices, while management can contribute information based on their close knowledge of the business and strategic drivers for South32. By sourcing information and analysis as appropriate from independent advisors as well as from management, the Remuneration Committee receives a robust range of opinions and assistance in testing those opinions.

Informed decision making continued

Irrespective of where remuneration information and analysis is sourced, the Remuneration Committee rigorously assesses that information. Information, advice and recommendations received from remuneration advisors and management are used as a guide but do not serve as a substitute for the consideration of opinions by the Remuneration Committee.

In setting the remuneration arrangements that will apply for KMP for FY2016 and subsequent years, South32 sought information from a range of external advisors, including benchmarking information and market data. None of these external advisors provided remuneration recommendations on KMP remuneration.

Prohibition on hedging of South32 shares and equity instruments

Executive KMP are not allowed to protect the value of any unvested or restricted equity awards allocated to them. Executive KMP are also not permitted to use unvested or restricted equity awards as collateral in any financial transaction, including hedging and margin loan arrangements.

Any securities that have vested and are no longer subject to restrictions or performance conditions may be subject to hedging arrangements or used as collateral provided that the consent, notification and other restrictions on dealings set out in our Securities Dealing Policy are complied with in advance of the executive entering into the arrangement.

REMUNERATION OF EXECUTIVE KMP (INCLUDING THE CEO)

Remuneration policy

Guiding principles

The Remuneration Committee recognises that remuneration has an important role to play in supporting the implementation and achievement of our strategy and ongoing performance.

Remuneration arrangements for Executive KMP (including the CEO) have been designed to align the activities of management with the interests of our shareholders.

Their remuneration has been set to reflect each individual's responsibilities, location, skills, experience and performance within South32.

The key principles that underpin the design of remuneration arrangements are to:

- Support the execution of our strategy in alignment with our risk framework
- Be market competitive and designed to attract, retain and motivate individuals and teams, without paying more than necessary
- Comprise fixed and at-risk components that link a significant proportion to performance and the creation of value for our shareholders
- Apply demanding performance conditions to at-risk components, including financial and non-financial measures
- Limit termination benefits to pre-agreed contractual and approved obligations
- Be equitable and be set having regard to the expectations of our shareholders

The purpose of remuneration at South32

The Remuneration Committee's approach to executive remuneration is driven by the view that the fundamental driver of remuneration outcomes should be business performance and therefore the shareholder value generated year on year. This is underpinned by the approach of paying appropriate remuneration to attract, motivate and retain the best people to lead South32.

Our remuneration arrangements are structured to ensure that Executive KMP take a long-term approach to decision making, and do not promote a focus on short-term results at the expense of longer-term business growth and success. Accordingly, a relatively high proportion of executive remuneration is comprised of "at-risk" elements that will only be received by Executive KMP if pre-determined performance hurdles are met and the Remuneration Committee regards that vesting the awards is appropriate in the circumstances. The equity component of any short-term incentive (STI) award will be deferred for a two-year period, and performance under the long-term incentive (LTI) plan will be measured over a four-year period aligned with our strategy. This ensures that the actual rewards received by Executive KMP reflect our performance and share price over a prolonged timeframe. In addition, the Board holds discretion to determine that awards are not provided or vested in circumstances where it would be inappropriate to do so.

An important feature of our remuneration arrangements is that they are not driven by a purely formulaic approach.

It is the Committee's view that this incentive structure is appropriate in our circumstances and aligns the interests of Executive KMP and shareholders. In particular, the Committee is satisfied that the remuneration arrangements:

- Provide an appropriate focus on the South32 Group's sustained performance
- Reflect our risk framework and focus on long-term value creation
- Reinforce the desired behaviours of Executive KMP
- Provide a transparent mechanism for clawback in the event of a restatement of our results, through changes to the vesting or non-vesting of deferred awards

Components of remuneration and links to performance and strategy

Remuneration for Executive KMP is comprised of fixed remuneration and "at-risk" components. The at-risk component is comprised of STI and LTI awards. South32 also pays superannuation contributions as required by law and pays any further benefits to which executives are entitled under their employment contracts.

It is not possible to address the statutory requirement that South32 provides a five-year discussion of the link between performance and reward in this Remuneration Report (as this information does not exist for the pre-demerger period). However, Table 8.2 sets out how the remuneration strategy described above links to South32's strategy and supports performance.

Table 8.2 – Executive KMP remuneration components and links to strategy

Link to strategy	Operation and performance framework
Fixed remuneration	
Competitive fixed remuneration is paid in order to attract, retain and motivate talented Executive KMP to lead the South32 Group and further its strategic goals. Fixed remuneration is expressed as a gross figure inclusive of superannuation.	Fixed remuneration is broadly aligned with salaries for comparable roles in global companies of similar complexity, size, geographic footprint, listing jurisdictions, reach and industry. Each Executive KMP receives Fixed Remuneration that reflects that individual's responsibilities, location, skills, experience and performance. Fixed remuneration is reviewed annually and is informed, but not led, by benchmarking to comparable roles and changes in responsibility and general economic conditions. Consideration is also given to the general salary increases received by employees. Fixed remuneration is not subject to separate performance conditions (i.e. it is not 'at risk').
Short-Term Incentive	
The purpose of Short-Term Incentive (STI) is to focus Executive KMP's efforts on those performance measures and outcomes that are priorities for the South32 Group for the relevant financial year, and to motivate Executive KMP to strive to achieve stretch performance objectives. The STI comprises financial and non-financial measures, which are set on the basis that they are expected to have a significant short-term and long-term impact on the success of the South32 Group. STI performance measures are set at the commencement of each financial year. Half of each STI award is delivered in the form of rights to South32 shares, deferred over two years, to encourage a longer-term focus aligned to that of shareholders by exposing Executive KMP to price movements in South32 shares.	STI awards were made to Executive KMP in respect of FY2015 for performance against a combination of targets set by BHP Billiton (for the pre-demerger period) and South32 (for the Post-Demerger period). The assessment of performance was carried out by the South32 Remuneration Committee in consultation with the BHP Billiton Remuneration Committee. Further details regarding the transitional STI arrangements that applied for FY2015, including STI outcomes, are discussed in FY2015 Remuneration (p141). The discussion below reflects the approach the Board has adopted for the FY2016 STI awards. **Setting performance measures and targets** A scorecard of financial and non-financial measures is set at the commencement of each financial year, and will include business and individual key performance indicators (KPIs). For FY2016 the performance measures will be: ■ Sustainability (health, safety, environment and community) ■ Finance (return on invested capital (ROIC) and production, cost and capital expenditure) ■ Delivery against strategic plan The Board considers that the performance targets are appropriately challenging to retain and motivate Executive KMP. **Assessment of performance** At the conclusion of the financial year, the Remuneration Committee will determine and recommend to the Board for its approval whether each Executive KMP has met their STI targets and, if targets have been met, the incentive outcome for each. The Remuneration Committee considers guidance provided by other Committees when setting and testing STI targets and other performance indicators. Importantly, the Board has overall discretion on the final STI outcomes for the Executive KMP. This is an important mitigation against the risk of unintended award outcomes. **Delivery of awards** The value of any STI award will be provided half in cash with the remaining half deferred into rights to receive fully paid ordinary shares in South32. The deferred rights vest after two years subject to continued service with the South32 Group. The minimum, target and maximum FY2016 STI opportunities of each Executive KMP are set out in FY2016 Remuneration (p143). The deferred rights are subject to vesting conditions, forfeiture conditions and restrictions on dealing. Before vesting (or exercise), rights granted as part of deferred equity are not ordinary shares and do not carry entitlements to ordinary dividends or other shareholder rights (such as voting). The Board has discretion to determine how awards will be treated if the participant ceases employment with South32. For example, the award may vest (e.g. if the participant ceases employment due to death or serious injury) or lapse (e.g. where a participant resigns or is terminated for cause). This is discussed in more detail below. Deferred STI awards are subject to malus and clawback as described below. The Board believes that South32's process of setting, and assessing performance targets and delivering STI awards is fair, transparent and effectively aligns the interests of Executive KMP with our shareholders.

Table 8.2 – Executive KMP remuneration components and links to strategy continued

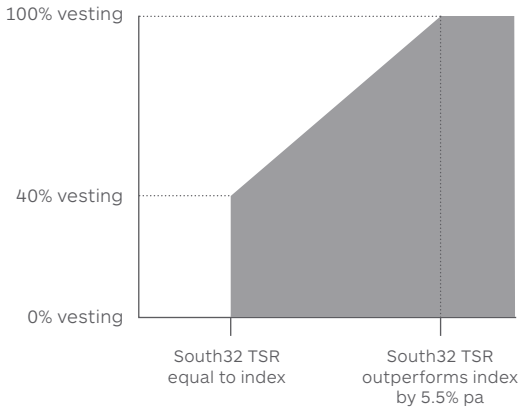
Link to strategy	Operation and performance framework
Long-Term Incentive	
The purpose of Long-Term Incentive (LTI) is to focus the Executive KMP's efforts on the achievement of sustainable long-term value creation and success (including appropriate management of business risks). The provision of LTI awards also exposes Executive KMP to long-term movements in the price of South32 shares, by aligning the long-term interests of executives with shareholders through the use of a total shareholder return (TSR) performance hurdle. This reflects South32's strategy of adopting a long-term approach to decision making and sustained value creation for shareholders.	South32 is yet to make any grants under the South32 LTI plan. As discussed in FY2015 Replacement and Transitional Awards applying to the Demerger (p138), the only awards over South32 shares that have been made to date are the replacement awards to compensate Executive KMP whose BHP Billiton awards were cancelled and/or withheld as a result of the Demerger and a transitional performance award to Mr Fraser to bridge the gap between his remuneration at BHP Billiton and his first three years at South32. The discussion below reflects the approach the Board has adopted for the FY2016 LTI awards that are proposed to be made in December 2015. **Vesting period** A four-year vesting period will apply to the FY2016 grants under the South32 LTI plan. Common practice in the Australian market is to adopt a three-year vesting period for LTI awards, although there are examples of companies (such as BHP Billiton) that use four or five-year vesting periods. Governance bodies and proxy advisers generally prefer a minimum four-year vesting period for LTIs. Taking all factors into account, the Board determined that a four-year vesting period is appropriate for South32. **Relative TSR performance condition** LTI awards for FY2016 will be subject to a relative TSR performance condition, which must be achieved over the relevant performance period. Relative TSR has been chosen as the most appropriate measure as it allows for an objective external assessment over a sustained period on a basis that is familiar to our shareholders. Full vesting of the LTI award only occurs where South32's TSR significantly outperforms the TSR of the comparator index. The comparator index and the required outperformance for full vesting is determined by South32 in relation to each grant and included in the terms provided to executives. Two comparator indices have been selected in order to ensure the TSR performance condition is appropriately robust and reflective of the sectors and markets to which we have exposure. For FY2016, the comparator indices will be: ■ In relation to vesting of two thirds of the FY2016 LTI award; the Euromoney Global Mining Index, constrained by company and sector. This comparator index comprises approximately 150 companies and is considered the most appropriate sector comparison for South32 in terms of companies in a related industry, with a relevant commodity mix and a collective global footprint ■ In relation to the vesting of one third of the FY2016 LTI award: the MCSI World Index, is a global equity index consisting of companies listed in developed markets and with a footprint in both developed and emerging market countries. This is considered an appropriate market index for South32 given the diversity of geographies across which it operates If the TSR of the Company: ■ Is below the TSR of the comparator index, 0 per cent of the rights vest ■ Is equal to the TSR of the comparator index, 40 per cent of the rights vest ■ Exceeds the TSR of the comparator index by at least 5.5 per cent per annum cumulative (Outperformance), 100 per cent of the rights vest ■ Is between the TSR of comparator index and Outperformance, vesting will be on a sliding scale between 40 per cent and 100 per cent  There is no retesting if the performance condition is not met. Moreover, the Board has the discretion to lapse an executive's LTI award if it considers that this is appropriate in the circumstances (for example, because the vesting outcome based on the TSR performance hurdle would not be a true reflection of the underlying performance of South32).

Table 8.2 – Executive KMP remuneration components and links to strategy continued

Link to strategy	Operation and performance framework
	Quantum of award The Remuneration Committee considers it appropriate to have regard to both fair value and face value when setting the quantum of LTI for Executive KMP. The face value represents the maximum value of the award as at the time it is granted, based on the number of rights being granted and the South32 share price at that time. The Committee considers it important to communicate and have regard to the face value of LTI to aid transparency. The Committee also has consideration for fair value for setting and benchmarking the quantum of the LTI opportunity, because fair value takes into account the likelihood of the Executive KMP deriving value from the LTI at vesting. Fair value is therefore considered when assessing the level of LTI opportunity that will motivate KMP and effectively promote performance aligned with our shareholder interests. The Committee believes that a fair-value approach, provided it is consistently applied and transparently disclosed, is also meaningful for stakeholders in understanding what we expect Executive KMP will receive under their LTI awards. The minimum, target and maximum FY2016 LTI opportunities of each Executive KMP are set out in diagram 8.4 (p144) along with further explanation of the fair-value assessment applied by the Remuneration Committee. **Delivery of award** LTI awards for FY2016 will comprise rights to receive fully paid ordinary shares in South32 in the future, if the relevant performance conditions are met and subject to continued service within the South32 Group. Before vesting (or exercise), these rights are not ordinary shares and do not carry entitlements to ordinary dividends or other shareholder rights, such as the right to vote. The Committee has the discretion to settle LTI awards in cash in exceptional circumstances. LTI awards are subject to malus and clawback provisions as described below this table.
One-off Transitional LTI Awards	
Certain Executive KMP will be eligible for one-off LTI awards (Transitional LTI Awards). The purpose of the Transitional LTI Awards is to manage retention risk by providing the potential for equity to vest each year as Executive KMP transition from a three-year replacement BHP Billiton LTI to a four-year South32 LTI.	A one-off grant of Transitional LTI Awards will be made to Mr Harris and Mr Grimbeek at the same time as their grant of regular FY2016 LTI Awards. Both Mr Harris and Mr Grimbeek participated in the BHP Billiton Management Award Plan (MAP) which was a three-year LTI plan for BHP Billiton executives below the Group Management Committee. The Transitional LTI Awards, which are half the face value of the usual LTI grant, will vest in 2018 and will bridge the gap between when the last replacement BHP Billiton three-year LTI held by Mr Harris and Mr Grimbeek will vest (subject to satisfaction of relevant conditions) in 2017 and when the first regular South32 LTI will vest (subject to satisfaction of relevant conditions) in 2019. This will ensure that Mr Harris and Mr Grimbeek have an LTI component of remuneration that is eligible for vesting each year, subject to satisfying applicable service and performance conditions. The Transitional LTI awards will be subject to the same performance measures that apply to the regular FY2016 LTI Awards but will be measured over a three-year performance period to provide Mr Harris and Mr Grimbeek with the potential for equity to vest in 2018. The Transitional LTI Awards will comprise rights to receive fully paid ordinary shares in South32 in the future, if the relevant performance and service conditions are met. Before vesting (or exercise), these rights are not ordinary shares and do not carry entitlements to ordinary dividends or other shareholder rights, such as the right to vote. The grant of Transitional LTI Awards will be equal to 50 per cent of the value of their regular FY2016 LTI awards.

Malus and clawback

The Board has discretion to reduce or clawback STI and LTI awards in certain circumstances to ensure that no inappropriate benefit is obtained by Executive KMP. The Board's discretion applies to vested and unvested equity components of STI and LTI awards, including shares allocated and cash paid in connection with vested awards. The circumstances in which the Board may exercise this discretion are broad. Examples include: where an Executive KMP member engages in misconduct, vesting of their awards is or may be triggered by another person's misconduct, a material misstatement in a Group company's accounts or any other factor exists that justifies the exercise of the Board's forfeiture or clawback discretion.

Minimum shareholding requirements

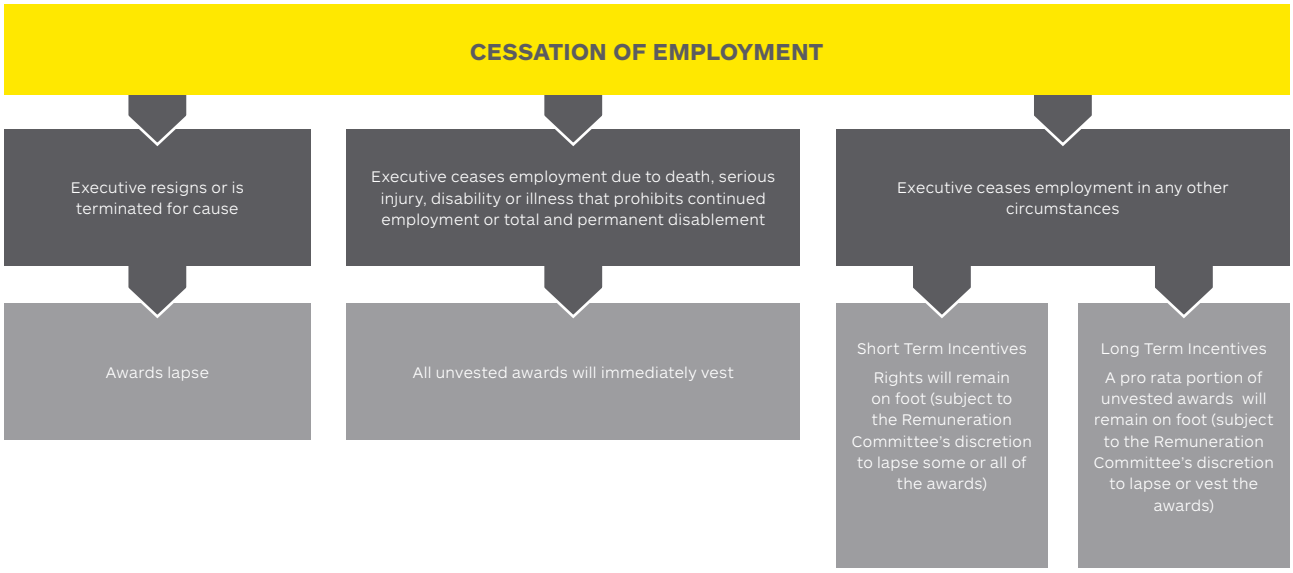
As part of South32's policy of aligning remuneration with shareholders' long-term interests, a minimum shareholding requirement (MSR) applies to Executive KMP. To satisfy the MSR, Executive KMP must build a shareholding equal to or greater in value than their annual fixed remuneration. Executive KMP have a five-year period to build their shareholding, commencing at the end of FY2015 or their appointment as an Executive KMP (if later). All purchased shares held directly or indirectly by the Executive KMP and vested shares from South32 incentive plans will count towards the MSR. Unvested deferred STI and LTI awards will not count towards the MSR, as they remain subject to a risk of forfeiture until vesting occurs.

Treatment of incentives on cessation of employment

The Board has the discretion to determine how incentive awards will be treated if an Executive ceases their employment with South32. This discretion can be exercised on a case-by-case basis, allowing the Board to ensure the treatment of incentives is appropriate in the circumstances and aligns with shareholder expectations.

Diagram 8.2 sets out likely vesting outcomes for equity incentive awards in various cessation of employment scenarios, noting that the Board has discretion to determine that different outcomes will apply having regard to each executive's particular circumstances.

Diagram 8.2 – Likely treatment of equity incentive awards on cessation of employment for Executive KMP



Change of control

In circumstances where there is a likely or actual change in the control in South32, the terms of any equity award to Executive KMP will give the Board a discretion to determine the level of vesting (if any) having regard to the portion of the vesting period elapsed, performance to date against any applicable performance conditions and other factors it considers appropriate.

Details of the potential change of control treatment applicable to equity awards made to the CEO and other Executive KMP in FY2015 were set out in the Listing Document, which provides that awards granted under an STI plan will generally vest in full on a change of control, whereas awards granted under an LTI plan will generally vest on a pro rata basis, based on the portion of the relevant performance period that has elapsed and the level of performance achieved up to the date of the change of control.

Service contracts

The terms of employment for Executive KMP, including the CEO, are formalised in employment contracts that have no fixed term. Key terms are consistent for all Executive KMP, whose contracts outline the components of remuneration paid to the individual, but do not prescribe how remuneration levels are to be modified from year to year.

Executive KMP contracts may be terminated by South32 or by the Executive by giving six months' notice. South32 has discretion to make a payment in lieu of notice in either circumstance. South32 may terminate without notice in certain circumstances, including misconduct and conduct that adversely affects our reputation.

Executives may likewise terminate within two months of a fundamental change that materially diminishes their status, duties, authority or terms and conditions of their employment (other than in circumstances agreed with South32) and will receive payment in lieu of six months' notice.

Executives will be subject to a number of post-employment restraints for a period of up to six months after their employment with South32 Group ends, including restrictions on working with competitors and on soliciting employees or customers of South32 Group. The Executives may receive a maximum of six months' fixed remuneration for compliance with applicable post-employment restraints.

In the event, however, that South32 elects to make a payment in lieu of notice and provide a restraint payment, the combined payment may not exceed six months' fixed remuneration.

Additional benefits may be payable by South32 where an executive's employment ceases due to death or disability, to the extent that the entitlements provided for under the executive's contract are not otherwise funded through insurance or other post-employment plans.

As a matter of good governance, it is intended that shareholder approval be sought for the termination benefit arrangements for KMPs at the 2015 Annual General Meeting.

REMUNERATION OPPORTUNITIES AND OUTCOMES FOR EXECUTIVE KMP

FY2015 Replacement and Transitional Awards applying to the demerger

South32 made a number of awards to Executive KMP in FY2015 under the South32 Equity Incentive Plan (EIP), to replace BHP Billiton awards that were cancelled or withheld in connection with the demerger (Replacement Awards). The Replacement Awards granted by South32 are of a similar value and made on similar terms (including service and performance conditions) to the BHP Billiton awards they replace. However, performance and service conditions are linked to South32 instead of BHP Billiton for the period post-demerger.

The granting of Replacement Awards is intended to support the transition to remuneration arrangements for Executive KMP that are aligned with South32 strategy. This was considered more desirable than leaving Executive KMP's existing BHP Billiton equity awards on foot, or granting further BHP Billiton awards during FY2015 in accordance with BHP Billiton's normal deferred STI and LTI arrangements. By granting Replacement Awards with performance conditions linked to South32 going forward, the transitional remuneration arrangements for Executive KMP will ensure alignment to sustained South32 shareholder value creation.

As foreshadowed in the Listing Document, South32 also granted Mr Fraser a transitional performance award under the EIP in order to bridge the gap between his target remuneration as a member of BHP Billiton's senior executive team and his remuneration at South32 for the first three years of his employment (Transitional Performance Award).

Replacement Awards made in FY2015

Details of the Replacement Awards made to Executive KMP under the EIP on 25 May 2015 are set out in Table 8.3 below.

Table 8.3 – Details of Replacement Awards

Name	Description	Number of Replacement Awards	Type of award	Conditions[1]	Vesting Date
G Kerr	Replacement FY13 BHP Billiton Long-Term Incentive Award	1,532,870	Rights to South32 shares	Service condition and performance conditions	August 2017
	Replacement BHP Billiton FY13 Transitional GMC Award	504,218	Rights to South32 shares	Service condition and performance conditions	August 2015 (tranche 1) August 2016 (tranche 2)
	Replacement BHP Billiton FY14 Long-Term Incentive Award	1,581,485	Rights to South32 shares	Service condition and performance conditions	August 2018
	Replacement BHP Billiton FY14 Short-Term Incentive Award	616,461	Rights to South32 shares	Service condition	August 2016
	Replacement BHP Billiton FY15 Long-Term Incentive Award	1,664,067	Rights to South32 shares	Service condition and performance conditions	August 2019
M Fraser	Replacement BHP Billiton FY14 Long-Term Incentive Award	1,222,058	Rights to South32 shares	Service condition and performance conditions	August 2018
	Replacement BHP Billiton FY14 Transitional GMC Award	437,690	Rights to South32 shares	Service condition and performance conditions	August 2016 (tranche 1) August 2017 (tranche 2)
	Replacement BHP Billiton FY14 Short-Term Incentive Award	401,964	Rights to South32 shares	Service condition	August 2016
	Replacement BHP Billiton FY14 Group Short-Term Incentive Plan	23,597	Rights to South32 shares	Service condition	August 2016
	Replacement BHP Billiton FY15 Long-Term Incentive Award	1,285,870	Rights to South32 shares	Service condition and performance conditions	August 2019
B Harris	Replacement BHP Billiton FY14 Management Award Plan	150,559	Rights to South32 shares	Service condition	August 2016
	Replacement BHP Billiton FY14 Group Short-Term Incentive Plan	124,303	Rights to South32 shares	Service condition	August 2016
	Replacement BHP Billiton FY15 Management Award Plan	145,283	Rights to South32 shares	Service condition	August 2017

Table 8.3 – Details of Replacement Awards continued

Name	Description	Number of Replacement Awards	Type of award	Conditions[1]	Vesting Date
R Grimbeek	Replacement BHP Billiton FY2014 Management Award Plan	201,257	49 per cent in cash and 51 per cent in rights to South32 shares[2]	Service condition	August 2016
	Replacement BHP Billiton FY2014 Group Short-Term Incentive Plan	198,865	49 per cent in cash and 51 per cent in rights to South32 shares[2]	Service condition	August 2016
	Replacement BHP Billiton FY2015 Management Award Plan	190,909	49 per cent in cash and 51 per cent in rights to South32 shares[2]	Service condition	August 2017

(1) Replacement Awards were granted on substantially the same terms as the original BHB Billiton awards. Accordingly, some Replacement Awards are subject to a service condition only i.e. continued service within the South32 Group as indicated in this table.

(2) Roll over tax relief was provided for all awards that were replacement BHP Billiton Limited awards. No rollover relief was provided for the awards replacing Mr Grimbeek's BHP Billiton Plc awards. As a result, a tax liability crystallised for Mr Grimbeek upon demerger in respect of these replacement awards. To enable Mr Grimbeek to fund this liability, 49 per cent of the value of each of these replacement awards was provided in cash, with the remaining 51 per cent delivered in the form of rights to South32 shares.

The number of awards granted to each Executive KMP was based on the number of awards in BHP Billiton that were held (or were earned but withheld) before the demerger multiplied by ([the BHP Billiton five-day volume weighted average price plus South32 five-day volume weighted average price] divided by South32 five-day volume weighted average price), with prices based on the first five trading days following South32's listing on the ASX.

For each Replacement Award that has a performance condition, two sets of performance conditions will apply. These are described in table 8.4.

Table 8.4 – Replacement Award performance conditions

From start of performance period through to 24 May 2015 (BHP Billiton performance condition)	From 25 May through to the end of the performance period (South32 performance condition)
Summary	
For the period up to 24 May 2015, the original BHP Billiton performance conditions attaching to the cancelled/withheld award apply. These are summarised below. Full details regarding the peer groups and index comparator groups used for the TSR performance condition are set out in the BHP Billiton Remuneration Report for the financial year to which the award relates.	For the period from 25 May 2015 the new South32 performance condition described below will apply. This performance condition was developed by South32 having regard to market practice and what is appropriate for a company of the size and scope of operations of South32.
Replacement BHP Billiton FY2013, FY2014 and FY2015 Long-Term Incentive Awards	
BHP Billiton Limited's TSR relative to the TSR of a peer group (determining vesting of 67 per cent of the rights) and an index comparator group (being the MSCI World Index) (determining vesting of 33 per cent of the rights) over the performance period. The proportion of the rights related to the peer group or comparator group (as applicable) which will vest is set out below: If the TSR of BHP Billiton Limited: ■ Is below the TSR of the peer group or index comparator group, 0 per cent of the rights vest ■ Is equal to the TSR of the peer group or index comparator group, 25 per cent of the rights vest ■ Exceeds the TSR of the peer group or index comparator group by at least 5.5 per cent per annum cumulative (Outperformance), 100 per cent of the rights vest ■ Is between the TSR of the peer group or index comparator group and Outperformance, vesting will be on a sliding scale between 25 per cent and 100 per cent	Vesting of 67 per cent of the rights will be determined based on the Company's TSR performance compared against the comparator index, over the performance period. The comparator index will be the Euromoney Global Mining Index, constrained by company and sector. As this comparator index comprises approximately 150 companies, South32 is confident that this is a robust and appropriate peer group (based on sector, commodity mix and geographic spread) that the Company will be able to utilise for replacement and future LTI awards. Vesting of 33 per cent of the rights will be determined based on South32's TSR performance compared against the MSCI World index over the performance period. This index was chosen to maintain consistency with the BHP Billiton award being replaced. If the TSR of South32: ■ Is below the TSR of the comparator index, 0 per cent of the rights vest ■ Is equal to the TSR of the comparator index, 25 per cent of the rights vest ■ Exceeds the TSR of the comparator index by at least 5.5 per cent per annum cumulative (Outperformance), 100 per cent of the rights vest ■ Is between the TSR of the comparator index and Outperformance, vesting will be on a sliding scale between 25 per cent and 100 per cent

Table 8.4 – Replacement Award performance conditions continued

From start of performance period through to 24 May 2015 (BHP Billiton performance condition)	From 25 May through to the end of the performance period (South32 performance condition)
Replacement BHP Billiton FY2014 Transitional GMC Award (M Fraser)	
In determining whether rights will vest, the Remuneration Committee will have regard to factors including but not limited to, BHP Billiton's TSR over the performance period and Mr Fraser's personal performance and contribution to BHP Billiton function and group outcomes. The Committee will take guidance on Mr Fraser's individual performance from the Chief Executive Officer of BHP Billiton.	In determining whether rights will vest, the Remuneration Committee will have regard to factors including but not limited to, South32's TSR over the performance period and Mr Fraser's personal performance and contribution to South32's function and group outcomes. The Committee will take guidance on Mr Fraser's individual performance from South32's CEO.
Replacement BHP Billiton FY2013 Transitional GMC Award (G Kerr)	
In determining whether rights will vest, the Remuneration Committee will have regard to factors including but not limited to, BHP Billiton's TSR over the performance period and Mr Kerr's personal performance and contribution to BHP Billiton group outcomes.	In determining whether rights will vest, the Remuneration Committee will have regard to factors including but not limited to, South32's TSR over the performance period and Mr Kerr's personal performance and contribution to South32's outcomes.

The Remuneration Committee will test performance against both the BHP Billiton performance conditions and the performance conditions relating to South32 to determine whether the Replacement Awards vest, shortly after the end of the vesting period. In doing so, the Board may have regard to BHP Billiton's recommendation in determining whether the BHP Billiton performance conditions have been satisfied, but the Board is not bound by this recommendation.

Given the complexity in applying the two sets of performance conditions, the Remuneration Committee will make any adjustments it considers appropriate to ensure a fair outcome in all the circumstances.

Transitional Performance Award for M Fraser

Details of the Transitional Performance Award made to Mr Fraser under the EIP on 29 June 2015 are set out in Table 8.5 below.

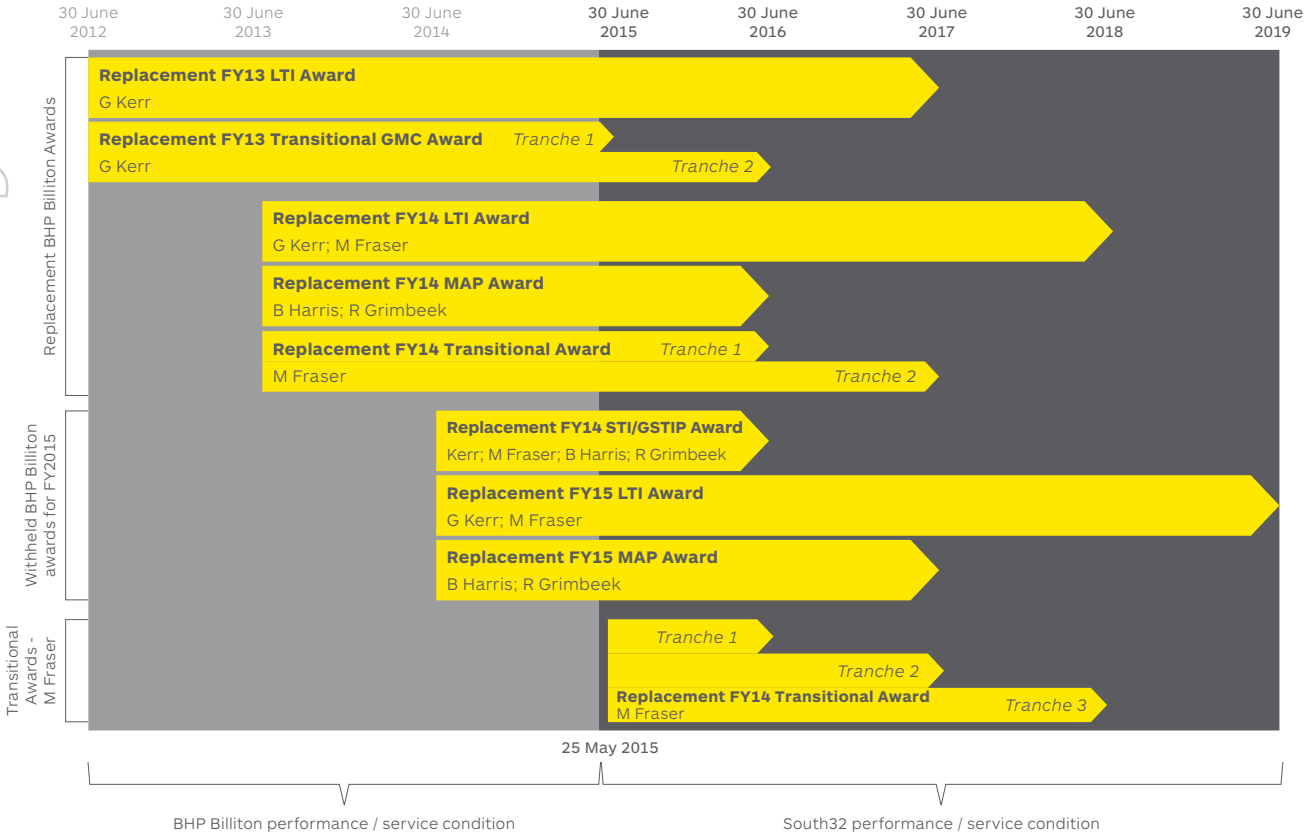
Table 8.5 – Details of M Fraser Transitional Performance Award

Value of award	Three tranches of US$820,000 each
Instrument	Rights to fully paid ordinary South32 shares
Vesting date	August 2016, 2017 and 2018
Performance and service conditions	Subject to continued service within the South32 Group, in determining whether rights will vest, the Remuneration Committee will have regard to factors including but not limited to, South32's TSR over the performance period relative to a comparator index and Mr Fraser's personal performance and contribution to South32's function and group outcomes. The comparator index will be the Euromoney Global Mining Index, constrained by company and sector. The Committee will take guidance on Mr Fraser's individual performance from South32's CEO.
Performance assessment	The performance assessment will be conducted by the South32 Remuneration Committee.

Vesting timeframes for Replacement and Transitional Performance equity awards granted by South32

Diagram 8.3 explains the vesting periods for the Replacement Awards and Transitional Performance Award. See FY2015 Replacement and Transitional Awards applying to the demerger for how these align with the vesting periods that will apply to the equity components of remuneration to be granted by South32 from FY2016 under its intended STI and LTI arrangements described in remuneration policy above.

Diagram 8.3 – Vesting timeframes for Replacement Awards and Transitional Performance Award



Awards will vest at the start of the first non-close period starting on or after 1 July in the relevant year. This is expected to be following the Company's results announcement in August of each year.

FY2015 Remuneration

For the Executive KMP, each of whom had executive roles at BHP Billiton prior to the Demerger, their FY2015 remuneration opportunities and outcomes are largely linked to their historical remuneration arrangements put in place by BHP Billiton. Table 8.6 summarises the various components that formed part of the remuneration for Executive KMP during FY2015. For transparency and clarity, the table below covers all those components that contributed to the Executive's reported remuneration as KMP for FY2015.

Table 8.6 – Components of remuneration for FY2015

Component	Executive G Kerr and M Fraser	B Harris and R Grimbeek
Fixed Remuneration	Each Executive KMP received a fixed salary. The quantum of salary reflects the individual's responsibilities, location, skills, experience and performance and is aligned with salaries for comparable roles in global companies of similar complexity, size, geographic footprint, listing jurisdictions, reach and industry. Details of each Executive KMP's fixed remuneration are set out in Table 8.11.	
STI	As members of the BHP Billiton Group Management Committee, Mr Kerr and Mr Fraser were eligible to participate in BHP Billiton's Short-Term Incentive Plan for FY2015. Their STI opportunities and scorecards were set by the BHP Billiton Remuneration Committee at the start of the year. Performance against the scorecards was assessed by the Company's Remuneration Committee, having regard to recommendations from the BHP Billiton Remuneration Committee (in relation to the pre-demerger period only). Details of the STI opportunities, scorecards and outcomes are summarised below. The portion of STI that was paid to Mr Kerr and Mr Fraser that relates to their service as KMP of the Group is disclosed in Table 8.13.	As employees of BHP Billiton, Mr Harris and Mr Grimbeek were eligible to participate in BHP Billiton's Group Short-Term Incentive Plan for FY2015. Their STI opportunities and scorecards were set by management. Performance against the scorecards for the full year was assessed by the Company's Remuneration Committee, having regard to recommendations from BHP Billiton (in relation to the pre-demerger period only). Details of the STI opportunities, scorecards and outcomes are summarised below. The portion of STI that was paid to Mr Harris and Mr Grimbeek that relates to their service as KMP of the Group is disclosed in Table 8.13.
LTI	No South32 LTI awards were granted over South32 shares in FY2015 due to the timing of the demerger. Refer to FY2015 Replacement and Transitional Awards applying to the demerger (p138) for a description of Replacement Awards and the Transitional Performance Award made by South32 in FY2015. No awards over South32 shares vested in FY2015.	

Table 8.6 – Components of remuneration for FY2015 continued

Component	Executive G Kerr and M Fraser	B Harris and R Grimbeek
Other	The first tranche of Mr Kerr's replacement BHP Billiton FY2013 Replacement Awards and the Transitional Performance Award (p145) reached the end of the vesting period on 30 June 2015. The Remuneration Committee assessed Mr Kerr's performance against the relevant hurdles at a Board meeting in August 2015 and determined that 88 per cent of Mr Kerr's Transitional Award will vest following release of South32's results. Further details will be included in the 2016 Remuneration Report. Mr Fraser will also receive international relocation benefits, which include a transitional allowance of US$550,000; airfares for Mr Fraser and any accompanying family members; transportation of household effects; and temporary accommodation and car hire in Johannesburg.	Mr Harris and Mr Grimbeek also received a one-off cash payment in FY2015 to recognise the higher duties performed by them in relation to South32 in the Pre-Demerger Period, during which time their existing BHP Billiton remuneration arrangements were not adjusted to reflect the additional duties they performed in supporting the set-up of South32. These amounts were less than the uplift they would have received had their salaries been adjusted to their current levels from the time they commenced their South32 set-up responsibilities.

FY2015 STI performance outcomes

Each of the Executive KMP participated in a BHP Billiton STI plan for FY2015. As members of the BHP Billiton Group Management Committee, Mr Kerr and Mr Fraser participated in the Short-Term Incentive Plan (STIP), while Mr Harris and Mr Grimbeek participated in the Group Short-Term Incentive Plan (GSTIP).

The STI opportunities and applicable performance measures for each Executive KMP reflected a combination of BHP Billiton Group performance measures, South32 Group performance measures and individual measures.

Table 8.7 summarises the process that applied for assessment of Mr Kerr and Mr Fraser's FY2015 STI award under the BHP Billiton STIP. Table 8.8 summarised the process that applied for assessment of Mr Harris and Mr Grimbeek's FY2015 STI award under the BHP Billiton GSTIP.

Table 8.7 – FY2015 assessment of performance under STIP

G Kerr and M Fraser - STIP

	1 July 2014	25 May 2015	30 June 2015
	BHP Billiton (to 24 May 2015)	**South32 (from 25 May 2015)**	
Responsibility	BHP Billiton recommended an STI Outcome based on BHP Billiton business performance and individual performance measures that considers performance in both BHP Billiton and South32 roles.	South32 determined an STI Outcome based on business and individual performance measures. South32 approved the final incentive outcome for the full year.	
Calculation	■ Based on BHP Billiton salary ■ Target = 160 per cent, Maximum = 240 per cent	■ Based on South32 salary ■ Target = 120 per cent, Maximum = 180 per cent	
Delivery	Half delivered in cash and half in South32 deferred rights		

Table 8.8 – FY2015 assessment of performance under GSTIP

B Harris and R Grimbeek - GSTIP

	1 July 2014		25 May 2015	30 June 2015
	BHP Billiton (to first day in S32 role)	**BHP Billiton (to 24 May 2015)**	**South32 (from 25 May 2015)**	
Responsibility	BHP Billiton provided Business Outcomes (based on BHP Billiton performance)	BHP Billiton recommended a Business Outcome, based on operational performance.	South32 determined a Business Outcome (based on South32 performance) and assessed individual performance for the whole period. South32 approved the final incentive outcome for the full year.	
Calculation	■ Based on BHP Billiton Salary ■ Target = 100 per cent, Maximum = 150 per cent		■ Based on South32 Salary ■ Target = 120 per cent, Maximum = 180 per cent	
Delivery	Half delivered in cash and half in South32 deferred rights			

BHP Billiton made recommendations on the individual outcomes for the BHP Billiton component of each Executive KMP's STI award. These recommendations were based on BHP Billiton's performance against measures linked to group, business or functional outcomes, depending on the individual's role within BHP Billiton and the plan in which they participated (STIP or GSTIP). Individual performance was also taken into account for Mr Kerr and Mr Fraser as participants in the STIP.

FY2015 STI performance outcomes continued

The South32 Remuneration Committee had regard to BHP Billiton's recommendations with respect to the outcomes for both STIP and GSTIP participants. However, for each Executive KMP, the Committee performed its own assessment of the appropriate STI outcome for FY2015, having regard to:

- The contribution of the Executive KMP to the successful execution of the Demerger
- The performance of the function or division within South32 for which the Executive KMP has responsibility
- South32's performance more broadly over the period from 1 February (being the date on which South32 commenced operating as a separate business within the BHP Billiton Group) to 30 June 2015.

The key South32 performance measures that were taken into account by the Remuneration Committee are set out in Table 8.9. These measures were chosen because they reflect the key drivers of South32 performance in the short to medium-term and represent a combination of key strategic milestones, such as execution of the Demerger, and ongoing factors that are essential to business performance and South32's licence to operate.

Table 8.9 also summarises the Remuneration Committee's assessment of performance against each of the measures.

Table 8.9 - Key performance measures for South32[1]

Performance Measure	Performance for FY2015[2]
Health, Safety, Environment and Community (HSEC)	The HSEC performance measure assesses South32's performance in the areas of health, safety, environment and community. Performance against this measure in FY2015 was below expectations due to a number of significant safety events, community and employee issues. Tragically, one fatality occurred at South32 operations during FY2015 subsequent to operational control (i.e. between 1 February 2015 and 30 June 2015).
Production	Production volumes are measured against projected budgets to determine business outcome performance. South32 production volumes met projected budgets in FY2015.
Cost	The cost outcomes for FY2015 (adjusted for foreign exchange movements) were measured against targets. Costs performance was ahead of budget in FY2015.
Demerger Activities	The successful Demerger and the establishment of South32 as a separately listed entity merited particular recognition. The achievement of this significant milestone was executed in a manner above target on key performance measures.
Individual Measures	Individual performance was assessed against measures that seek to encourage financial and non-financial performance by Executive KMP in a way that sustained value creation for South32 shareholders. Each Executive KMP met or exceeded their individual performance measures for FY2015.

(1) Operational Measures applicable for the part year, from 1 February 2015 when operation control was handed over to South32.

(2) For FY2016, South32 will have a more detailed scorecard that will apply for the full financial year.

Table 8.10 shows the actual STI bonus amounts to be paid to the Executive KMP in respect of their performance in FY2015. By contrast, only the STI attributable to the Executive's service as KMP of the South32 Group (i.e. the component payable in respect of the period from commencement as a KMP to 30 June 2015) is included in the statutory remuneration table (Table 8.13).

Whilst the functional and reporting currency of South32 is US dollars, it is the Directors' view that presentation of the information in Australian dollars provides a more accurate and fair reflection of the remuneration practices of South32, as all Directors and Executive KMP are remunerated in Australian dollars.

STI payments are only paid after the auditors have issued their opinion on the statutory financial accounts for the full year. Subject to shareholder approval being obtained at the 2015 Annual General Meeting in respect of the CEO, each of the Executive KMP will receive 50 per cent of their award in the form of rights to ordinary shares in South32 which will be granted in FY2016.

Table 8.10 – FY2015 STI paid to Executive KMP

Executive	Actual STI for FY2015 paid (A$ '000)	Actual STI awarded as % of Maximum STI
G Kerr[1]	2,024	64.5%
B Harris	538	66.9%
R Grimbeek	569	57.4%
M Fraser[1]	1,353	57.2%

This table discloses the full amount of STI to be paid to Executive KMP for FY2015. Fifty per cent of the STI to be paid as cash. Fifty per cent will be deferred into Rights to South32 shares. Table 8.13 below only includes the STI amounts that relate to the KMP period.

(1) The STI amounts for the period 1 July 2014 to 24 May 2015 for Mr Kerr and Mr Fraser were calculated in USD, being the currency specified in their contracts for the period. These amounts have been converted to AUD for the above table. All other STI amounts were calculated in AUD.

FY2016 remuneration

The remuneration opportunities for Executive KMP for FY2016 are summarised in Diagram 8.4 and Table 8.11 below. These figures only note those components of "go forward" remuneration for Executive KMP, and exclude the Replacement Award and Transitional Performance Award that were granted in FY2015 which are described in further detail in FY2015 Replacement and Transitional Awards applying to the Demerger.

These figures also exclude the one-off Transitional LTI Awards that will be provided to Mr Harris and Mr Grimbeek to bridge the gap between when the last BHP Billiton three-year LTI awards held by them will vest (subject to satisfaction of relevant conditions) in FY2017 and when the first four-year South32 LTI will vest (subject to satisfaction of relevant conditions) in FY2019.

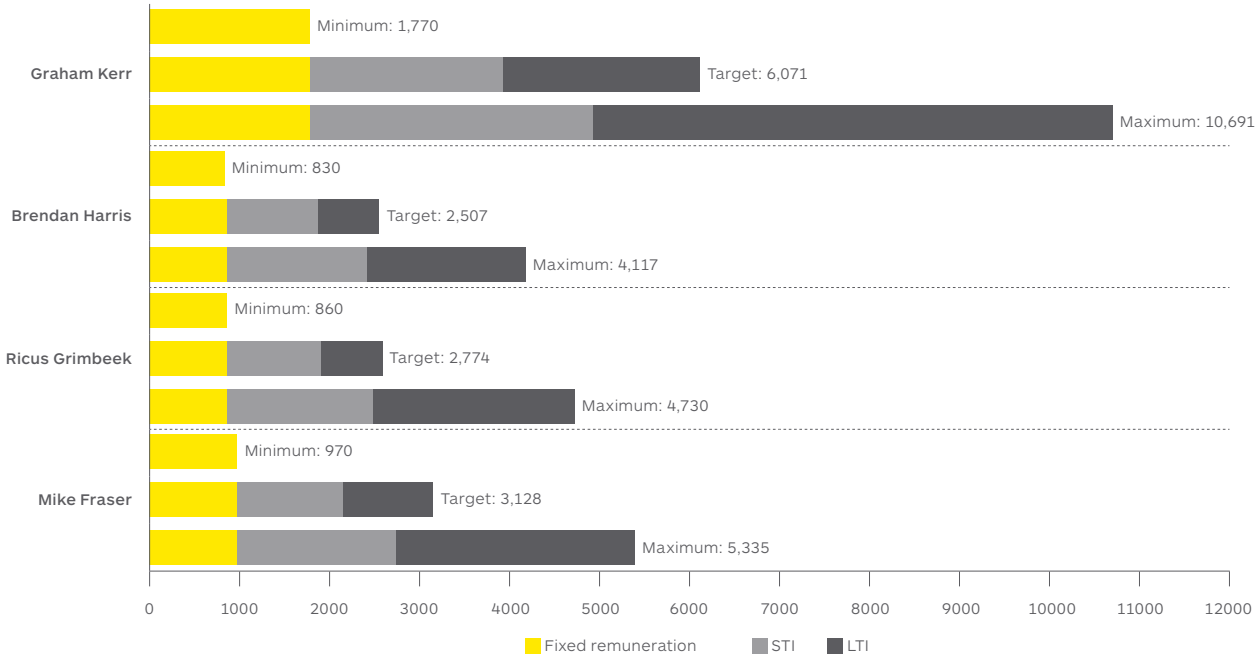
Table 8.11 – Target remuneration opportunities

Executive	Fixed Remuneration (A$ '000)	STI (target) (A$ '000)	LTI (fair value) (A$ '000)	Total (A$ '000)
G Kerr	1,770	2,124	2,177	6,071
B Harris	830	996	681	2,507
R Grimbeek	860	1,032	882	2,774
M Fraser[1]	970	1,164	994	3,128

(1) These amounts do not include the transitional allowance and additional non-monetary benefits that Mr Fraser is entitled to as part of his relocation package.

Diagram 8.4 shows the minimum, target and maximum remuneration value for each Executive KMP for FY2016.

Diagram 8.4 – Remuneration opportunities (A$ 000's)[1]



(1) The diagram above outlines the value at the time of grant. The impact of potential future share price movements (up and down) on the value of LTI awards is not included.

The fixed remuneration figure represents the amount the Executive KMP will receive as salary, inclusive of superannuation.

Each Executive KMP has a STI target opportunity of 120 per cent of fixed remuneration, with a maximum opportunity of 180 per cent of Fixed Remuneration. The Committee considers a consistent approach to STI opportunity is appropriate as the scorecard for each Executive KMP can be tailored to reflect their individual role and responsibilities.

However, because the same relative TSR performance condition applies to the LTI awards for all Executive KMP, the Committee has determined that it is appropriate to differentiate between Executive KMP when determining the quantum of their LTI opportunity. The LTI opportunity of each Executive KMP reflects their individual role and responsibilities and contribution to South32's TSR performance.

The maximum LTI opportunity for each Executive KMP is the face value of the award (i.e. the value the Executive KMP would receive if all their performance rights vested, based on the South32 share price at the time of the award).

The target LTI opportunity (being the figure shown in Table 8.11) is the fair value of the awards, which is 38 per cent of the face value as calculated by PwC as independent advisor to the Remuneration Committee. The face value of the LTI awards is converted to a fair value by applying the expected value factor, which takes into account the probability that the Executive KMP may not derive value from the LTI award, along with other factors, including the difficulty of achieving performance hurdles and anticipated share price volatility. The South32 expected value factor of 38 per cent is lower than the BHP Billiton fair value factor of 41 per cent, which was used to calculate the intended face value of awards to Executive KMP in the Listing Document. The difference in the expected value factor is largely attributable to the anticipated volatility of South32 shares in comparison to BHP Billiton shares. Application of this lower South32 fair-value factor has resulted in a higher face value of awards for Executive KMP than contemplated in the Listing Document.

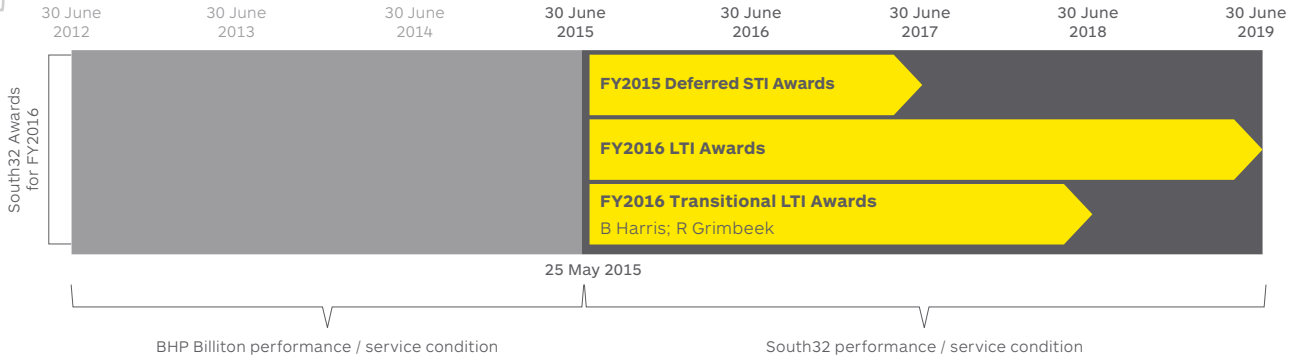
While the approach to calculating fair value will remain consistent from year to year, the expected value factor will be independently re-assessed on an annual basis to ensure it appropriately reflects the LTI award terms and changes in South32's position and performance.

As the STI and LTI are both "at risk" subject to performance, the minimum opportunity for each of these components is zero.

Vesting timeframes for FY2016 equity awards to be granted by South32

Diagram 8.5 explains the vesting periods for the equity awards to be granted by South32 to Executive KMP in FY2016. See FY2015 Replacement and Transitional Awards applying to the demerger for how the vesting periods of these awards align with the vesting periods that will apply to the Replacement Awards and Transitional Performance Award granted by South32 in relation to the demerger from BHP Billiton.

Diagram 8.5 – Vesting timeframes for FY2016 South32 awards



Awards will vest at the start of the first non-close period starting on or after 1 July in the relevant year. This is expected to be following the Company's results announcement in August of each year.

Details of rights held by Executive KMP

Table 8.12 provides further information regarding the holdings of rights over South32 shares held by Executive KMP, including the movements in rights held during FY2015.

Table 8.12 - Movement during FY2015 in the number of rights over shares in South32 held by Executive KMP and their related parties

	Award[1]	Grant Date[2]	Received as remuneration in FY2015 Number	Fair Value per right at Grant (A$)[2]	Vested in FY2015 Number	Held at 30 June 2015 Number	Exercisable at 30 June 2015	Date award may vest[3]
G Kerr	Replacement FY2013 BHP Billiton Long-Term Incentive Award	25-May-2015	1,532,870	0.89	-	1,532,870	-	August-2017
	Replacement BHP Billiton FY2013 Transitional GMC Award	25-May-2015	504,218	2.22	-	504,218	-	50% August 2015[4] 50% August 2016
	Replacement FY2014 BHP Billiton Long-Term Incentive Award	25-May-2015	1,581,485	0.95	-	1,581,485	-	August-2018
	Replacement BHP Billiton FY2014 Short-Term Incentive Award FY2014	25-May-2015	616,461	2.25	-	616,461	-	August-2016
	Replacement FY2015 BHP Billiton Long-Term Incentive Award	25-May-2015	1,664,067	1.12	-	1,664,067	-	August-2019
B Harris	Replacement BHP Billiton FY2014 Management Award Plan	25-May-2015	150,559	2.19	-	150,559	-	August-2016
	Replacement BHP Billiton FY2014 Group Short-Term Incentive Plan	25-May-2015	124,303	2.19	-	124,303	-	August-2016
	Replacement BHP Billiton FY2015 Management Award Plan	25-May-2015	145,283	2.14	-	145,283	-	August-2017

Table 8.12 - Movement during FY2015 in the number of rights over shares in South32 held by Executive KMP and their related parties continued

	Award[1]	Grant Date[2]	Received as remuneration in FY2015 Number	Fair Value per right at Grant (A$)[2]	Vested in FY2015 Number	Held at 30 June 2015 Number	Exercisable at 30 June 2015	Date award may vest[3]
R Grimbeek[5]	Replacement BHP Billiton FY2014 Management Award Plan	25-May-2015	102,641	2.19	-	102,641	-	August-2016
	Replacement BHP Billiton FY14 Group Short-Term Incentive Plan	25-May-2015	101,421	2.19	-	101,421	-	August-2016
	Replacement BHP Billiton FY2015 Management Award Plan	25-May-2015	97,364	2.14	-	97,364	-	August-2017
M Fraser	Replacement FY2014 BHP Billiton Long-Term Incentive Award	25-May-2015	1,222,058	0.95	-	1,222,058	-	August-2018
	Replacement BHP Billiton FY2014 Transitional GMC Award	25-May-2015	437,690	2.16	-	437,690	-	50% August 2016 50% August 2017
	Replacement BHP Billiton FY2014 Short-Term Incentive Award FY2014	25-May-2015	401,964	2.25	-	401,964	-	August-2016
	Replacement BHP Billiton FY2014 Group Short-Term Incentive Plan	25-May-2015	23,597	2.19	-	23,597		August-2016
	Replacement BHP Billiton Long-Term Incentive Award FY2015	25-May-2015	1,285,870	1.12	-	1,285,870	-	August-2019
	FY2015 Transitional Performance Award	29-June-2015	1,616,241	1.72	-	1,616,241	-	33% August 2016 33% August 2017 33% August 2018

(1) There is no exercise price or any other amount to pay on any of these awards.

(2) The grant date in the above table is the grant date for accounting purposes. Formal grants of all awards in the table were made on 29 June 2015 (as disclosed in the market announcements released by South32 on 30 June 2015). The fair value at grant date for the awards in the above table is the grant date fair value for accounting purposes. For the FY2015 Transitional Performance awards this is based on an accounting grant date of 29 June 2015. For all other awards the fair value is based upon an accounting grant date of 25 May 2015. The fair value for the Replacement BHP Billiton Long-Term Incentive Awards has been calculated using a Monte Carlo methodology. The fair value of all other awards has been calculated using a Black Scholes methodology The actual share price on 25 May 2015 was A$2.25. The actual share price on 29 June 2015 was A$1.88.

(3) Awards will vest on, or as soon as practicable after, the first non-prohibited period date occurring after the end of the vesting period subject to the conditions for vesting being met. The estimated vesting month is shown in the table. At the time of vesting, the quantum of awards that vest based on performance conditions, will automatically convert to ordinary South32 shares in the participant's name. Any rights that do not vest will immediately lapse, hence there is no expiry date associated with the awards.

(4) The vesting period for this award ended on 30 June 2015 as outlined in Diagram 8.3. The award vested with the release of South32's annual results in August 2015.

(5) Rollover tax relief was provided for all awards that were replacement BHP Billiton Limited awards. No rollover relief was provided for the awards replacing Mr Grimbeek's BHP Billiton Plc awards. As a result, a tax liability crystallised for Mr Grimbeek upon Demerger in respect of these replacement awards. To enable Mr Grimbeek to fund this liability, 49 per cent of the value of each of these replacement awards was provided in cash, with the remaining 51 per cent delivered in the form of rights to South32 shares. The number of rights in the table above is the 51 per cent delivered in the form of rights to South32 shares.

Executive KMP Remuneration table

Table 8.13 sets out the remuneration received by Executive KMP during the portion of the year for which they were KMP of the South32 Group. No comparative information is provided for FY2014 on the basis that none of the Executives were KMP of the South32 Group during this period. Information regarding payments made to Mr Kerr and Mr Fraser in their capacity as KMP of BHP Billiton are set out in the BHP Billiton Remuneration Reports for FY2015 and prior years.

The following table sets out the statutory disclosures required under the Corporations Act 2001 (Cth) and in accordance with the Accounting Standards. The amounts shown reflect the remuneration for each Executive KMP that relates to their service as a KMP of the Group (i.e. the period from their commencement as a KMP through to 30 June 2015).

Table 8.13 – Statutory remuneration of Executive KMP in FY2015

		Short-term benefits						Share-based payments			
		Salary (A$ '000)	Cash bonus (A$ '000)[1]	Non-monetary benefits (A$ 000)[2]	Super-annuation & retirement benefits (A$ '000)	Termination benefits (A$ '000)	Other Long Term benefits	Cash settled (A$ '000)	Rights (A$ '000)[3]	Total remuneration (A$ '000)	Percentage of total remuneration which is performance tested
G Kerr[4]	BHP	479	387	-	120[5]	-	45	-	167	1,198	46.3%
	S32	179	121	8	3	-	17	-	662	990	79.1%
B Harris[6]	S32	83	52	-	3	-	6	-	69	213	56.6%
R Grimbeek[6]	S32	86	46	9	6	-	8	632[7]	53	840	87.0%
M Fraser[8]	S32	97	55	15	2	-	7	-	229	405	70.1%

(1) STI is provided half in cash (which is included in the cash bonus column of the table) and half in deferred equity (which is included in the share-based payments columns of the table). The amounts disclosed in the above table relate only to the period that the individual was considered a KMP in FY2015. Details of the total STI for FY2015 as a percentage of the maximum are outlined in Table 8.10 above.

(2) Non-monetary benefits are non-pensionable and include such items as relocation costs and personal tax assistance.

(3) The figures in this column of the table above for share-based payments were not actually provided to the Executive KMP during FY2015. These amounts are calculated in accordance with Accounting Standards and are the amortised IFRS fair values of equity and equity-related instruments that have been granted to Executive KMP, either in relation to FY2015 performance or that of prior financial years. Please refer to table 8.12 above for information on awards granted during FY2015.

(4) For Mr Kerr, the remuneration in the above table is separated into two periods being the BHP Billiton period (from 21 January 2015 to 24 May 2015) and the South32 period (25 May 2015 to 30 June 2015). During the BHP Billiton period, Mr Kerr's remuneration was specified in USD. The amounts relating to this period in the above table have been converted from USD to AUD using an average exchange rate for this period of USD 0.7811 : AUD 1. For all other Executive KMPs, the remuneration is for the period 25 May 2015 to 30 June 2015.

(5) Under his BHP Billiton contract, Mr Kerr was entitled to retirement benefits equal to 25% of base salary up to 24 May 2015.

(6) Mr Grimbeek and Mr Harris received payments of A$139,014 and A$134,164 respectively in June 2015 relating to services performed in the period from assuming their South32 role to 24 May 2015. These amounts are not included in the table above.

(7) The cash settled equity award is the payment made to Mr Grimbeek on 25 June 2015 representing 49% of his Replacement BHP Billiton awards. In total 289,605 Replacement BHP Billiton awards were settled in this manner.

(8) Mr Fraser received a one-off relocation allowance of A$ 681,780 (with no trailing entitlements) in regard to his international relocation in June 2015. Mr Fraser's relocation occurred prior to 25 May 2015, the date he became a KMP. The amount is not reflected in the above table.

Actual remuneration received by Executive KMP in FY2015

South32 recognises the value of voluntarily disclosing "actual" remuneration received by Executive KMP in a financial year in addition to the breakdown of Executive KMP remuneration in accordance with statutory obligations and Accounting Standards (Table 8.13).

In particular, South32 notes that voluntary disclosure of actual remuneration can provide different and additional information that is helpful to assist our shareholders in forming an understanding of the cash and other benefits actually received by Executive KMP from the various components of their remuneration during a financial year.

Given the short period for which the Executive KMP received remuneration in their South32 capacity during FY2015, and the transitional nature of the awards made during the year, no actual remuneration disclosure has been made for FY2015. South32 intends to include disclosure of actual Executive KMP remuneration in the FY2016 Remuneration Report, being the first full financial year for South32 as a separate reporting entity.

REMUNERATION OF NON-EXECUTIVE DIRECTORS

Remuneration policy

Components of remuneration

Details of Non-Executive Director remuneration, term of appointment, any termination benefits payable and termination notice periods are set out in a letter of appointment. All Non-Executive Directors are appointed on the basis that a Non-Executive Director:

- Cannot hold office without re-election past the third Annual General Meeting following the Non-Executive Director's appointment
- May resign on reasonable notice
- Is not entitled to payments from South32 on loss of office

Set out in the Table 8.14 are the components of total remuneration for Non-Executive Directors, how each component operates and how performance is assessed and will impact remuneration.

Table 8.14 – Components of Non-Executive Director remuneration

Remuneration component	Operation and performance framework
Fees	
■ Competitive base fees are paid in order to attract and retain high-quality individuals, and to reflect the size and complexity of South32 ■ Regard is had to the anticipated workload and time commitment of the role ■ Committee fees are provided to recognise the additional responsibilities, time and commitment required	■ The maximum aggregate amount available to South32 to pay its Non-Executive Directors is A$3,900,000 per annum, as approved by BHP Billiton Limited as shareholder prior to listing (Fee Pool) ■ The Fee Pool includes base fees, standing Committee fees, travel allowances and superannuation contributions ■ Non-Executive Directors are paid a base fee and relevant Committee membership fees. The Chairman is paid a single fee for all responsibilities and does not receive any additional fees for his participation in Board Committees ■ Committee Chairs are paid an additional fee to reflect the extra time required by that role and their additional responsibilities ■ Fees are set after considering fee levels for comparable roles in companies of similar complexity, size, geographic footprint, listing jurisdictions, reach and industry. They reflect the responsibilities, location, qualifications and experience considered necessary to discharge the responsibilities of the Board ■ South32 will seek shareholder approval for changes to the Fee Pool. In setting the Fee Pool, consideration will be given to the economic environment and economic performance of South32 as well as broader succession planning decisions
Other benefits	
Superannuation As required by law.	■ Superannuation payments are made in accordance with applicable laws from time to time
Travel allowances Competitive benefits are paid in order to attract and retain high-quality individuals and adequately compensate for travel required by Board business.	■ Non-Executive Directors receive travel allowances if aviation travel is required as a result of Board business
Tax services	
Where a Non-Executive Director is required to file an additional tax return as a result of the South32 role, assistance is provided to cover the incremental cost.	■ Non-Executive Directors resident in the UK and South Africa will be required to lodge personal tax returns in Australia as well as in their place of residence. They are accordingly reimbursed for the costs of personal tax return preparation in Australia (including payment of the tax cost associated with the provision of the benefit)
STI and LTI	
Non-Executive Directors are not eligible to participate in any STI or LTI arrangements.	■ South32 does not provide any performance based (i.e. at-risk) remuneration to Non-Executive Directors, to preserve the ability of Non-Executive Directors to give objective consideration to matters of the Board
Payments on early termination	
Termination benefits are not payable to Non-Executive Directors.	■ There are no provisions in any of the Non-Executive Directors' appointment arrangements for compensation payable on early termination of their directorship

Table 8.14 – Components of Non-Executive Director remuneration continued

Remuneration component	Operation and performance framework
Minimum shareholdings	
To preserve the independence of Non-Executive Directors but encourage alignment with shareholder interests, Non-Executive Directors are required to hold shares in South32.	■ The Board has considered the short and long-term implications of the Non-executive Director minimum shareholding statement outlined in the Information Memorandum. The Board is committed to each Director achieving a minimum shareholding level of one year's fees. The Board has determined that flexibility will be provided to allow Non-executive Directors to accumulate this holding over a reasonable period

Board and committee fees

Table 8.15 sets out the fee levels for FY2015, which will also apply throughout FY2016.

Table 8.15 – Board and committee fees in FY2015

	A$ per annum
Chairman	550,000
Non-Executive Directors (excluding the Chairman)	180,000
Chair of Risk and Audit Committee	45,000
Chair of Remuneration Committee	45,000
Chair of Sustainability Committee	45,000
Member of Risk and Audit Committee	22,500
Member of Remuneration Committee	22,500
Member of Sustainability Committee	22,500

FY2015 remuneration outcomes for Non-Executive Directors

Table 8.16 sets out the statutory disclosures required under the Corporations Act 2001 (Cth) and in accordance with the Accounting Standards. The amounts of remuneration shown reflect the fees and benefits payable to each Non-Executive Director from the date of their appointment until 30 June 2015.

Table 8.16 – Non-Executive Director remuneration outcomes in FY2015

	Short-term benefits		Post-employment benefits	
Non-Executive Directors	**Board & Committee fees (A$ '000)[1]**	**Other benefits (non-cash) (A$ '000)**	**Superannuation benefits (A$ '000)**	**Total (A$ '000)**
D Crawford	220	-	9	229
K Rumble[2]	23	-	1	24
F Cooper	33	-	5	38
P Kukielski	30	-	1	31
N Mtoba	26	-	1	27
W Osborn	33	-	5	38

(1) No travel allowances have yet been paid to Non-Executive Directors for travel undertaken in FY2015.

(2) Given his role as a Non-Executive Director with BHP Billiton, Keith Rumble received no remuneration for his services as a Non-Executive Director of South32 prior to 22 May 2015.

OTHER STATUTORY DISCLOSURES

This section provides details of any additional statutory disclosures that have not been included in the previous sections of the Remuneration Report.

Shareholdings of KMP

Table 8.17 – Shares of South32 held directly, indirectly or beneficially by each KMP, including their related parties

	Held at 25 May 2015	Received on vesting of rights	Received as remuneration	Other net change	Held at 30 June 2015
G Kerr	147,411	-	-	-	147,411
B Harris	27,700	-	-	-	27,700
R Grimbeek	110,368	-	-	-	110,368
M Fraser	187,800	-	-	-	187,800
D Crawford	39,127	-	-	-	39,127
K Rumble	20,680	-	-	-	20,680
F Cooper	-	-	-	-	-
P Kukielski	-	-	-	-	-
N Mtoba	-	-	-	-	-
W Osborn	5,704	-	-	-	5,704

Statutory Directors

Nicole Duncan, Gideon Oberholzer and Joy Parker each served as a statutory Director of BHP Coal Holdings Pty Ltd (the entity now known as South32 Limited) during the period listed on page 131. Ms Duncan, Mr Oberholzer and Ms Parker did not receive any remuneration in respect of their services as Directors of the Company and are therefore not included in the remuneration table on page 149. Neither Mr Oberholzer, Ms Parker nor Ms Duncan had authority and responsibility for planning, directing and controlling the activities of South32 Post-Demerger.

Ms Duncan is now engaged as South32's Chief Legal Officer and Company Secretary and received rights during FY2015 in that capacity. At the start of the reporting period (25 May 2015), Ms Duncan did not hold any rights or options over shares in South32. At the end of the reporting period (30 June 2015) Ms Duncan held 284,487 rights over ordinary shares in South32. These rights were granted to her to replace her BHP Billiton awards that were cancelled or withheld in connection with the demerger. None of the rights granted to her were exercised, vested or lapsed during FY2015 nor have been as at the date of this Remuneration Report.

Transactions with KMP

During FY2015, there were no purchases by KMP from the Group.

There are no amounts payable at 30 June 2015.

There are no loans with KMP.

A number of Directors of the Group hold or have held positions in other companies, where it is considered they control or influence the financial or operating policies of those entities. There have been no transactions with those entities and no amounts were owed by the South32 Group to personally related entities.

This Remuneration Report was approved by the Board on 8 September 2015.

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OUR PRINCIPAL ACTIVITIES FOR FY2015 WERE MINING AND METAL PRODUCTION FROM A PORTFOLIO OF ASSETS ACROSS A RANGE OF COMMODITIES

DIRECTORS' REPORT

SECTION 9: DIRECTORS' REPORT

PRINCIPAL ACTIVITIES, STATE OF AFFAIRS, AND REVIEW OF OPERATIONS

The Directors present their report together with the Consolidated Financial Report for the Group, for the financial year ended 30 June 2015.

The Directors' Report has been prepared in accordance with the requirements of the Corporations Act 2001. The information below forms part of this Directors' Report:

- Operating and Financial Review on page 62
- Directors' biographical information on page 15 and the Company Secretaries' biographical information on page 123
- Board and Board Committee meetings and attendance information on page 122
- Remuneration Report on page 128
- Notes 22, non-audit services and 25, employee share ownership plans to the financial statements
- Auditor's Independence Declaration on page 223
- Shareholder Information on page 228
- Corporate Directory on inside back cover

Principal activities

The principal activities of the Group during FY2015 were mining and metal production from a portfolio of assets for the commodities of alumina, aluminium, bauxite, energy and metallurgical coal, manganese ore, manganese alloy, nickel, silver, lead and zinc.

The Group demerged from BHP Billiton during the financial year. The demerger became effective on 15 May 2015 with economic separation becoming effective on 25 May 2015. To facilitate the demerger, South32 and BHP Billiton were required to undertake a number of internal share and asset transfers in connection with the corporate restructure (the Internal Restructure). As a result of the Internal Restructure, several entities, assets and liabilities were transferred to the Group and entities, assets and liabilities relating to the BHP Billiton Group were transferred out of the Group during the year ended 30 June 2015.

Accordingly, as a result of this Internal Restructure, the principal activities of the Group changed significantly during the year. However, there was no significant change during the year in the principal activities of the underlying assets that comprise the Group.

There were no other significant changes in the nature of the principal activities of the Group during the year.

State of affairs

As noted above, the significant change in the state of affairs of the Group was the demerger from BHP Billiton during the financial year. Details of the demerger proposal were set out in a Shareholder Circular dated 16 March 2015, which was distributed to BHP Billiton Limited and BHP Billiton Plc shareholders. The demerger was approved by BHP Billiton's shareholders on 6 May 2015.

On 18 May 2015, South32 Limited listed as a separate standalone entity on the Australian Securities Exchange, London Stock Exchange and Johannesburg Stock Exchange.

There were no other significant changes in the state of affairs of the Group during the year.

Review of operations

A review of the operations of the Group during FY2015, and the results of those operations, is set out in section 5 (p62).

Matters since the end of the financial year

The Directors are not aware of any matter or circumstance that has arisen since 30 June 2015 up to the date of this Annual Report that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations or the Group's state of affairs in future financial years.

DIRECTORS AND MEETINGS

Our Directors in office as at the date of this report are:

David Crawford AO	Appointed 2 February 2015
Graham Kerr	Appointed 21 January 2015
Frank Cooper AO	Appointed 7 May 2015
Peter Kukielski	Appointed 7 May 2015
Xolani Mkhwanazi	Appointed 2 July 2015
Ntombifuthi (Futhi) Mtoba	Appointed 7 May 2015
Wayne Osborn	Appointed 7 May 2015
Keith Rumble	Appointed 27 February 2015

The following persons were Directors during FY2015:

Nicole Duncan	From 21 January 2015 – 27 February 2015
Joy Parker	From 1 July 2014 – 21 January 2015
Gideon Oberholzer	From 1 July 2014 – 21 January 2015

Further information about our current Directors is set out in section 2 (p15) including the qualifications, experience, special responsibilities and directorships of other listed companies of each Director.

Details regarding Board and Committee meetings held in the period from 7 May 2015 (the day of the first Board meeting after the demerger was approved by BHP Billiton shareholders) to 30 June 2015 and each Director's attendance at these meetings is set out in the Corporate Governance Statement in section 7 (p122).

REMUNERATION AND SHARE INTERESTS

Directors' relevant interests in South32 shares

The table below sets out each Director's relevant interests in South32 shares as at the date of this Directors' Report:

Director	Number of shares in which a relevant interest is held as at the date of the Director's Report
David Crawford	370,627
Graham Kerr	6,016,259*
Frank Cooper	122,866
Peter Kukielski	-
Xolani Mkhwanazi	28,887
Ntombifuthi (Futhi) Mtoba	-
Wayne Osborn	125,704
Keith Rumble	70,680

* Includes 5,646,992 rights over ordinary shares held under the South32 Equity Incentive Plan. Refer to the Remuneration Report in section 8 (p145) for further details.

Rights and options over South32 shares

No rights or options over shares in South32 are held by any of the Non-Executive Directors. The Executive Director, Mr Graham Kerr, holds rights over South32 shares that were granted under the South32 Equity Incentive Plan. Details of the rights granted to Mr Kerr and other members of the Executive Committee are set out in the Remuneration Report in section 8 (p145). Note 25 "Employee share ownership plans" to the financial statements sets out the total number of rights over South32 shares on issue as at 30 June 2015. The total number of rights over South32 shares on issue as at the date of this Directors' Report is 11,640,470. No shares were issued on vesting during or since the end of the year.

SECRETARIES

Nicole Duncan is the Chief Legal Officer and Company Secretary. Sue Wilson is the Head of Company Secretariat and has also been appointed as a Company Secretary. Both Ms Wilson and Ms Duncan have extensive company secretarial experience. Details of their qualifications and experience are set out in section 7 (p123) of the the Corporate Governance Statement.

INDEMNITIES AND INSURANCE

We have a policy that we will, as a general rule, support and hold harmless Directors and employees, including employees appointed as Directors of a member company of the South32 Group, who incur personal liability to others (while acting in good faith) as a result of working for us, to the extent that we are able under law.

Rule 10.2 of the South32 Constitution requires us to indemnify each Director and officer on a full indemnity basis and to the extent permitted by law against liability incurred by them in their capacity as an officer of any member company of the South32 Group. The Directors named in section 2 (p15) and the Company Secretaries names in section 7 (p123) have the benefit of this indemnity (as do individuals who formerly held one of those positions).

We have also indemnified certain former Directors, officers and employees of the South32 Group who have stayed with the BHP Billiton Group in respect of specific claims and liabilities that could arise in connection with their role in the demerger of South32.

As permitted by our Constitution, South32 has entered into Deeds of Indemnity, Access and Insurance with each of our Directors. We have also insured against amounts that we may be liable to pay to Directors, Company Secretaries and certain employees or that we otherwise agree to pay by way of indemnity. Our insurance policy also insures Directors, Company Secretaries and relevant employees against certain liabilities (including legal costs) they may incur in carrying out their duties for us. We have paid premiums of US$625,000 for this Directors' and Officers' insurance during FY2015 and up until the date of this Annual Report.

From time to time, we engage our External Auditor, KPMG, to conduct non-statutory audit work and provide other services in accordance with our policy on the provision of other services by the External Auditor. The terms of engagement typically include an indemnity in favour of KPMG:

- Against all liabilities incurred by KPMG in respect of third party claims arising from a breach of the engagement terms by the South32 Group
- For all liabilities KPMG has to the South32 Group or any third party as a result of reliance on information provided by the South32 Group that is false, misleading or incomplete

No indemnity in favour of a current or former officer of South32 Limited, or in favour of the External Auditor, has been called on during FY2015 or as at the date of this Annual Report.

CORPORATE GOVERNANCE

The UK Financial Conduct Authority's Disclosure and Transparency Rules (DTR) require that certain information be included in a Corporate Governance Statement. For FY2015, South32 has adopted a practice of providing a Corporate Governance Statement as part of our Annual Report and a copy of the statement is also available on the South32 website at *www.south32.net*.

The information required by DTR 7.2 is located in section 7 of this Annual Report.

DIVIDENDS

No dividends have been recommended, declared or paid during FY2015 (FY2014: nil).

AUDITOR

Our External Auditor, KPMG, has provided an independence declaration in accordance with the Corporations Act 2001. The declaration is set out in section 10 (p223) and forms part of this report.

NON-AUDIT SERVICES

Details of the non-audit services undertaken by, and amounts paid to, our External Auditor are detailed in Note 22 to the financial statements in section 10 (p204).

All non-audit services provided by our External Auditor were reviewed and approved in accordance with the process set out in South32's Provision of Non-Audit Services Policy [1], and no services were conducted in contravention of that policy.

The Directors have formed the view, based on advice from the Risk and Audit Committee, that the provision of non-audit services during FY2015 was compatible with, and did not compromise, the general standard of auditor independence for the following reasons:

- All non-audit services were subject to the corporate governance procedures and policies adopted by South32 and have been reviewed by the Risk and Audit Committee to ensure they do not affect the integrity and objectivity of the External Auditor
- The non-audit services provided do not involve reviewing or auditing the External Auditor's own work or acting in a management or decision making capacity for South32

POLITICAL DONATIONS AND COMMUNITY INVESTMENT

The South32 Code of Business Conduct sets out our approach to political donations and community investment.

South32 made no political contributions, in cash or in kind, during FY2015. We do not contribute funds to any political party, politician, elected official or candidate for public office in any country.

In FY2015, we contributed US$18.6 million for the purposes of supporting community programmes which comprised, cash, in-kind support and administrative costs. For further information refer to section 4 (p59).

PROCEEDINGS ON BEHALF OF SOUTH32

No proceedings have been brought or intervened in on behalf of South32, nor any application made, under section 237 of the Corporations Act 2001.

PERFORMANCE (ENVIRONMENTAL REGULATION)

Performance in relation to environmental regulation

We classify environmental incidents according to an internal severity scale. An incident with a rating of four out of seven would be considered to have a major impact/s to land, biodiversity, ecosystems, water resources or air, with effects lasting greater than one year. There were no significant environmental incidents reported at our operations in FY2015.

Fines and prosecutions

Cannington incurred two Penalty Infringement Notices in FY2015, with fines totalling US$17,963 for contravention of two permit conditions at its port facility. One was for particulates from a dust collector baghouse stack being above release limit, and the other for failing to notify that event in the timeframe required. Actions, including real-time monitoring and process interlocks, have been implemented to prevent such an incident reoccurring.

Hillside Aluminium has an agreement to receive and discharge water to Mhlathuze Water, which is listed as a statutory institution in terms of section (84)2 of the Water Services Act for South Africa. Mhlathuze Water has implemented a penalty system for non-compliance with this agreement. During FY2015, six fines to the total value of US$570 were levied against Hillside Aluminium for exceeding the discharge quality levels. Hillside Aluminium is in the process of implementing an auto-sampler at the outlet of the impoundment dam as opposed to taking grab samples to determine the quality of the discharge.

Further information in relation to environmental performance can be found in section 4 (p55).

ADDITIONAL INFORMATION

Offices

Information regarding South32's offices is included in the Corporate Directory on the inside back cover.

Buy-backs of South32 securities

As at 21 August 2015, there were no current on-market buy-backs of South32 securities.

ROUNDING OF AMOUNTS

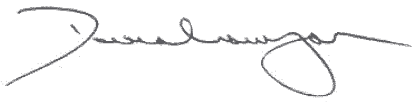
South32 is a company of a kind referred to in ASIC Class Order 98/100 and amounts in the financial statements and Directors' Report have been rounded off to the nearest million dollars, unless otherwise stated.

UK Responsibility Statements

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

Graham Kerr
Chief Executive Officer

Date: 8 September 2015

(1) Certain non-audit services commenced prior to the date of demerger and were approved by the BHP Billiton Group Risk and Audit Committee.

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WE HAVE A STRONG BALANCE SHEET THAT POSITIONS US WELL IN THE CURRENT CHALLENGING MARKET CONDITIONS

FINANCIAL STATEMENTS

SECTION 10: CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 30 June 2015 – South32 Limited and its controlled entities

CONTENTS

NOTES TO FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

for the year ended 30 June 2015

US$M	Note	2015	2014
Continuing operations			
Revenue			
Group production		**3,480**	853
Third party products		**363**	–
		3,843	853
Other income	21	**1,143**	30
Expenses excluding net finance cost	6	**(5,247)**	(942)
Share of profit/(loss) of equity accounted investments	29	**(70)**	–
Profit/(loss) from continuing operations		**(331)**	(59)
Comprising:			
Group production		**(338)**	(59)
Third party products		**7**	–
		(331)	(59)
Finance expenses		**(89)**	(15)
Finance income		**22**	–
Net finance cost	18	**(67)**	(15)
Profit/(loss) before taxation		**(398)**	(74)
Income tax (expense)/benefit		**(432)**	34
Royalty-related taxation (net of income tax)		**(96)**	40
Total tax (expense)/benefit	7	**(528)**	74
Profit/(loss) after taxation from continuing operations		**(926)**	–
Discontinued operations			
Profit/(loss) from discontinued operations, net of taxation	4	**7**	46
Profit/(loss) for the year		**(919)**	46
Attributable to:			
Equity holders of South32 Limited		**(919)**	46
Non-controlling interests		**–**	–
Profit/(loss) from continuing operations attributable to the ordinary equity holders of South32 Limited			
Basic earnings per ordinary share (cents)	8	**(26.9)**	–
Diluted earnings per ordinary share (cents)	8	**(26.9)**	–
Profit/(loss) for the year attributable to the ordinary equity holders of South32 Limited			
Basic earnings per ordinary share (cents)	8	**(26.7)**	1.4
Diluted earnings per ordinary share (cents)	8	**(26.7)**	1.4

The accompanying notes form part of the financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June 2015

US$M	Note	2015	2014
Profit/(loss) for the year	24	**(919)**	46
Other comprehensive Income			
Items that may be reclassified subsequently to the income statement:			
Equity accounted investments – share of other comprehensive income/(loss)		**–**	–
Available for sale investments:			
Net gain/(loss) taken to equity	24	**65**	–
Taxation benefit/(expense) recognised within other comprehensive income	7, 24	**(33)**	–
Total items that may be reclassified subsequently to the income statement		**32**	–
Items not to be reclassified to the income statement:			
Equity accounted investments – share of other comprehensive income/(loss)		**–**	–
Actuarial gain/(loss) on pension and medical schemes	15, 23, 24	**3**	6
Taxation benefit/(expense) recognised within other comprehensive income	7, 24	**(1)**	(2)
Total items not to be reclassified to the income statement		**2**	4
Total other comprehensive income/(loss)		**34**	4
Total comprehensive income/(loss)		**(885)**	50
Attributable to:			
Equity holders of South32 Limited		**(885)**	50
Non-controlling interests		**–**	–

The accompanying notes form part of the financial statements.

CONSOLIDATED BALANCE SHEET

as at 30 June 2015

US$M	Note	2015	2014
ASSETS			
Current assets			
Cash and cash equivalents	16	**644**	145
Trade and other receivables	9	**1,162**	208
Other financial assets	19	**14**	–
Inventories	10	**953**	135
Current tax assets		**77**	156
Other		**18**	6
Total current assets		**2,868**	650
Non-current assets			
Trade and other receivables	9	**185**	160
Other financial assets	19	**417**	–
Inventories	10	**60**	–
Property, plant and equipment	11	**9,550**	1,941
Intangible assets	12	**306**	–
Investments accounted for using the equity method	29	**1,707**	–
Deferred tax assets	7	**376**	185
Other		**20**	5
Total non-current assets		**12,621**	2,291
Total assets		**15,489**	2,941
LIABILITIES			
Current liabilities			
Trade and other payables	14	**921**	316
Interest bearing liabilities	17	**364**	832
Other financial liabilities		**4**	–
Current tax payable		**11**	15
Provisions	15	**398**	102
Deferred income		**6**	7
Total current liabilities		**1,704**	1,272
Non-current liabilities			
Trade and other payables	14	**30**	23
Interest bearing liabilities	17	**682**	1
Deferred tax liabilities	7	**554**	153
Provisions	15	**1,479**	367
Deferred income		**5**	12
Total non-current liabilities		**2,750**	556
Total liabilities		**4,454**	1,828
Net assets		**11,035**	1,113
EQUITY			
Share capital	20	**14,958**	561
Reserves	24	**(3,557)**	–
Retained earnings/(accumulated losses)	24	**(365)**	552
Total equity attributable to:			
Equity holders of South32 Limited		**11,036**	1,113
Non-controlling interests		**(1)**	–
Total equity		**11,035**	1,113

The accompanying notes form part of the financial statements.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 30 June 2015

US$M	Note	2015	2014
Operating activities			
Profit/(loss) before taxation from continuing operations		**(398)**	(74)
Adjustments for:			
Non-cash significant items		**(921)**	–
Depreciation and amortisation expense		**477**	170
Net loss/(gain) on sale of non-current assets		**10**	(4)
Impairments of property, plant and equipment, financial assets and intangibles		**1,389**	–
Employee share awards expense		**1**	–
Net finance cost		**67**	15
Share of (profit)/loss of equity accounted investments		**70**	–
Other non-cash or non-operating items		**80**	9
Changes in assets and liabilities:			
Trade and other receivables		**(327)**	(7)
Inventories		**85**	1
Trade and other payables		**161**	15
Provisions and other liabilities		**(29)**	3
Cash generated from continuing operations		**665**	128
Interest received		**23**	–
Interest paid		**(42)**	(27)
Income tax received		**1**	34
Net cash flows from continuing operating activities		**647**	135
Net cash flows from discontinued operating activities		**23**	25
Net cash flows from operating activities		**670**	160
Investing activities			
Purchases of property, plant and equipment		**(454)**	(309)
Exploration expenditure		**(10)**	(5)
Exploration expenditure expensed and included in operating cash flows		**7**	5
Purchase of intangibles		**(9)**	–
Investment in financial assets		**(400)**	(10)
Investment in subsidiaries, operations and joint operations, net of their cash, as part of the Internal Restructure		**(12,734)**	–
Investment in equity accounted investments		**(1,565)**	–
Cash outflows from investing activities		**(15,165)**	(319)
Proceeds from sale of property, plant and equipment		**2**	4
Proceeds from sale of financial assets		**1**	–
Proceeds from sale of intangible assets		**5**	–
Proceeds from divestment of subsidiaries, operations and joint operations, net of their cash, as part of the Internal Restructure		**171**	–
Net cash flows from continuing investing activities		**(14,986)**	(315)
Net cash flows from discontinued investing activities		**(9)**	(26)
Net cash flows from investing activities		**(14,995)**	(341)
Financing activities			
Proceeds from interest bearing liabilities		**338**	180
Repayment of interest bearing liabilities		**(272)**	–
Proceeds from amounts received from BHP Billiton		**1,224**	–
Repayment of amounts owing to BHP Billiton		**(831)**	–
Proceeds from ordinary shares		**14,397**	–
Net cash flows from continuing financing activities		**14,856**	180
Net cash flows from discontinued financing activities		**–**	–
Net cash flows from financing activities		**14,856**	180
Net increase/(decrease) in cash and cash equivalents		**531**	(1)
Cash and cash equivalents, net of overdrafts, at the beginning of the financial year	16	**145**	146
Foreign currency exchange rate changes on cash and cash equivalents		**(9)**	–
Change in cash and cash equivalents on commencement of equity accounting		**(23)**	–
Cash and cash equivalents, net of overdrafts, at the end of the financial year	16	**644**	145

The accompanying notes form part of the financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2015

	Attributable to equity holders of South32 Limited					
US$M	**Share capital**	**Reserves**	**Retained earnings/ (accumulated losses)**	**Total**	**Non-controlling interests**	**Total equity**
Balance as at 1 July 2014	**561**	**–**	**552**	**1,113**	**–**	**1,113**
Profit/(loss) for the year	**–**	**–**	**(919)**	**(919)**	**–**	**(919)**
Other comprehensive income/(loss)	**–**	**32**	**2**	**34**	**–**	**34**
Total comprehensive income	**–**	**32**	**(917)**	**(885)**	**–**	**(885)**
Transactions with owners:						
Proceeds from issue of shares	**14,397**	**–**	**–**	**14,397**	**–**	**14,397**
Accrued employee entitlement for unexercised awards	**–**	**1**	**–**	**1**	**–**	**1**
Acquisition and divestment of subsidiaries and operations	**–**	**(3,569)**	**–**	**(3,569)**	**453**	**(3,116)**
Disposal on change from control to joint control of South Africa Manganese and Samancor AG	**–**	**–**	**–**	**–**	**(454)**	**(454)**
Other movements	**–**	**(21)**	**–**	**(21)**	**-**	**(21)**
Balance as at 30 June 2015	**14,958**	**(3,557)**	**(365)**	**11,036**	**(1)**	**11,035**
Balance as at 1 July 2013	561	–	502	1,063	–	1,063
Profit for the year	–	–	46	46	–	46
Other comprehensive income/(loss)	–	–	4	4	–	4
Total comprehensive income	–	–	50	50	–	50
Balance as at 30 June 2014	561	–	552	1,113	–	1,113

The accompanying notes form part of the financial statements.

NOTES TO FINANCIAL STATEMENTS – BASIS OF PREPARATION

This section sets out the accounting policies that relate to the financial statements of South32 Limited (formerly BHP Coal Holdings Proprietary Limited, or the "Company") and its subsidiaries and joint operations (collectively, the "South32 Group") as a whole. Where an accounting policy, critical accounting estimate, assumption and judgement is specific to a note, these are described within the note to which they relate. These policies have been consistently applied to all periods presented, except as described in note 3 New standards and interpretations.

The consolidated financial statements of the South32 Group for the year ended 30 June 2015 were authorised for issue in accordance with a resolution of the Directors on 8 September 2015.

1. Reporting entity

South32 Limited is a for-profit company limited by shares incorporated in Australia with a primary listing on the Australian Securities Exchange, a standard listing on the London Stock Exchange and a secondary listing on the Johannesburg Stock Exchange.

The nature of the operations and principal activities of the South32 Group are described in note 5 Segment information.

2. Basis of preparation

The consolidated financial statements are a general purpose financial report which:

- Have been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB)
- Have been prepared on a historical cost basis, except for derivative financial instruments and certain other financial assets and liabilities which are required to be measured at fair value
- Are presented in US dollars, which is the South32 Group's functional currency, and all values are rounded to the nearest million dollars (US$M or US$ million) unless otherwise stated, in accordance with ASIC Class Order 98/100
- Present reclassified comparative information where required for consistency with the current year's presentation
- Adopt all new and amended Accounting Standards and Interpretations issued by the AASB that are relevant to the operations of the South32 Group and effective for reporting periods beginning on or after 1 July 2014. Refer to note 3 New standards and interpretations, for further details and
- Do not early adopt any Accounting Standards and Interpretations that have been issued or amended but are not yet effective except for those noted within note 3 New standards and interpretations

(a) Basis of consolidation

The consolidated financial statements comprise the financial statements of the South32 Group. A list of significant controlled entities (subsidiaries) at year end is contained in note 28 Subsidiaries.

The financial statements of subsidiaries are prepared for the same reporting period as the parent entity, using consistent accounting policies. Adjustments are made to bring in line any dissimilar accounting policies that may exist.

In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses, and profit and losses resulting from intra-group transactions have been eliminated.

Subsidiaries are entities controlled by the parent entity. Control exists where the parent entity is exposed, or has rights to, variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. A parent entity has power over the subsidiary, when it has existing rights to direct the relevant activities of the subsidiary. The relevant activities are those which significantly affect the subsidiary's returns. The ability to approve the operating and capital budget of a subsidiary and the ability to appoint key management personnel are decisions that demonstrate that the South32 Group has existing rights to direct the relevant activities of a subsidiary. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. At acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Refer to note 4 South32 Limited demerger for disclosure regarding the accounting of the demerger transaction.

Non-controlling interests are allocated their share of the net profit or loss after taxation in the consolidated income statement, their share of other comprehensive income, net of taxation in the consolidated statement of comprehensive income and are presented within equity in the consolidated balance sheet, separately from the parent shareholders' equity.

Changes in the South32 Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

When the South32 Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, any related non-controlling interests and other components of equity. Any resulting gain or loss is recognised in the income statement except for amounts recognised in the common control transaction reserve (refer to note 4 South32 Limited demerger). Any interest retained in the former subsidiary is measured at fair value when control is lost.

NOTES TO FINANCIAL STATEMENTS – BASIS OF PREPARATION

2. Basis of preparation (continued)

(b) Foreign currency translation

The South32 Group's reporting currency and the functional currency of the majority of its operations is the US dollar as this is assessed to be the principal currency of the economic environments in which they operate.

Transactions denominated in foreign currencies are initially recorded in the functional currency using the exchange rate ruling at the date of the underlying transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange at year-end. Exchange gains or losses on retranslation are included in the income statement, with the exception of foreign exchange gains or losses on foreign currency provisions for closure and rehabilitation which are capitalised in property, plant and equipment for operating sites.

The following exchange rates relative to the US dollar have been applied in the financial statements:

	Average 2015	Average 2014	As at 30 June 2015	As at 30 June 2014
Australian dollar[1]	**0.84**	0.92	**0.77**	0.94
Brazilian real	**2.68**	2.29	**3.14**	2.20
Colombian peso	**2,257**	1,935	**2,585**	1,881
South African rand	**11.45**	10.39	**12.28**	10.60

(1) Displayed as US$ to A$ based on common convention.

3. New standards and interpretations

(a) New accounting standards and interpretations effective from 1 July 2014

The South32 Group has changed some of its accounting policies as the result of new or revised accounting standards which became effective for the annual reporting period commencing on 1 July 2014. The affected policies and standards are:

- AASB Interpretation 21 Levies
- AASB 2012-3 Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities (AASB 132)
- AASB 2014-1 Amendments to Australian Accounting Standards – Part B: Defined Benefit Plans - Employee Contributions (Amendments to AASB 119 Employee Benefits)
- AASB 2013-3 Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets and
- AASB 2014-1 Amendments to Australian Accounting Standards – Part A: Annual Improvements 2010-2012 and 2011-2013 Cycles

Interpretation 21 Levies

This interpretation clarifies when to recognise a liability to pay a levy. The adoption of this interpretation did not have an impact on the South32 Group.

AASB 2012-3 Amendments to Australian Accounting Standards - Offsetting Financial Assets and Financial Liabilities

This revised standard includes application guidance to address inconsistencies identified in applying some of the criteria for offsetting financial assets and financial liabilities in the balance sheet. The adoption of the revised standard did not have a material impact on the South32 Group.

AASB 2014-1 Amendments to Australian Accounting Standards - Part B: Defined Benefit Plans - Employee Contributions (Amendments to AASB 119 Employee Benefits)

The amendments clarify the accounting for defined benefit plans that require employees or third parties to contribute towards the cost of the benefits. The adoption of the standard did not have a material impact on the South32 Group.

AASB 2013-3 Amendments to AASB 136 - Recoverable Amount Disclosures for Non-Financial Assets

The changes to this standard relate only to disclosure, including the requirement to disclose additional information about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposal. The required disclosure is detailed in note 13 Impairment of non-financial assets.

AASB 2014-1 Amendments to Australian Accounting Standards – Part A: Annual Improvements 2010-2012 and 2011-2013 Cycles

The standard makes amendments to existing accounting standards, particularly in relation to:

- Clarifying share-based payment vesting and non-vesting conditions
- Operating segment asset disclosures
- Clarification of key management personnel when an entity has a management entity/responsible entity (such as a trustee)
- Exemptions for joint ventures from business combination requirements and
- Clarification of the scope exception for measuring the fair value of financial assets and liabilities on a portfolio basis

The adoption of the standard did not have a material impact on the South32 Group.

NOTES TO FINANCIAL STATEMENTS – BASIS OF PREPARATION

3. New standards and interpretations (continued)

(b) Early adoption of AASB 2015-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101

The South32 Group has early adopted AASB 2015-2 which is effective for annual reporting periods beginning on or after 1 January 2016. The Standard makes amendments to AASB 101 Presentation of Financial Statements arising from the International Accounting Standards Board's Disclosure Initiative project. The amendments are designed to facilitate improved reporting, including an emphasis on only including material disclosures, clarity on the aggregation and disaggregation of line items, the presentation of subtotals, the ordering of notes and the identification of significant accounting policies. The adoption of the Standard affects the presentation of the South32 Group's financial statements.

(c) New standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2015 reporting period. The South32 Group's assessment of the impact of those new standards and interpretations considered relevant to the South32 Group is set out below. The South32 Group does not intend to early adopt any of the new standards or interpretations.

AASB 9 Financial Instruments (effective from 1 January 2018)

AASB 9 Financial Instruments includes revised guidance on the classification and measurement of financial assets, including a new expected credit loss model for calculating impairment, and supplements the new general hedge accounting requirements. The South32 Group has not yet determined the extent of the impact of this standard.

AASB 15 Revenue from Contracts with Customers (effective from 1 July 2018)

AASB 15 establishes a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five step analysis of transactions to determine whether, how much and when revenue is recognised. The South32 Group has not yet determined the extent of the impact of this standard.

NOTES TO FINANCIAL STATEMENTS – SOUTH32 LIMITED DEMERGER

4. South32 Limited demerger

Effective 15 May 2015, BHP Billiton shares ceased trading with an entitlement to South32 shares. On 18 May 2015, South32 Limited was listed as a separate standalone entity on the Australian Securities Exchange on a deferred settlement basis, on the London Stock Exchange on a when-issued basis and on the Johannesburg Stock Exchange on a normal settlement basis. The demerger resulted in economic separation at the close of business London time on 22 May 2015 (being 23 May 2015 Melbourne time) with the settlement of intercompany balances between the South32 Group and the BHP Billiton Group. South32 shares were transferred to eligible BHP Billiton Limited and BHP Billiton Plc shareholders on 24 May 2015 and 25 May 2015, respectively. Economic separation and distribution of South32 shares to shareholders became effective from 25 May 2015.

Prior to the demerger, the South32 Group and BHP Billiton Group were required to undertake a number of internal share and asset transfers in connection with the corporate restructure (Internal Restructure). As a result of the Internal Restructure, several entities, assets and liabilities were transferred to the South32 Group and entities and assets and liabilities relating to the BHP Billiton Group were transferred out of the South32 Group during the year ended 30 June 2015. Under the Internal Restructure, the acquisition of the entities and net assets was for cash, which was funded through a share issue to BHP Billiton Limited.

The South32 Group has elected to account for the acquisition of the entities and net assets as common control transactions. As a consequence, no acquisition accounting in the form of a purchase price allocation was undertaken and therefore the assets and liabilities have not been remeasured to fair value nor has any goodwill arisen. All the assets and liabilities acquired by the South32 Group as a result of the Internal Restructure were recognised at values consistent with the carrying value of those assets and liabilities in the BHP Billiton Group accounts immediately prior to the Internal Restructure. Certain deferred tax balances have been subsequently adjusted in respect of those assets and liabilities acquired. The difference between the deemed consideration established under the Internal Restructure and the adjusted carrying value of the assets and liabilities acquired totalling US$3,569 million has been recognised in the Common Control Transaction Reserve.

As required for statutory reporting purposes, the statutory financial information for the South32 Group has been presented for the financial year ended 30 June 2015 and for the comparative financial year ended 30 June 2014. In this regard, the South32 Group statutory financial information only includes the results of the current South32 Group operations (also referred to as "assets") from the date of acquisition during the financial year under the Internal Restructure. The exception is Illawarra Metallurgical Coal, which was part of the South32 Group at 1 July 2013. The South32 Group statutory financial information also includes:

- The results of New Mexico Coal for the period from 1 July 2013 to 27 October 2014, being the date that it ceased to be part of the South32 Group as a result of the Internal Restructure and
- Finance charges on internal borrowings from the BHP Billiton Group in the period from 1 July 2013 and up to immediately prior to the demerger, that were settled as part of the demerger

NOTES TO FINANCIAL STATEMENTS – SOUTH32 LIMITED DEMERGER

4. South32 Limited demerger (continued)

(a) Businesses acquired

As part of the Internal Restructure undertaken by the South32 Group pursuant to the Separation Deed with the BHP Billiton Group, several entities, assets and liabilities have been acquired and divested by the South32 Group. Details of the businesses acquired and disposed are included in note 28 Subsidiaries, note 29 Investments accounted for using the equity method, and note 30 Interests in joint operations.

The total carrying value of the assets and liabilities that were acquired by the South32 Group as part of the Internal Restructure that occurred prior to the demerger were as follows:

CARRYING VALUE OF NET ASSETS ACQUIRED

US$M	2015
Cash and cash equivalents	269
Trade and other receivables	1,851
Other financial assets	522
Inventories	1,229
Current tax assets	52
Other	33
Property, plant and equipment	9,535
Intangible assets	404
Investments accounted for using the equity method	1,005
Deferred tax assets	707
Total assets	**15,607**
Trade and other payables	671
Interest bearing liabilities	961
Other financial liabilities	18
Current tax payable	32
Deferred tax liabilities	488
Provisions	2,011
Other liabilities	12
Total liabilities	**4,193**
Net assets acquired	**11,414**
Less net assets attributable to non-controlling interests	454
Net assets attributable to equity holders of South32 Limited	**10,960**

(b) Business disposed

The business disposed of under the Internal Restructure, which occurred prior to the demerger, has been treated as a discontinued operation within this financial report. As a result of the Internal Restructure, the New Mexico Coal asset was transferred to the BHP Billiton Group and resulted in the recognition of a loss on sale of US$42 million (tax impact: US$ nil) which was recorded directly in the Common Control Transaction Reserve.

RESULTS OF NEW MEXICO COAL

US$M	2015	2014
Revenue - Group production	**133**	520
Other income	**5**	17
Expenses excluding net finance cost	**(128)**	(486)
Profit from operations	**10**	51
Finance expenses	**–**	(10)
Finance income	**2**	15
Net finance cost	**2**	5
Profit before taxation	**12**	56
Income tax expense	**(5)**	(10)
Total tax expense	**(5)**	(10)
Profit after taxation from discontinued operations attributable to equity holders of South32 Limited	**7**	46
Profit per share from discontinued operations attributable to the ordinary equity holders of South32 Limited		
Basic earnings per ordinary share (US cents)	**0.2**	1.4
Diluted earnings per ordinary share (US cents)	**0.2**	1.4

CASH FLOWS FROM/(USED BY) NEW MEXICO COAL

US$M	2015	2014
Operating	**23**	25
Investing	**(9)**	(26)
Financing	**–**	–
Net cash inflow/(outflow)	**14**	(1)

NOTES TO FINANCIAL STATEMENTS – SOUTH32 LIMITED DEMERGER

4. South32 Limited demerger (continued)

(b) Business disposed (continued)

CARRYING VALUE OF NET ASSETS DERECOGNISED

US$M	2015
Cash and cash equivalents	29
Trade and other receivables	268
Inventories	69
Current tax assets	1
Property, plant and equipment	323
Deferred tax assets	72
Other assets	9
Trade and other payables	(98)
Interest bearing liabilities	(1)
Deferred tax liabilities	(63)
Provisions	(351)
Deferred income	(16)
Net assets derecognised	**242**
Consideration received, satisfied in cash	200
Cash and cash equivalents disposed of	(29)
Net cash inflow	**171**

(c) Manganese assets

In contemplation of the demerger, BHP Billiton and Anglo American agreed to make certain changes to the agreement that governed their interests in the manganese assets (including South Africa Manganese, Australia Manganese and Samancor AG). The last of the approvals required for the new agreement was received on 2 March 2015. From that date BHP Billiton moved from control to joint control of the manganese assets. BHP Billiton discontinued consolidation of the manganese assets and accounted for its interest as an equity accounted joint venture.

The manganese assets were acquired by South32 in two stages. South Africa Manganese and Samancor AG were acquired by South32 on 3 February 2015. Australia Manganese was acquired on 8 May 2015. For accounting purposes South32 commenced equity accounting of South Africa Manganese and Samancor AG from 2 March 2015. South32 derecognised the carrying amounts of all assets, liabilities and the non-controlling interest attributed to Anglo American and initially recorded its retained 60 per cent interest at fair value. At the date of acquisition of Australia Manganese, the Group's investment was recorded at the carrying value in the BHP Billiton group accounts immediately prior to the Internal Restructure.

NOTES TO FINANCIAL STATEMENTS – RESULTS FOR THE YEAR

This section focuses on the results and performance of the South32 Group. This covers both profitability and the resultant return to shareholders via earnings per share.

5. Segment information

(a) Description of segments

The operating segments (also referred to as "assets") are organised and managed separately according to the nature of products produced. The members of the executive management team (the "chief operating decision maker") and the Board of Directors monitor the segment results regularly for the purpose of making decisions about resource allocation and performance assessment. The segment information for the manganese assets are presented on a proportional consolidation basis, which is the measure used by South32's management to assess the performance of the manganese assets.

The principal activities of each reporting segment as the South32 Group is currently structured are summarised as follows:

Operating segment	Principal activities
Worsley Alumina	Integrated bauxite mine and alumina refinery in Western Australia
South Africa Aluminium	Aluminium smelter in Richards Bay
Brazil Aluminium	Alumina refinery and aluminium smelter in Brazil
Mozal Aluminium	Aluminium smelter in Mozambique
South Africa Energy Coal	Open-cut and underground energy coal mines and processing operations in South Africa
Illawarra Metallurgical Coal	Underground metallurgical coal mines in New South Wales
Australia Manganese	Producer of manganese ore in the Northern Territory and manganese alloys in Tasmania
South Africa Manganese	Integrated producer of manganese ore and alloy in South Africa
Cerro Matoso	Integrated laterite ferronickel mining and smelting complex in Colombia
Cannington	Silver, lead and zinc mine located in Queensland

All assets are operated or jointly operated by South32 except Alumar (which forms part of Brazil Aluminium), which is operated by Alcoa.

NOTES TO FINANCIAL STATEMENTS – RESULTS FOR THE YEAR

5. Segment information (continued)

(b) Segment results

Segment performance is measured by Underlying EBIT and Underlying EBITDA. Underlying EBIT is profit before net finance cost, taxation and other earnings adjustment items including impairments. Underlying EBITDA is Underlying EBIT, before depreciation and amortisation. A reconciliation of Underlying EBIT, Underlying EBITDA and the South32 Group's consolidated profit before taxation from continuing operations is set out below. Segment revenue is measured on the same basis as in the income statement.

Revenue recognition

Revenue from the sale of goods and the disposal of other assets is recognised when persuasive evidence (usually in the form of an executed sales agreement) of an arrangement exists and:

- There has been a transfer of risks and rewards to the customer
- No further work or processing is required by the South32 Group
- The quantity and quality of the goods has been determined with reasonable accuracy
- The price is fixed or determinable and
- Collectability is reasonably assured

Revenue is therefore generally recognised when title passes. In the majority of sales for most commodities, sales agreements specify that title passes on the bill of lading date, which is the date the commodity is delivered to the shipping agent. For these sales, revenue is recognised on the bill of lading date. For certain sales (principally coal sales to adjoining power stations), title passes and revenue is recognised when the goods have been delivered.

In cases where the terms of the executed sales agreement allow for an adjustment to the sales price based on a survey of the goods by the customer (for instance an assay for mineral content), recognition of the sales revenue is based on the most recently determined estimate of product specifications.

For certain commodities, the sales price is determined on a provisional basis at the date of sale and adjustments to the sales price subsequently occurs based on movements in quoted market or contractual prices up to the date of final pricing. The period between provisional invoicing and final pricing is typically between 60 and 120 days. Revenue on provisionally priced sales is recognised based on the estimated fair value of the total consideration receivable. The revenue adjustment mechanism embedded within provisionally priced sales arrangements has the character of a commodity derivative. Accordingly, the fair value of the final sales price adjustment is re-estimated continuously and changes in fair value are recognised as an adjustment to revenue. In all cases, fair value is estimated by reference to forward market prices.

Revenue is not reduced for royalties and other taxes payable from the group production.

The South32 Group separately discloses sales of group production from sales of third party products because of the significant difference in profit margin earned on these sales.

It is the South32 Group's policy that inter-segment transactions are made on a commercial basis.

Group and unallocated items/eliminations represent group centre functions and consolidation adjustments. Group financing (including finance cost and finance income) and income taxes are managed on a South32 Group basis and are not allocated to operating segments.

Total segment assets and liabilities represent operating assets and liabilities, which predominately exclude the carrying amount of equity accounted investments, cash, interest bearing liabilities and tax balances. The carrying amount of investments accounted for using the equity method represents the balance of the South32 Group's investment in equity accounted investments, with no adjustment for cash, interest bearing liabilities and tax balances of the equity accounted investment.

NOTES TO FINANCIAL STATEMENTS – RESULTS FOR THE YEAR

5. Segment information (continued)

Year ended 30 June 2015 US$M	Worsley Alumina	South Africa Aluminium	Mozal Aluminium	Brazil Aluminium	South Africa Energy Coal	Illawarra Metallurgical Coal
Revenue						
Group production	292	610	250	459	523	803
Third party products[3]	–	–	–	–	–	–
Inter-segment revenue	239	–	–	–	–	–
Total revenue	**531**	**610**	**250**	**459**	**523**	**803**
Underlying EBITDA	**67**	**91**	**21**	**240**	**165**	**156**
Depreciation and amortisation	(26)	(27)	(10)	(72)	(76)	(197)
Underlying EBIT	**41**	**64**	**11**	**168**	**89**	**(41)**
Comprising:						
Group production	41	64	11	168	89	(41)
Third party products[3]	–	–	–	–	–	–
Share of loss of equity accounted investments[4]	–	–	–	–	–	–
Underlying EBIT	**41**	**64**	**11**	**168**	**89**	**(41)**
Underlying EBIT from discontinued operations						
Underlying EBIT from continuing operations						
Net finance cost						
Income tax (expense)/benefit						
Underlying earnings from continuing operations						
Earnings adjustments[5]						
Profit/(loss) after taxation from continuing operations						
Capital expenditure	**15**	**23**	**6**	**7**	**29**	**308**
Investments accounted for using the equity method	**–**	**–**	**–**	**–**	**12**	**–**
Total assets[6]	**3,720**	**1,475**	**730**	**1,039**	**1,414**	**1,782**
Total liabilities[6]	**359**	**324**	**104**	**111**	**1,019**	**264**

(1) The New Mexico Coal segment was transferred from the South32 Group to the BHP Billiton Group as part of the demerger process. Refer to note 4 South32 Limited demerger for more details.

(2) The segment information reflects South32's interest in the manganese assets and is presented on a proportional consolidation basis, which is the measure used by South32's management to assess the performance of the manganese assets. The manganese assets are equity accounted in the consolidated financial statements. The statutory adjustment column reconciles the proportional consolidation to the equity accounting position.

(3) Third party product sold comprises US$286 million for aluminium, US$37 million for coal and US$40 million for other. Underlying EBIT on third party products comprise US$3 million for aluminium, US$4 million for coal and US$ nil for other.

(4) Share of profit/(loss) of equity accounted investments includes the impacts of earnings adjustments to Underlying EBIT.

(5) Refer to note 5(b)(i) Earnings adjustments.

(6) Total segment assets and liabilities represent operating assets and liabilities which predominately exclude the carrying amount of equity accounted investments, cash, interest bearing liabilities and tax balances.

Australia Manganese[2]	South Africa Manganese[2]	Cerro Matoso	Cannington	New Mexico Coal[1] (discontinued)	Group and unallocated items/ elimination	Statutory adjustment[2]	Group
204	140	197	346	133	–	(344)	3,613
–	–	–	–	–	363	–	363
–	–	–	–	–	(239)	–	–
204	**140**	**197**	**346**	**133**	**124**	**(344)**	**3,976**
60	**(11)**	**17**	**137**	**22**	**(37)**	**(86)**	**842**
(27)	(33)	(40)	(22)	(12)	(5)	60	(487)
33	**(44)**	**(23)**	**115**	**10**	**(42)**	**(26)**	**355**
33	(44)	(23)	115	10	(49)	5	379
–	–	–	–	–	7	–	7
–	–	–	–	–	–	(31)	(31)
33	**(44)**	**(23)**	**115**	**10**	**(42)**	**(26)**	**355**
							(10)
							345
							(74)
							(192)
							79
							(1,005)
							(926)
22	**17**	**13**	**23**	**9**	**30**	**(39)**	**463**
–	**–**	**–**	**–**	**–**	**–**	**1,695**	**1,707**
1,649	**748**	**997**	**453**	**–**	**2,271**	**(789)**	**15,489**
265	**218**	**234**	**173**	**–**	**2,202**	**(819)**	**4,454**

NOTES TO FINANCIAL STATEMENTS – RESULTS FOR THE YEAR

5. Segment information (continued)

Year ended 30 June 2014 US$M	Worsley Alumina	South Africa Aluminium	Mozal Aluminium	Brazil Aluminium	South Africa Energy Coal	Illawarra Metallurgical Coal
Revenue						
Group production	–	–	–	–	–	853
Third party products	–	–	–	–	–	–
Inter-segment revenue	–	–	–	–	–	–
Total revenue	**–**	**–**	**–**	**–**	**–**	**853**
Underlying EBITDA	**–**	**–**	**–**	**–**	**–**	**114**
Depreciation and amortisation	–	–	–	–	–	(170)
Underlying EBIT	**–**	**–**	**–**	**–**	**–**	**(56)**
Comprising:						
Group production	–	–	–	–	–	(56)
Third party products	–	–	–	–	–	–
Share of loss of equity accounted investments	–	–	–	–	–	–
Underlying EBIT	**–**	**–**	**–**	**–**	**–**	**(56)**
Underlying EBIT from discontinued operations						
Underlying EBIT from continuing operations						
Net finance cost						
Income tax (expense)/benefit						
Underlying earnings from continuing operations						
Earnings adjustments[2]						
Profit/(loss) after taxation from continuing operations						
Capital expenditure	**–**	**–**	**–**	**–**	**–**	**309**
Investments accounted for using the equity method	**–**	**–**	**–**	**–**	**–**	**–**
Total assets[3]	**–**	**–**	**–**	**–**	**–**	**1,722**
Total liabilities[3]	**–**	**–**	**–**	**–**	**–**	**384**

(1) The New Mexico Coal segment was transferred from the South32 Group to the BHP Billiton Group as part of the demerger process. Refer to note 4 South32 Limited demerger for more details.

(2) Refer to note 5(b)(i) Earnings adjustments.

(3) Total segment assets and liabilities represent operating assets and liabilities which predominately exclude the carrying amount of cash, interest bearing liabilities and tax balances.

Australia Manganese	South Africa Manganese	Cerro Matoso	Cannington	New Mexico Coal[1]	Group and unallocated items/ elimination	Group
–	–	–	–	520	–	1,373
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	**–**	**–**	**–**	**520**	**–**	**1,373**
–	**–**	**–**	**–**	**98**	**–**	**212**
–	–	–	–	(47)	–	(217)
–	**–**	**–**	**–**	**51**	**–**	**(5)**
–	–	–	–	51	–	(5)
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	**–**	**–**	**–**	**51**	**–**	**(5)**
						(51)
						(56)
						(21)
						81
						4
						(4)
						–
–	**–**	**–**	**–**	**26**	**–**	**335**
–	**–**	**–**	**–**	**–**	**–**	**–**
–	**–**	**–**	**–**	**646**	**573**	**2,941**
–	**–**	**–**	**–**	**444**	**1,000**	**1,828**

NOTES TO FINANCIAL STATEMENTS – RESULTS FOR THE YEAR

5. Segment information (continued)

(b) Segment results (continued)

(i) Earnings adjustments

The following table shows earnings adjustments in arriving at Underlying earnings:

EARNINGS ADJUSTMENTS

US$M	2015	2014
Adjustments to Underlying EBIT		
Significant items[1]	**(770)**	–
Exchange rate (gain)/loss on restatement of monetary items[3]	**(18)**	3
Impairment losses[2][3]	**1,389**	–
Fair value gain on derivative instruments[3]	**(12)**	–
Major corporate restructures[3]	**46**	–
Earnings adjustments included in loss of equity accounted investments[4]	**41**	–
Total adjustments to Underlying EBIT	**676**	3
Adjustment to net finance cost		
Exchange rate variations on net debt	**(7)**	(6)
Total adjustment to net finance cost	**(7)**	(6)
Adjustments to income tax expense		
Significant items[1]	**419**	–
Tax effect of earnings adjustments to Underlying EBIT	**(179)**	(1)
Tax effect of earnings adjustments to net finance cost	**2**	2
Exchange rate variations on tax balances	**94**	6
Total adjustments to income tax expense	**336**	7
Total earnings adjustments	**1,005**	4

(1) Refer to note 5(b)(ii) Significant items.

(2) Refer to note 13 Impairment of non-financial assets.

(3) The amount was recognised in "expenses excluding net finance cost" in the consolidated income statement.

(4) The amount was recognised in "share of loss of equity accounted investments" in the consolidated income statement.

(ii) Significant items

Significant items are those items, not separately identified in note 5(b)(i) Earnings adjustments, where their nature and amount is considered material to the consolidated financial statements. Such items included within the South32 Group's (income)/expense for the year are detailed as follows:

YEAR ENDED 30 JUNE 2015

US$M	Gross	Tax	Net
Repeal of Minerals Resource Rent Tax Legislation	–	96	**96**
Fair value uplift on equity accounted investments[1]	(921)	–	**(921)**
Set-up costs[2]	59	(17)	**42**
Reset of Australian tax balances post-demerger	–	221	**221**
Brazil Aluminium tax accounting adjustments	–	103	**103**
Demerger related dividend withholding tax paid	–	16	**16**
Demerger related stamp duty paid[2]	92	–	**92**
Total significant items	**(770)**	**419**	**(351)**

(1) The amount was recognised in "other income" in the consolidated income statement. Refer to note 21 Other income.

(2) The amount was recognised in "expenses excluding net finance cost" in the consolidated income statement. Refer to note 6 Expenses.

Repeal of Minerals Resource Rent Tax Legislation

On 2 September 2014, legislation to repeal the Minerals Resource Rent Tax (MRRT) in Australia received the support of both Houses of Parliament. The repeal took effect on 30 September 2014 and as a result, the South32 Group derecognised a MRRT deferred tax asset in relation to Illawarra Metallurgical Coal. The impact of this derecognition and all other MRRT related amounts resulted in an income tax expense of US$96 million.

Fair value uplift on equity accounted investments

South Africa Manganese and Samancor AG were acquired by South32 on 3 February 2015. As a result of the renegotiation of the agreement between BHP Billiton and Anglo American, on 2 March 2015 BHP Billiton Group moved from control to joint control of the manganese assets. South32 derecognised the carrying amounts of all assets, liabilities and non-controlling interest attributed to Anglo American and recorded its retained 60 per cent interest at fair value. The uplift in fair value on the commencement of equity accounting was US$749 million for South Africa Manganese and US$172 million for Samancor AG (refer to note 4(c) Manganese assets).

Set-up costs

Set-up costs relate to the set-up of South32's corporate office in Australia including information technology and relocation costs. Set-up costs are included in group and unallocated items within the segment note.

Reset of Australian tax balances post-demerger

The tax basis of South32 wholly owned Australian operations was reset on demerger from BHP Billiton. The net reduction to tax assets is charged to income tax expense.

Brazil Aluminium tax accounting adjustments

South32's cash and profit repatriation practices result in a probable expectation that tax deferrals will ultimately unwind. This has resulted in the recognition of associated deferred tax balances at a rate closely aligned to the country statutory rate.

NOTES TO FINANCIAL STATEMENTS – RESULTS FOR THE YEAR

5. Segment information (continued)

(b) Segment results (continued)

(ii) Significant items (continued)

Demerger related dividend withholding tax paid

Dividend withholding tax incurred on repatriation of pre-demerger profits.

Demerger related stamp duty paid

Stamp duty paid by the South32 Group on the acquisition of Australia Manganese from the BHP Billiton Group as part of the demerger (refer note 4 South32 Limited demerger).

(c) Geographical information

The geographical information below analyses the South32 Group revenue and non-current assets by country. Revenue is presented by the geographical location of customers and non-current assets are presented by the geographical location of the assets.

REVENUE FROM EXTERNAL CUSTOMERS

US$M	2015	2014
Australia	**379**	351
Belgium	**204**	–
China	**241**	76
India	**321**	138
Japan	**312**	47
Middle East	**298**	–
Netherlands	**184**	–
North America	**268**	520
Other Asia	**137**	77
Rest of Europe	**257**	24
Singapore	**352**	32
South America	**97**	–
South Korea	**140**	22
Southern Africa	**394**	–
Switzerland	**392**	86
Discontinued operations	**(133)**	(520)
Total revenue	**3,843**	853

NON-CURRENT ASSETS

US$M	2015	2014
Australia	**6,596**	1,616
Southern Africa	**3,313**	–
North America	**–**	490
South America	**1,682**	–
Rest of world	**237**	–
Unallocated assets[1]	**793**	185
Total non-current assets	**12,621**	2,291

(1) Unallocated assets primarily comprise deferred tax assets and other financial assets.

NOTES TO FINANCIAL STATEMENTS – RESULTS FOR THE YEAR

6. Expenses

US$M	Note	2015	2014
Changes in inventories of finished goods and work in progress		**35**	–
Raw materials and consumables used		**1,472**	212
Employee benefits expense[1]	6(a)	**538**	214
External services (including transportation)		**691**	186
Third party commodity purchases		**356**	–
Depreciation and amortisation	11,12	**477**	170
Net foreign exchange (gains)/losses		**(18)**	4
Research and development costs before crediting related grants		**–**	16
Fair value (gain)/loss on derivatives		**(12)**	–
Government royalties paid and payable		**107**	52
Exploration and evaluation expenditure incurred and expensed in the current period		**7**	5
Impairment of property, plant and equipment	11,13	**594**	–
Impairment of goodwill and other intangible assets	12,13	**25**	–
Impairment of equity accounted investments	13,29	**770**	–
Operating lease rentals		**33**	22
All other operating expenses[2]		**172**	61
Total expenses		**5,247**	942

(1) Includes Underlying earnings adjustment of US$46 million. Refer to note 5(b)(i) Earnings adjustments.

(2) Includes significant items of US$92 million. Refer to note 5(b)(ii) Significant items.

(a) Employee benefits expense

US$M	Note	2015	2014
Wages, salaries and redundancies[1]		**486**	196
Employee share awards		**10**	4
Social security costs		**2**	–
Pensions and other post-retirement obligations[2]	23	**41**	16
		539	216
Less employee benefits expense classified as exploration and evaluation expenditure		**(1)**	(2)
Employee benefits expense		**538**	214

(1) Includes Underlying earnings adjustment of US$46 million. Refer to note 5(b)(i) Earnings adjustments.

(2) Excludes the amounts for discontinued operations of US$2 million (2014: US$5 million).

NOTES TO FINANCIAL STATEMENTS – RESULTS FOR THE YEAR

7. Taxation

Income tax expense comprises current and deferred tax and is recognised in the income statement except to the extent that it relates to items recognised directly in other comprehensive income.

(a) Income tax expense

US$M	2015	2014
Current tax expense/(benefit)	**156**	(40)
Deferred tax expense/(benefit)	**372**	(34)
Total tax expense/(benefit) attributable to continuing operations	**528**	(74)
Australia	**338**	(73)
Southern Africa	**(89)**	–
Rest of world	**279**	(1)
Total tax expense attributable to the geographical jurisdiction	**528**	(74)

Income tax expense

Income tax expense/(benefit) for the period is the tax payable on the current period's taxable income/(loss) based on the applicable income tax rate for each jurisdiction adjusted for changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses. Current tax is calculated using the tax rates enacted or substantively enacted at period end, and includes any adjustment to tax payable in respect of previous years.

Royalty-related taxation

Royalty taxes are treated as taxation arrangements when they have the characteristics of an income tax. This is considered to be the case when they are imposed under government authority and the amount payable is calculated by reference to revenue derived (net of any allowable deductions) after adjustment for temporary differences. For such arrangements, current and deferred tax is provided on the same basis as described below for other forms of taxation. Obligations arising from royalty arrangements that do not satisfy these criteria are recognised as current provisions and included in expenses.

(b) Numerical reconciliation of income tax expense to prima facie tax payable

	2015		2014	
	%	US$M	%	US$M
(Profit)/loss before taxation from continuing operations		**398**		74
Tax on profit/(loss) at standard rate of 30 per cent	**(30.0)**	**(119)**	(30.0)	(22)
Tax rate differential on foreign income	**2.3**	**9**	–	–
Exchange variations and other translation adjustments	**23.6**	**94**	(8.1)	(6)
Tax effect of share of profit/(loss) of equity accounted investments	**5.0**	**20**	–	–
Withholding tax on distributed earnings	**6.5**	**26**	–	–
Reset of Australian tax balances post-demerger[1]	**55.5**	**221**	–	–
Brazil Aluminium tax accounting adjustments[1]	**25.9**	**103**	–	–
Demerger related permanent differences	**13.8**	**55**	–	–
Other	**5.8**	**23**	(8.1)	(6)
Income tax expense/(benefit)	**108.4**	**432**	(46.2)	(34)
Royalty-related taxation (net of income tax expense/(benefit))	**24.2**	**96**	(54.9)	(40)
Total tax expense/(benefit)	**132.6**	**528**	(101.1)	(74)

(1) Refer to note 5(b)(ii) Significant items.

NOTES TO FINANCIAL STATEMENTS – RESULTS FOR THE YEAR

7. Taxation (continued)

(c) Amounts recognised in other comprehensive income

US$M	2015	2014
Available for sale investments:		
Net valuation (gains)/losses taken to equity	**33**	–
Actuarial (gains)/losses on pension and medical schemes	**1**	2
Total income tax (credit)/charge recognised in other comprehensive income	**34**	2

(d) Movement in deferred tax balances

The movement for the year in the South32 Group's net deferred tax position is as follows:

US$M	2015	2014
Net deferred tax (liability)/asset		
At the beginning of the financial year	**32**	–
Recognised in the income statement	**(372)**	34
Recognised in other comprehensive income	**(34)**	(2)
Acquisition of subsidiaries and operations[1]	**219**	–
Divestment of subsidiaries and operations[1]	**(9)**	–
Other movements	**(14)**	–
At the end of the financial year	**(178)**	32

(1) Refer to note 4 South32 Limited demerger.

The composition of the South32 Group's net deferred tax asset and liability recognised in the balance sheet and the deferred tax expense charged/(credited) to the income statement is as follows:

	Deferred tax assets		Deferred tax liabilities		Charged/(credited) to the income statement	
US$M	2015	2014	2015	2014	2015	2014
Type of temporary difference						
Depreciation	**160**	10	**(506)**	13	**187**	(46)
Employee benefits	**73**	22	**21**	10	**2**	–
Closure and rehabilitation	**258**	3	**49**	51	**(5)**	64
Resource rent tax	**–**	137	**–**	(40)	**96**	(50)
Other provisions	**13**	2	**19**	4	**(9)**	(2)
Deferred charges	**(167)**	–	**–**	(158)	**3**	16
Non tax-depreciable fair value adjustments, revaluations and mineral rights	**(126)**	–	**(110)**	–	**43**	(4)
Tax-effected losses	**4**	1	**127**	–	**(72)**	(5)
Brazil Aluminium incentives[1]	**–**	–	**(103)**	–	**103**	–
Finance leases	**201**	–	**–**	–	**–**	–
Other	**(40)**	10	**(51)**	(33)	**24**	(7)
Total	**376**	185	**(554)**	(153)	**372**	(34)

(1) Refer to note 5(b)(ii) Significant items. An amount of US$87 million is included that relates to prior periods.

NOTES TO FINANCIAL STATEMENTS – RESULTS FOR THE YEAR

7. Taxation (continued)

(d) Movement in deferred tax balances (continued)

Deferred tax is provided using the balance sheet liability method, providing for the tax effect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for tax assessment or deduction purposes. The tax effect of certain temporary differences is not recognised, principally with respect to: goodwill; temporary differences arising on the initial recognition of assets or liabilities (other than those arising in a business combination or in a manner that initially impacted accounting or taxable profit); and temporary differences relating to investments in subsidiaries, joint ventures and associates to the extent that the South32 Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. To the extent that an item's tax base is solely derived from the amount deductible under capital gains tax legislation, deferred tax is determined as if such amounts are not deductible in determining future assessable income.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each balance sheet date and amended to the extent that it is no longer probable that the related tax benefit will be realised. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the South32 Group has both the right and the intention to settle its current tax assets and liabilities on a net or simultaneous basis.

Key estimates, assumptions and judgements

Judgement is required in assessing whether deferred tax assets and certain deferred tax liabilities are recognised on the balance sheet. Deferred tax assets are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits. Deferred tax liabilities arising from temporary differences in investments, caused principally by retained earnings held in foreign tax jurisdictions, are recognised unless repatriation of retained earnings can be controlled and are not expected to occur in the foreseeable future.

Assumptions about the generation of future taxable profits and repatriation of retained earnings depend on management's estimates of future cash flows. These depend on estimates of future production and sales volumes, commodity prices, reserves, operating costs, closure and rehabilitation costs, capital expenditure, dividends and other capital management transactions. Judgements are also required about the application of income tax legislation and its interaction with income tax accounting principles. These judgements and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognised on the balance sheet and the amount of other tax losses and temporary differences not yet recognised. In such circumstances, some or the entire carrying amount of recognised deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to the income statement.

(e) Unrecognised deferred tax assets and liabilities

The composition of the South32 Group's unrecognised deferred tax assets and liabilities is as follows:

US$M	2015	2014
Unrecognised deferred tax assets		
Tax losses (i)	**4**	41
Deductible temporary differences relating to MRRT (ii)	**–**	1,008
Other deductible temporary differences (iii)	**1,271**	85
Total unrecognised deferred tax assets	**1,275**	1,134
Unrecognised deferred tax liabilities		
Taxable temporary differences relating to MRRT (ii)	**–**	(302)
Taxable temporary differences relating to investments in subsidiaries (iv)	**(65)**	–
Total unrecognised deferred tax liabilities	**(65)**	(302)

NOTES TO FINANCIAL STATEMENTS – RESULTS FOR THE YEAR

7. Taxation (continued)

(e) Unrecognised deferred tax assets and liabilities (continued)

(i) Tax losses

At 30 June 2015, the South32 Group had income and capital tax losses with a tax benefit of US$4 million (2014: US$41 million) which are not recognised as deferred tax assets. The South32 Group recognises the benefit of tax losses only to the extent of anticipated future taxable income or gains in relevant jurisdictions. The gross amount of tax losses carried forward that have not been tax effected expire as follows:

Year of expiry US$M	Australia	South Africa	Rest of world	Total
Income tax losses				
No expiry	–	15	–	15
Total income tax losses	**–**	**15**	**–**	**15**
Capital tax losses				
No expiry	–	–	–	–
Gross amount of tax losses not recognised	**–**	**15**	**–**	**15**
Tax effect of total losses not recognised	**–**	**4**	**–**	**4**

(ii) Temporary differences relating to Minerals Resource Rent Tax

At 30 June 2014, the South32 Group had US$1,008 million of unrecognised deductible temporary differences relating to the Australian MRRT with a corresponding unrecognised deferred tax liability for income tax purposes of US$302 million. Recognition of a deferred tax asset for MRRT depended on benefits expected to be obtained from the deduction against MRRT liabilities.

On 2 September 2014, legislation to repeal the MRRT in Australia received the support of both Houses of Parliament. The repeal took effect on 30 September 2014 and as a result, the South32 Group derecognised a MRRT deferred tax asset in relation to Illawarra Metallurgical Coal. The impact of this derecognition and all other MRRT related amounts resulted in an income tax expense of US$96 million. Refer to note 5(b)(ii) Significant items.

(iii) Other deductible temporary differences

At 30 June 2015, the South32 Group had deductible temporary differences for which deferred tax assets of US$1,271 million (2014: US$85 million) have not been recognised because it is not probable that future taxable profits will be available against which the South32 Group can utilise the benefits. The deductible temporary differences do not expire under current taxation legislation.

(iv) Taxable temporary differences associated with investments in subsidiaries

At 30 June 2015, deferred tax liabilities of US$65 million (2014: US$ nil) associated with undistributed earnings of subsidiaries have not been recognised because the South32 Group is able to control the timing of the reversal of the temporary differences and it is not probable that such differences will reverse in the foreseeable future.

(f) Tax consolidation

South32 and its 100 per cent owned Australian resident subsidiaries have formed a tax consolidated group with effect from 25 May 2015. South32 is the head entity of the tax consolidated group. Members of the group have entered into a taxation sharing agreement in order to allocate income tax expense to the wholly owned subsidiaries on a stand-alone basis. The taxation sharing arrangement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. The possibility of such a default is considered remote at the date of this report.

Members of the tax consolidated group have also entered into a taxation funding agreement. The group has applied the group allocation approach in determining the appropriate amount of current taxes to allocate to members of the tax consolidated group. The taxation funding agreement provides for each member of the tax consolidated group to pay a tax equivalent amount to or from the parent in accordance with their notional current tax liability or current tax asset. Such amounts are reflected in amounts receivable from or payable to the parent company in their accounts and are settled as soon as practicable after lodgement of the consolidated return and payment of the tax liability.

NOTES TO FINANCIAL STATEMENTS – RESULTS FOR THE YEAR

8. Earnings per share

Basic earnings per share ("EPS") amounts are calculated based on profit attributable to ordinary equity holders of South32 Limited and the weighted average number of ordinary shares outstanding during the year.

Dilutive EPS amounts are calculated based on profit attributable to ordinary equity holders of South32 Limited and the weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares.

The following reflects the income and share data used in the basic and diluted EPS computations:

PROFIT/(LOSS) ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS

US$M	2015	2014
Profit/(loss) attributable to ordinary equity holders of South32 Limited		
Continuing operations	**(926)**	–
Discontinued operations	**7**	46
Profit/(loss) attributable to ordinary equity holders of South32 Limited (basic)	**(919)**	46
Profit/(loss) attributable to ordinary equity holders of South32 Limited (diluted)	**(919)**	46

WEIGHTED AVERAGE NUMBER OF SHARES

Million	2015	2014[3]
Basic earnings per ordinary share denominator[1]	**3,437**	3,212
Shares and options contingently issuable under employee share ownership plans[2]	**–**	–
Diluted earnings per ordinary share denominator	**3,437**	3,212

(1) The calculation of the number of ordinary shares used in the computation of basic earnings per share is the aggregate of the weighted average number of ordinary shares of South32 Limited outstanding during the period.

(2) Included in the calculation of fully diluted earnings per share are shares contingently issuable under employee share ownership plans.

(3) Due to the share split in the current financial year (refer to note 20 Share capital), the number of ordinary shares outstanding during the year ended 30 June 2014 was retrospectively adjusted.

EARNINGS PER SHARE

US cents	2015	2014
Earnings per share – continuing operations		
Basic earnings per ordinary share	**(26.9)**	–
Diluted earnings per ordinary share	**(26.9)**	–
Earnings per share – attributable to ordinary equity holders of South32 Limited		
Basic earnings per ordinary share	**(26.7)**	1.4
Diluted earnings per ordinary share	**(26.7)**	1.4

NOTES TO FINANCIAL STATEMENTS – OPERATING ASSETS AND LIABILITIES

This section shows the assets used to generate the South32 Group's trading performance and the liabilities incurred as a result. Liabilities relating to the South32 Group's financing activities are addressed in the capital structure and financing section, notes 16 to 20.

9. Trade and other receivables

US$M	2015	2014
Current		
Trade receivables[1]	**554**	75
Loans to equity accounted investments[2]	**306**	22
Receivables from BHP Billiton Group entities	**–**	59
Interest bearing loans receivable[3]	**90**	–
Other receivables	**212**	52
Total current receivables	**1,162**	208
Non-current		
Trade receivables	**–**	1
Loans to equity accounted investments[2]	**17**	–
Interest bearing loans receivable[4]	**58**	–
Other receivables	**110**	159
Total non-current receivables	**185**	160

(1) There was no provision for doubtful debts as at 30 June 2015 (2014: US$ nil).

(2) Refer to note 32 Related party transactions.

(3) This relates to a US$90 million back-to-back facility with Barclays Bank PLC, a corresponding amount is recognised in interest bearing liabilities. Refer to note 17 Interest bearing liabilities.

(4) Represents the US$58 million interest bearing receivable from joint operations to fund the joint operations. A corresponding amount is recognised in the interest bearing loans payable. Refer to note 17 Interest bearing liabilities.

Trade receivables generally have terms of up to 30 days. Trade and other receivables are recognised initially at fair value and subsequently at amortised cost using the effective interest method, less an allowance for impairment. Collectability and impairment are assessed on an ongoing basis. Impairment is recognised in the income statement when there is objective evidence that the South32 Group will not be able to collect debts. Financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments are considered objective evidence of impairment.

The amount of the impairment loss is the receivable carrying amount compared to the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial. Debts that are known to be uncollectable are written off when identified. If an impairment allowance has been recognised for a debt that then becomes uncollectable, the debt is written off against the allowance account. If an amount is subsequently recovered, it is credited to the income statement.

NOTES TO FINANCIAL STATEMENTS – OPERATING ASSETS AND LIABILITIES

10. Inventories

US$M		2015	2014
Current			
Raw materials and consumables	– at net realisable value[1]	**31**	–
	– at cost	**443**	44
		474	44
Work in progress	– at net realisable value[1]	**9**	37
	– at cost	**229**	10
		238	47
Finished goods	– at net realisable value[1]	**115**	34
	– at cost	**126**	10
		241	44
Total current inventories		**953**	135
Non-current			
Raw materials and consumables	– at cost	**23**	–
		23	–
Work in progress	– at cost	**37**	–
		37	–
Total non-current inventories		**60**	–

(1) US$1 million of net inventory write-downs were recognised during the year (2014: US$14 million).

Inventories, including work in progress, are valued at the lower of cost and net realisable value. Cost is determined primarily on the basis of average costs. For processed inventories, cost is derived on an absorption costing basis. Cost comprises cost of purchasing raw materials and cost of production, including attributable overheads. In respect of minerals inventory, quantities are assessed primarily through surveys and assays.

NOTES TO FINANCIAL STATEMENTS – OPERATING ASSETS AND LIABILITIES

11. Property, plant and equipment

30 June 2015 US$M	Land and buildings	Plant and equipment	Other mineral assets	Assets under construction	Exploration and evaluation	Total
Cost						
At the beginning of the financial year	236	1,800	998	377	–	3,411
Additions	–	12	122	268	3	405
Foreign exchange movements in closure and rehabilitation provisions[1]	–	(53)	–	–	–	(53)
Disposals	(10)	(209)	(32)	–	–	(251)
Acquisitions of subsidiaries and operations[2][3]	2,521	14,111	1,914	395	31	18,972
Divestment of subsidiaries and operations[3]	(140)	(593)	(170)	(15)	–	(918)
Disposal on change from control to joint control of South Africa Manganese and Samancor AG[3]	(201)	(776)	(231)	(73)	–	(1,281)
Transfers and other movements	(3)	233	–	(230)	–	–
At the end of the financial year	**2,403**	**14,525**	**2,601**	**722**	**34**	**20,285**
Accumulated depreciation and impairments						
At the beginning of the financial year	109	918	443	–	–	1,470
Depreciation charge for the year[4]	56	332	97	–	–	485
Impairments for the year[5]	106	478	10	–	–	594
Disposals	(9)	(199)	(31)	–	–	(239)
Acquisitions of subsidiaries and operations[2][3]	1,213	7,157	1,067	–	–	9,437
Divestment of subsidiaries and operations[3]	(94)	(342)	(159)	–	–	(595)
Disposal on change from control to joint control of South Africa Manganese and Samancor AG[3]	(71)	(336)	(10)	–	–	(417)
At the end of the financial year	**1,310**	**8,008**	**1,417**	**–**	**–**	**10,735**
Net book value at 30 June 2015	**1,093**	**6,517**	**1,184**	**722**	**34**	**9,550**

(1) Refer to note 15 Provisions.
(2) Property, plant and equipment with a net book value of US$732 million (2014: US$ nil) was acquired under finance leases.
(3) Refer to note 4 South32 Limited demerger and refer to note 4(c) Manganese assets.
(4) Includes current year depreciation for discontinued operations of US$12 million.
(5) Refer to note 13 Impairment of non-financial assets.

30 June 2014 US$M	Land and buildings	Plant and equipment	Other mineral assets	Assets under construction	Exploration and evaluation	Total
Cost						
At the beginning of the financial year	216	1,615	929	349	–	3,109
Additions	–	20	137	220	–	377
Disposals	–	(7)	(68)	–	–	(75)
Transfers and other movements	20	172	–	(192)	–	–
At the end of the financial year	236	1,800	998	377	–	3,411
Accumulated depreciation and impairments						
At the beginning of the financial year	103	789	436	–	–	1,328
Depreciation charge for the year	6	136	75	–	–	217
Disposals	–	(7)	(68)	–	–	(75)
At the end of the financial year	109	918	443	–	–	1,470
Net book value at 30 June 2014	127	882	555	377	–	1,941

During FY2014, Mozal SARL joint operation repaid a bank loan which was secured by a US$20 million pledge over its assets. As at 30 June 2015, the pledge over the assets has not yet been released.

NOTES TO FINANCIAL STATEMENTS – OPERATING ASSETS AND LIABILITIES

11. Property, plant and equipment (continued)

(a) Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and impairment charges. Cost is the fair value of consideration given to acquire the asset at the time of its acquisition or construction and includes the direct cost of bringing the asset to the location and condition necessary for operation and the estimated future cost of closure and rehabilitation of the facility.

Finance leases

Assets held under lease, which result in the South32 Group receiving substantially all the risks and rewards of ownership of the asset (finance leases), are capitalised at the lower of the fair value of the property, plant and equipment or the estimated present value of the minimum lease payments.

The corresponding finance lease obligation is included within interest bearing liabilities. The interest component is charged to financial expenses over the lease term to reflect a constant rate of interest on the remaining balance of the obligation.

Leased assets are pledged as security for the related finance lease and hire purchase liabilities.

(b) Assets under construction

All assets included in assets under construction are reclassified to other categories in property, plant and equipment when the asset is available and ready for use in the location and condition necessary for it to be capable of operating in the manner intended.

(c) Exploration and evaluation expenditure

Exploration and evaluation expenditure (including amortisation of capitalised licence and lease costs) is charged to the income statement as incurred except in the following circumstances, in which case the expenditure may be capitalised where:

- The exploration and evaluation activity is within an area of interest which was previously acquired as an asset acquisition or in a business combination and measured at fair value on acquisition or
- The existence of a commercially viable mineral deposit has been established

Capitalised exploration and evaluation expenditure considered to be a tangible asset is recorded as a component of property, plant and equipment at cost less impairment charges. Otherwise, it is recorded as an intangible asset (such as certain licence and lease arrangements). In determining whether the purchase of an exploration licence or lease is an intangible asset or a component of property, plant and equipment, consideration is given to the substance of the item acquired and not its legal form. Licences or leases purchased which allow exploration over an extended period of time meet the definition of an intangible exploration lease asset where they cannot be reasonably associated with a known minerals resource.

(d) Other mineral assets

Other mineral assets comprise:

- Capitalised exploration, evaluation and development expenditure (including development stripping) for properties now in production
- Mineral rights acquired and
- Capitalised production stripping (as described below in 'overburden removal costs')

Overburden removal costs

The process of removing overburden and other mine waste materials to access mineral deposits is referred to as stripping. In open-pit mining, stripping costs are accounted for separately for each component of an ore body. A component is a specific section within an ore body that is made more accessible by the stripping activity. The identification of components is dependent on the mine plan and will often comprise a separate pushback or phase identified in the plan.

There are two types of stripping activity:

- Development stripping is the initial overburden removal during the development phase to obtain access to a mineral deposit that will be commercially produced
- Production stripping is the interburden removal during the normal course of production activity. Production stripping commences after the first saleable minerals have been extracted from the component

Development stripping costs are capitalised as a development stripping asset when:

- It is probable that future economic benefits associated with the asset will flow to the entity and
- The costs can be measured reliably

Production stripping can give rise to two benefits, being the extraction of ore in the current period and improved access to the ore body component in future periods. To the extent that the benefit is the extraction of ore the stripping costs are recognised as an inventory cost. To the extent the benefit is improved access to future ore, the stripping costs are recognised as a production stripping asset if the following criteria are met:

- It is probable that the future economic benefit (improved access to ore) will flow to the entity
- The component of the ore body for which access has been improved can be identified and
- The costs relating to the stripping activity can be measured reliably

Production stripping costs are allocated between the inventory produced and the production stripping asset using a life-of-component waste to ore (or mineral contained) strip ratio. When the current strip ratio is greater than the life-of-component ratio a portion of the stripping costs is capitalised to the production stripping asset.

The development and production stripping assets are depreciated on a units of production basis based on the proven and probable reserves of the relevant components. Stripping assets are classified as other mineral assets in property, plant and equipment.

NOTES TO FINANCIAL STATEMENTS – OPERATING ASSETS AND LIABILITIES

11. Property, plant and equipment (continued)

(e) Depreciation and amortisation

The carrying amounts of property, plant and equipment are depreciated to their estimated residual value over the estimated useful lives of the specific assets concerned, or the estimated life of the associated mine or lease, if shorter. Estimates of residual values and useful lives are reassessed annually and any change in estimate is taken into account in the determination of remaining depreciation charges. Depreciation commences on the date of commissioning. The major categories of property, plant and equipment are depreciated on a unit of production and/or straight-line basis using estimated lives indicated below. However, where assets are dedicated to a mine or lease and are not readily transferable, the below useful lives are subject to the lesser of the asset category's useful life and the life of the mine or lease:

Buildings	–	25 to 50 years
Land	–	not depreciated
Plant and equipment	–	3 to 30 years straight-line
Mineral rights	–	based on reserves on a units of production basis
Capitalised exploration, evaluation and development expenditure	–	based on reserves on a units of production basis

12. Intangible assets

30 June 2015 US$M	Goodwill	Other intangibles	Total
Cost			
At the beginning of the financial year	–	–	**–**
Additions	–	9	**9**
Disposals	–	(5)	**(5)**
Acquisitions of subsidiaries and operations[1]	266	239	**505**
Disposal on change from control to joint control of South Africa Manganese and Samancor AG[1]	(73)	–	**(73)**
At the end of the financial year	**193**	**243**	**436**
Accumulated amortisation and impairments			
At the beginning of the financial year	–	–	**–**
Charge for the year	–	4	**4**
Impairments for the year	–	25	**25**
Acquisitions of subsidiaries and operations[1]	48	53	**101**
Disposals	–	–	**–**
At the end of the financial year	**48**	**82**	**130**
Net book value at 30 June 2015	**145**	**161**	**306**

(1) Refer to note 4 South32 Limited demerger.

As at 30 June 2014 the total net book value of intangible assets was US$ nil.

(a) Goodwill

Where the fair value of consideration paid for a business combination exceeds the fair value of the South32 Group's share of the identifiable net assets acquired, the difference is treated as purchased goodwill. Where the fair value of the South32 Group's share of the identifiable net assets acquired exceeds the cost of acquisition, the difference is immediately recognised in the income statement. The recognition and measurement of goodwill attributable to a non-controlling interest in a business combination is determined on a transaction by transaction basis. Goodwill is not amortised, however, its carrying amount is assessed annually against its recoverable amount. On the subsequent disposal or termination of a previously acquired business, any remaining balance of associated goodwill is included in the determination of the gain or loss on disposal or termination.

NOTES TO FINANCIAL STATEMENTS – OPERATING ASSETS AND LIABILITIES

12. Intangible assets (continued)

(b) Other intangible assets

Amounts paid for the acquisition of identifiable intangible assets, such as software and licences, are capitalised at the fair value of consideration paid and are recorded at cost less accumulated amortisation and impairment charges. Identifiable intangible assets with a finite life are amortised on a straight-line basis over their expected useful life. The useful life of those intangible assets are as follows:

Software and licences - 5 years

The South32 Group has no identifiable intangible assets for which the expected useful life is indefinite.

13. Impairment of non-financial assets

The South32 Group recorded the following pre-taxation impairments for the year ended 30 June 2015:

US$M	Note	2015	2014
Property, plant and equipment	11	**594**	–
Goodwill and intangible assets	12	**25**	–
Investments accounted for using the equity method	29	**770**	–
Total impairment		**1,389**	–

(a) Testing for impairment

Formal impairment tests are performed when there is an indication of impairment. The South32 Group conducts an internal review of asset values annually, which is used as a source of information to assess for any indications of impairment or reversal of previously recognised impairment losses. External factors, such as changes in expected future prices, costs and other market factors are also monitored to assess for indications of impairment or reversal of previously recognised impairment losses. If any such indication exists, an estimate of the asset's recoverable amount is calculated, being the higher of fair value less direct costs of disposal and the asset's value in use.

(b) Impairment calculations

If the carrying amount of the asset exceeds its recoverable amount, the asset is impaired and an impairment loss is charged to the income statement so as to reduce the carrying amount in the balance sheet to its recoverable amount.

Fair value is determined as the amount that would be obtained from the sale of the asset in an orderly transaction between market participants. Fair value for mineral assets is generally determined as the present value of the estimated future cash flows expected to arise from the continued use of the asset, including any expansion prospects, and its eventual disposal, using assumptions that an independent market participant may take into account. These cash flows are discounted at an appropriate rate to arrive at a net present value of the asset.

Value in use is determined as the present value of the estimated future cash flows expected to arise from the continued use of the asset in its present form and its eventual disposal. Value in use is determined by applying assumptions specific to the South32 Group's continued use and cannot take into account future development. These assumptions are different to those used in calculating fair value and consequently the value in use calculation is likely to give a different result (usually lower) to a fair value calculation.

(c) Reversal of impairment

A reversal of a previously recognised impairment loss is limited to the lesser of the amount that would not cause the carrying amount to exceed (a) its recoverable amount; or (b) the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised for the asset or cash generating unit ('CGU').

(d) Recognised impairment – 30 June 2015

During the year the following significant impairments were recognised:

(i) Wolvekrans Middelburg Complex

South32 recognised an impairment of assets at its Wolvekrans Middelburg Complex cash generating unit (WMC CGU) of US$551 million as a result of changes in the macro-environment, primarily driven by lower forecast coal pricing assumptions. The WMC CGU consists of the Wolvekrans and Middelburg opencast collieries of South Africa Energy Coal.

The recoverable amount of the WMC CGU was determined as US$282 million based on its fair value less cost of disposal ('FVLCD'). The fair value measurement is categorised as a Level 3 fair value based on the inputs in the valuation technique (refer note 19 Financial assets and financial liabilities). In determining the FVLCD, a real post tax discount rate of 8.5 per cent, and a country risk premium, were applied to the post tax cash flows expressed in real terms. The key assumptions used for export coal prices and exchange rates are comparable to market consensus forecasts.

(ii) South Africa Manganese

South32 recognised an impairment of its equity accounted investment in South Africa Manganese of US$740 million as a result of the continued decline in manganese ore and alloy prices. The South Africa Manganese CGU consists of the Wessels underground mine, Mamatwan open pit mine and the Metalloys smelter.

The recoverable amount of the equity accounted investment was determined as US$485 million being its fair value less cost of disposal. The fair value measurement is categorised as a Level 3 fair value based on the inputs in the valuation technique (refer note 19 Financial assets and financial liabilities). In determining the FVLCD, a real post tax discount rate of 8.5 per cent, and a country risk premium, were applied to the post tax cash flows expressed in real terms. The key assumptions used for manganese ore and alloy prices and exchange rates are comparable to market consensus forecasts.

There were no impairments recognised during the year ended 30 June 2014.

NOTES TO FINANCIAL STATEMENTS – OPERATING ASSETS AND LIABILITIES

13. Impairment of non-financial assets (continued)

(e) Impairment test for CGUs containing goodwill

Formal impairment tests are carried out annually for goodwill. For the purpose of impairment testing, goodwill has been allocated to CGUs that are expected to benefit from the synergies of the business combination and which represent the level at which management will monitor and manage the goodwill.

The carrying amount of goodwill has been allocated to the following cash generating units:

US$M	Note	2015	2014
South Africa Aluminium		**139**	–
South Africa Energy Coal		**6**	–
Total goodwill	12	**145**	–

(i) South Africa Aluminium

The goodwill arose from the acquisition of Alusaf in Hillside Aluminium (Pty) Ltd and has been allocated to the South Africa Aluminium CGU, which comprises the Hillside aluminium smelter. The recoverable amount of the South Africa Aluminium CGU was determined based on FVLCD. The fair value measurement is categorised as a Level 3 fair value based on the inputs in the valuation technique (refer note 19 Financial assets and financial liabilities). The determination of FVLCD was most sensitive to:

- Production volumes
- Aluminium prices
- Exchange rates and
- Discount rate

Production volumes – estimated production volumes were based on the life of the smelter as determined by management as part of the long-term planning process. Production volumes are influenced by production input costs such as electricity prices and the selling price of aluminium.

Aluminium prices and exchange rates – key assumptions for aluminium prices were derived from forward price curves with long-term views of global supply and demand, together with past management experience of the industry. Aluminium prices and exchange rates are comparable to market consensus forecasts.

The aluminium prices and exchange rates used in the FVLCD determinations were either lower or within the following range of prices published by market commentators:

	2015	2014
Aluminium price (US$/tonne)	1,801 to 2,502	–
Exchange rate (South African rand ZAR to US$)	11.64 to 17.78	–

Discount rate – in determining the FVLCD, a real post tax discount rate of 8.5 per cent and a country risk premium were applied to the post tax cash flows expressed in real terms.

The impairment test for the South Africa Aluminium CGU indicated that no impairment or reversal of prior impairments were required. The table below shows the key assumptions used in the FVLCD as well as the amount by which key assumptions must change in isolation (from the mid-point of the range) in order for the estimated recoverable amount to be equal to the carrying amount of the South Africa Aluminium CGU, including goodwill. Owing to the complexity of the analysis caused by relationships between each key assumption, such that a change in one would cause a change in several other inputs to the calculation, the analysis below was performed for each assumption individually.

	Assumptions used in FVLCD	Change required for the carrying amount to equal recoverable amount
Production volumes	Long-term plan	decrease of 3.3%
Aluminium prices (US$/tonne)	1,801 to 2,502	decrease of 1.2%
Exchange rates (ZAR to US$)	11.64 to 17.78	decrease of 2.8%
Discount rate	8.5%	increase of 180 basis points

NOTES TO FINANCIAL STATEMENTS – OPERATING ASSETS AND LIABILITIES

13. Impairment of non-financial assets (continued)

(e) Impairment test for CGUs containing goodwill (continued)

Key estimates, assumptions and judgements

The determination of fair value and value in use requires management to make estimates and assumptions about expected production and sales volumes, commodity prices (considering current and historical prices, price trends and related factors), reserves, operating costs, closure and rehabilitation costs and future capital expenditure. These estimates and assumptions are subject to risk and uncertainty; hence there is a possibility that changes in circumstances will alter these projections, which may impact the recoverable amount of the assets. In such circumstances, some or all of the carrying amount of the assets may be further impaired or the impairment charge reversed with the impact recorded in the income statement.

In testing for indications of impairment and performing impairment calculations, assets are considered as collective groups and referred to as cash generating units. Cash generating units are the smallest identifiable group of assets, liabilities and associated goodwill that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

The basis of key estimates and assumptions in the impairment assessments are as follows:

Future production

Proved and probable reserves, resource estimates, economic life of the smelters and, in certain cases, expansion projects, including future cost of production.

Commodity prices

Forward market and contract prices, and longer-term price protocol estimates.

Exchange rates

Current (forward) market exchange rates.

Discount rates

Cost of capital risk-adjusted appropriate to the resource.

Reserves are estimates of the amount of product that can be economically and legally extracted from the South32 Group's properties. In order to estimate reserves, estimates are required for a range of geological, technical and economic factors, including quantities, grades, production techniques, recovery rates, production costs, transport costs, commodity demand, commodity prices and exchange rates.

Estimating the quantity and/or grade of reserves requires the size, shape and depth of ore bodies to be determined by analysing geological data such as drilling samples. This process may require complex and difficult geological judgements to interpret the data.

The South32 Group determines and reports ore reserves in Australia under the principles incorporated in the Australasian Code for Reporting Exploration Results of Mineral Resources and Ore Reserves December 2012 known as the JORC Code, and the Australian Securities Exchange Listing Rules 2012 for minerals. The JORC Code requires the use of reasonable investment assumptions when reporting reserves. As a result, management will form a view of forecast sales prices, based on current and long-term historical average price trends. For example, if current prices remain above long-term historical averages for an extended period of time, management may assume that lower prices will prevail in the future and as a result, those lower prices are used to estimate reserves under the JORC Code. Lower price assumptions generally result in lower estimates of reserves.

Because the economic assumptions used to estimate reserves change from period to period, and because additional geological data is generated during the course of operations, estimates of reserves may change from period to period. Changes in reported reserves may affect the South32 Group's financial results and financial position in a number of ways, including the following:

- Asset recoverable amounts may be affected due to changes in estimated future cash flows
- Depreciation, depletion and amortisation charged in the income statement may change where such charges are determined on the units of production basis, or where the useful economic lives of assets change
- Overburden removal costs recorded on the balance sheet or charged to the income statement may change due to changes in stripping ratios or the units of production basis of depreciation and
- Decommissioning, closure and rehabilitation provisions may change where changes in estimated reserves affect expectations about the timing or cost of these activities

The carrying amount of deferred tax assets may change due to changes in estimates of the likely recovery of the tax benefits.

NOTES TO FINANCIAL STATEMENTS – OPERATING ASSETS AND LIABILITIES

14. Trade and other payables

US$M	2015	2014
Current		
Trade creditors	**762**	244
Other creditors	**159**	72
Total current payables	**921**	316
Non-current		
Other creditors	**30**	23
Total non-current payables	**30**	23

Trade and other payables represent liabilities for goods and services provided to the South32 Group prior to the end of the financial year which were unpaid at the end of the financial year. These amounts are unsecured. Trade and other payables are included in current liabilities, except for those liabilities where payment is not due within 12 months from the reporting date, which are classified as non-current liabilities.

Trade and other payables are stated at their amortised cost and are non-interest bearing. The carrying value of trade and other payables is considered to approximate its fair value due to the short term nature of the payables.

15. Provisions

US$M	Note	2015	2014
Current			
Employee benefits		**217**	70
Closure and rehabilitation		**98**	15
Other		**83**	17
Total current provisions		**398**	102
Non-current			
Employee benefits		**6**	2
Closure and rehabilitation		**1,366**	331
Post-retirement employee benefits	23	**107**	34
Total non-current provisions		**1,479**	367

NOTES TO FINANCIAL STATEMENTS – OPERATING ASSETS AND LIABILITIES

15. Provisions (continued)

30 June 2015 US$M	Employee benefits	Closure and rehabilitation	Post-retirement employee benefits	Other	Total
At the beginning of the financial year	72	346	34	17	**469**
Charge/(credit) for the year:					
Underlying	155	–	2	59	**216**
Discounting	–	47	–	–	**47**
Net interest expense	–	–	5	–	**5**
Exchange rate variations	(14)	(17)	(4)	(2)	**(37)**
Released during the year	(1)	(13)	–	(4)	**(18)**
Net amounts capitalised	–	(53)	–	–	**(53)**
Actuarial gains taken to retained earnings	–	–	(3)	–	**(3)**
Utilisation	(139)	(38)	(8)	(11)	**(196)**
Acquisitions of subsidiaries and operations[1]	162	1,660	146	43	**2,011**
Divestments of subsidiaries and operations[1]	(13)	(291)	(35)	(12)	**(351)**
Disposal on change from control to joint control of South Africa Manganese and Samancor AG[1]	(12)	(177)	(30)	(7)	**(226)**
Transfers and other movements	13	–	–	–	**13**
At the end of the financial year	**223**	**1,464**	**107**	**83**	**1,877**

(1) Refer to note 4 South32 Limited demerger.

30 June 2014 US$M	Employee benefits	Closure and rehabilitation	Post-retirement employee benefits	Other	Total
At the beginning of the financial year	67	342	44	19	472
Charge/(credit) for the year:					
Underlying	79	–	(2)	6	83
Discounting[1]	–	10	–	–	10
Net interest expense[2]	–	–	1	–	1
Exchange rate variations	1	–	–	–	1
Released during the year	–	–	–	(4)	(4)
Foreign exchange movements	–	6	–	–	6
Actuarial gains taken to retained earnings	–	–	(6)	–	(6)
Utilisation	(75)	(12)	(3)	(4)	(94)
At the end of the financial year	72	346	34	17	469

(1) Includes amounts for discontinued operations of US$9 million which is excluded from note 18 Net finance cost.

(2) Includes amounts for discontinued operations of US$1 million which is excluded from note 18 Net finance cost.

(a) Provision for employee benefits

Provision for employee benefits includes on-costs.

Liabilities for unpaid wages and salaries are recognised in sundry creditors. Current entitlements to annual leave and accumulating sick leave accrued for services up to the reporting date are recognised in provision for employee benefits and are measured at the amounts expected to be paid. Entitlements to non-accumulating sick leave are recognised when the leave is taken.

NOTES TO FINANCIAL STATEMENTS – OPERATING ASSETS AND LIABILITIES

15. Provisions (continued)

(a) Provision for employee benefits (continued)

The current liability for long service leave (for which settlement within 12 months of the reporting date cannot be deferred) is recognised in the current provision for employee benefits and is measured in accordance with annual leave described above. The non-current liability for long service leave is recognised in the non-current provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using corporate bond yields at the reporting date.

(b) Closure and rehabilitation

The mining, extraction and processing activities of the South32 Group normally give rise to obligations for site closure or rehabilitation. Closure and rehabilitation works can include facility decommissioning and dismantling; removal or treatment of waste materials; site and land rehabilitation.

Provisions for the cost of each closure and rehabilitation programme are recognised at the time that environmental disturbance occurs. When the extent of disturbance increases over the life of an operation, the provision is increased accordingly. Costs included in the provision encompass all closure and rehabilitation activity expected to occur progressively over the life of the operation and at, or after, the time of closure, for disturbance existing at the reporting date. Routine operating costs that may impact the ultimate closure and rehabilitation activities, such as waste material handling conducted as an integral part of a mining or production process, are not included in the provision. Costs arising from unforeseen circumstances, such as the contamination caused by unplanned discharges, are recognised as an expense and liability when the event gives rise to an obligation which is probable and capable of reliable estimation.

The timing of the actual closure and rehabilitation expenditure is dependent upon a number of factors such as the life and nature of the asset, the operating licence conditions and the environment in which the mine operates. Expenditure may occur before and after closure and can continue for an extended period of time dependent on closure and rehabilitation requirements.

Closure and rehabilitation provisions are measured at the expected value of future cash flows, discounted to their present value and determined according to the probability of alternative estimates of cash flows occurring for each operation. Significant judgements and estimates are involved in forming expectations of future activities and the amount and timing of the associated cash flows.

When provisions for closure and rehabilitation are initially recognised, the corresponding cost is capitalised as an asset, representing part of the cost of acquiring the future economic benefits of the operation. The capitalised cost of closure and rehabilitation activities is recognised in property, plant and equipment and depreciated accordingly. The value of the provision is progressively increased over time due to the effect of discounting unwinds, creating an expense recognised in finance expenses.

Closure and rehabilitation provisions are also adjusted for changes in estimates. Those adjustments are accounted for as a change in the corresponding capitalised cost, except where a reduction in the provision is greater than the undepreciated capitalised cost of the related assets, in which case the capitalised cost is reduced to nil and the remaining adjustment is recognised first against other items in property, plant and equipment, and subsequently to the income statement. In the case of closed sites, changes to estimated costs are recognised immediately in the income statement. Changes to the capitalised cost result in an adjustment to future depreciation. Adjustments to the estimated amount and timing of future closure and rehabilitation cash flows are a normal occurrence in light of the significant judgements and estimates involved.

Key estimates, assumptions and judgements

The recognition of closure and rehabilitation provisions requires significant estimates and assumptions such as: requirements of the relevant legal and regulatory framework; the magnitude of possible contamination; and the timing, extent and costs of required closure and rehabilitation activity. These uncertainties may result in future actual expenditure differing from the amounts currently provided.

The provision recognised for each site is periodically reviewed and updated based on the facts and circumstances available at the time. Changes to the estimated future costs for operating sites are recognised in the balance sheet by adjusting both the closure and rehabilitation asset and provision. For closed sites, changes to estimated costs are recognised immediately in the income statement.

In addition to the uncertainties noted above, certain closure and rehabilitation activities are subject to legal disputes and depending on the ultimate resolution of these issues, the final liability for these matters could vary.

(c) Post-retirement employee benefits

This relates to provision for post-employment defined benefit pension plans and medical plans. Refer to note 23 Pension and other post-retirement obligations.

NOTES TO FINANCIAL STATEMENTS – CAPITAL STRUCTURE AND FINANCING

This section outlines how the South32 Group manages its capital and related financing activities.

16. Cash and cash equivalents

Cash and cash equivalents include cash at bank and on hand as well as short-term deposits with original maturity of three months or less.

US$M	2015	2014
Cash and cash equivalents comprise:		
Cash	**370**	145
Short-term deposits	**274**	–
Total cash and cash equivalents[1][2]	**644**	145
Bank overdrafts and short-term borrowings	**–**	–
Total cash and cash equivalents, net of overdrafts	**644**	145

(1) Cash and cash equivalents include US$14 million (2014: US$ nil) which is restricted by legal or contractual arrangements.

(2) Cash and cash equivalents include US$250 million (2014: US$ nil) consisting of short-term deposits and cash managed by the South32 Group. The corresponding amount payable is included in note 17 Interest bearing liabilities.

17. Interest bearing liabilities

US$M	2015	2014
Current		
Unsecured bank loans[1]	**104**	–
Finance leases	**9**	1
Unsecured loans from equity accounted investments[2]	**250**	–
Unsecured other	**1**	–
Owing to BHP Billiton Group entities	**–**	831
Total current interest bearing liabilities	**364**	832
Non-current		
Finance leases	**622**	1
Unsecured other[3]	**60**	–
Total non-current interest bearing liabilities	**682**	1

(1) Included in unsecured bank loans is a US$90 million back-to-back facility with Barclays Bank PLC. A corresponding amount has been recognised in other receivables. Refer to note 9 Trade and other receivables.

(2) Refer to note 16 Cash and cash equivalents and note 32 Related party transactions.

(3) Includes US$58 million share of borrowings arranged by joint operations for financing of the joint operations reflecting the direct funding of the Group's contribution to each joint operation. Refer to note 9 Trade and other receivables.

Bank overdrafts, bank loans and other borrowings are initially recognised at their fair value net of directly attributable transaction costs. Subsequent to initial recognition, interest bearing liabilities are measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the income statement when the liabilities are derecognised. Interest bearing liabilities are classified as current liabilities, except when the South32 Group has an unconditional right to defer settlement for at least 12 months after the report period in which case the liabilities are classified as non-current.

NOTES TO FINANCIAL STATEMENTS – CAPITAL STRUCTURE AND FINANCING

18. Net finance cost

US$M	2015	2014
Finance expenses		
Interest on bank loans and overdrafts	**3**	–
Interest on all other borrowings	**29**	20
Finance lease interest	**10**	–
Discounting on provisions and other liabilities	**47**	1
Net interest expense on post-retirement employee benefits[1]	**5**	–
Fair value change on loans to equity accounted investments	**2**	–
Exchange rate variations on net debt	**(7)**	(6)
	89	15
Finance income		
Interest income	**22**	–
Net finance cost	**67**	15

(1) Excludes the amount for discontinued operations of US$ nil (2014: US$1 million).

Interest income or expense is recognised using the effective interest rate method. Finance costs are expensed except where they relate to the financing of construction or development of qualifying assets requiring a substantial period of time to prepare for their intended future use, in which case finance costs are capitalised up to the date when the asset is ready for its intended use. The amount of finance cost capitalised (before the effects of income tax) for the period is determined by applying the interest rate applicable to appropriate borrowings outstanding during the period, to the average amount of capitalised expenditure for the qualifying assets during the period.

NOTES TO FINANCIAL STATEMENTS – CAPITAL STRUCTURE AND FINANCING

19. Financial assets and financial liabilities

OTHER FINANCIAL ASSETS

US$M	2015	2014
Current		
Derivative contracts	**14**	–
Total current other financial assets	**14**	–
Non-current		
Derivative contracts	**57**	–
Shares – available for sale	**229**	–
Other investments – available for sale	**131**	–
Total non-current other financial assets	**417**	–

(a) Financial risk management objectives and policies

The South32 Group is exposed to market, liquidity and credit risk. These risks are managed in accordance with South32 Limited's portfolio risk management strategy. The objective of the strategy is to support the delivery of the South32 Group's financial targets while protecting its future financial security and flexibility by taking advantage of the natural diversification of the South32 Group's operations and activities. A Cash Flow at Risk (CFaR) framework is used to capture the benefits of diversification and to measure the aggregate impact of financial risks upon the South32 Group's financial targets. CFaR is measured on a portfolio basis and is defined as the expected reduction from projected business plan cash flows over a one-year horizon in a pessimistic case.

Day to day management of the financial risk management strategies of the South32 Group are delegated to the Chief Financial Officer.

(i) Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises interest rate risk, currency risk and other price risk, such as equity price risk and commodity price risk. Financial instruments affected by market risk include loans and borrowings, deposits, available for sale investments and derivative financial instruments.

South32 Group activities expose it to market risks associated with movements in interest rates, foreign currencies and commodity prices. The South32 Group manages financing costs, currency impacts, input costs and commodity prices on a floating or index basis. This strategy gives rise to a risk of variability in earnings which is measured under the CFaR framework.

In executing the strategy, financial instruments may be employed for risk mitigation purposes on an exception basis, or to align the total South32 Group exposure to the relevant index target in the case of commodity sales, operating costs or debt issuances.

Interest rate risk

The South32 Group is exposed to interest rate risk on its outstanding borrowings, embedded derivatives and investments from the possibility that changes in interest rates will affect future cash flows or the fair value of financial instruments.

The South32 Group had the following exposure to interest rate risk:

US$M	2015	2014
Financial assets		
Cash and cash equivalents	**644**	145
Trade and other receivables	**457**	–
Derivative contracts	**71**	–
Financial liabilities		
Interest bearing liabilities	**(412)**	(831)
Derivative contracts	**(4)**	–
Net exposure	**756**	(686)

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on that portion of borrowings and investments affected. With all other variables held constant, the South32 Group's profit before taxation is affected through the impact on floating rate borrowings and investments, as follows:

Increase/decrease in basis points	Impact on profit before taxation US$M 2015	Impact on profit before taxation US$M 2014
+100	**8**	(7)
-100	**(1)**	2

The sensitivity analysis assumes that the change in interest rates is effective from the beginning of the financial year and the fixed/floating mix and balances are constant over the year. For the purpose of the sensitivity analysis, the decrease of 100 basis points is applied to the extent that the underlying interest rates do not fall below zero per cent. However, interest rates and the net debt profile of the South32 Group may not remain constant over the coming financial year and therefore such sensitivity analysis should be used with care.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The functional currency of the majority of operations of the South32 Group is the US dollar. The South32 Group's potential currency exposures comprise:

- translational exposure in respect of non-functional currency monetary items and
- transactional exposure in respect of non-functional currency expenditure and revenues

Certain operating and capital expenditure is incurred by some operations in currencies other than their functional currency. To a lesser extent, certain sales revenue is earned in currencies other than the functional currency of operations, and certain exchange control restrictions may require that funds be maintained in currencies other than the functional currency of the operation. These currency risks are managed as part of the portfolio risk management strategy. When required under this strategy the South32 Group may enter into forward exchange contracts.

The principal non-functional currencies to which the South32 Group is exposed to are the Australian dollar, South African rand, Brazilian real and Colombian peso.

NOTES TO FINANCIAL STATEMENTS – CAPITAL STRUCTURE AND FINANCING

19. Financial assets and financial liabilities (continued)

(a) Financial risk management objectives and policies (continued)

(i) Market risk (continued)

Foreign currency risk (continued)

The following table shows the foreign currency risk arising from financial assets and liabilities, which are denominated in currencies other than the US dollar:

NET FINANCIAL ASSETS/(LIABILITIES) – BY CURRENCY OF DENOMINATION

US$M	2015	2014
Australian dollar	**(941)**	(221)
Brazilian real	**(21)**	–
Colombian peso	**(34)**	–
South African rand	**121**	–
Other	**5**	–
Total	**(870)**	(221)

Based on the South32 Group's net financial assets and liabilities as at 30 June, a weakening of the US dollar against these currencies as illustrated in the table below, with all other variables held constant, would increase/(decrease) profit before taxation and equity as follows:

Currency movement	Profit before taxation	Equity
US$M	**2015**	
1 cent movement in Australian dollar	(7)	(5)
0.1 real movement in Brazilian real	(1)	(1)
50 peso movement in Colombian peso	(1)	(1)
1 rand movement in South African rand	(1)	8

Currency movement	Profit before taxation	Equity
US$M	**2014**	
1 cent movement in Australian dollar	(1)	(1)
0.1 real movement in Brazilian real	–	–
50 peso movement in Colombian peso	–	–
1 rand movement in South African rand	–	–

Commodity price risk

Contracts for the sale and physical delivery of commodities are executed whenever possible on a pricing basis intended to achieve a relevant index target. Where pricing terms deviate from the index, the South32 Group may choose to use derivative commodity contracts to realise the index price. Contracts for the physical delivery of commodities are not typically financial instruments and are carried in the balance sheet at cost (typically at US$ nil). The fair value of South32's embedded derivatives will change in response to changes in commodity prices. Refer to note 19(b) Accounting classification and fair value for the commodity price sensitivity analysis on financial instruments subject to commodity price risk.

(ii) Liquidity risk

The South32 Group's liquidity risk arises from the possibility that it may not be able to settle or meet its obligations as they fall due. Operational, capital and regulatory requirements are considered in the management of liquidity risk, in conjunction with short- and long-term forecast information.

The South32 Group's policy on counterparty credit exposure ensures that only counterparties of a high credit standing are used for the investment of any excess cash.

Standby arrangements and unused credit facilities

The South32 Group is funded by a combination of cash generated by the South32 Group's operations, working capital facilities and intercompany loans provided by South32. Intercompany loans may be funded by a combination of cash, short- and long-term debt and equity market raisings.

Details of major standby and support arrangements are as follows:

30 June 2015	Available	Used	Unused
US$M			
Commercial paper programme[1]	1,500	–	1,500

(1) The Group has an undrawn US$1.5 billion revolving credit facility which is a standby arrangement to the US$1.5 billion US commercial paper programme. The multi-currency revolving credit facility is due for expiry in February 2020 and has two one-year extension options.

NOTES TO FINANCIAL STATEMENTS – CAPITAL STRUCTURE AND FINANCING

19. Financial assets and financial liabilities (continued)

(a) Financial risk management objectives and policies (continued)

(ii) Liquidity risk (continued)

Maturity profile of financial liabilities

The maturity profiles of the South32 Group's financial liabilities, based on the contractual amounts, are as follows:

30 June 2015 US$M	Carrying amount	Total	On demand or less than 1 year	1 to 5 years	More than 5 years
Trade and other payables[1]	927	927	897	28	2
Interest bearing loans and borrowings	415	450	359	40	51
Finance leases	631	1,448	64	262	1,122
Other financial liabilities	4	4	4	–	–
Total	**1,977**	**2,829**	**1,324**	**330**	**1,175**

(1) Excludes input taxes of US$24 million included in other payables. Refer to note 14 Trade and other payables.

30 June 2014 US$M	Carrying amount	Total	On demand or less than 1 year	1 to 5 years	More than 5 years
Trade and other payables[1]	338	338	315	23	–
Interest bearing loans and borrowings	831	831	831	–	–
Finance leases	2	2	1	1	–
Total	1,171	1,171	1,147	24	–

(1) Excludes input taxes of US$1 million included in other payables. Refer to note 14 Trade and other payables.

(iii) Credit risk

The South32 Group has Group-wide credit risk management policies in place covering the credit analysis, approvals and monitoring of counterparty exposures. As part of these processes the ongoing creditworthiness of counterparties is regularly assessed to ensure that exposures are maintained at an appropriate level.

Mitigation methods are defined and implemented for higher-risk counterparties to protect revenues, with approximately half of the South32 Group's sales of physical commodities occurring via secured payment terms, including prepayments, letters of credit, guarantees and other risk mitigation instruments.

There are no material concentrations of credit risk, either with individual counterparties or groups of counterparties, by industry or geographically, with the nature of the South32 Group's sales being made to a diverse range of industries and customer sectors.

The following table sets out the aging of trade and other receivables that were not impaired:

US$M	2015	2014
Neither past due nor impaired	**1,240**	368
Past due 1-30 days	**65**	–
Past due 31-90 days	**9**	–
Past due 91-120 days	**29**	–
Total	**1,343**	368

Receivables are deemed to be past due or impaired with reference to the South32 Group's normal terms and conditions of business. These terms and conditions are determined on a case-by-case basis with reference to the customer's credit quality and prevailing market conditions. Receivables that are classified as 'past due' in the above tables are those that have not been settled within the terms and conditions that have been agreed with that customer.

The credit quality of the South32 Group's customers is monitored on an ongoing basis and assessed for impairment where indicators of such impairment exist. The solvency of each debtor and their ability to repay the receivable is considered in assessing receivables for impairment. In certain circumstances the South32 Group may seek collateral as security for the receivable. Where receivables have been impaired, the South32 Group actively seeks to recover the amounts in question and enforce compliance with credit terms.

NOTES TO FINANCIAL STATEMENTS – CAPITAL STRUCTURE AND FINANCING

19. Financial assets and financial liabilities (continued)

(b) Accounting classification and fair value

The following table presents the financial assets and liabilities of the South32 Group by class at their carrying amounts which approximates their fair value.

30 June 2015 US$M	Note	Loans and receivables	Available for sale securities	Held at fair value through profit or loss	Other financial assets and liabilities at amortised cost	Total
Financial assets						
Cash and cash equivalents	16	644	–	–	–	**644**
Trade and other receivables[1]	9	725	–	25	–	**750**
Derivative contracts		–	–	71	–	**71**
Loans to equity accounted investments	9	323	–	–	–	**323**
Interest bearing loans receivable	9	148	–	–	–	**148**
Shares		–	229	–	–	**229**
Other investments		–	131	–	–	**131**
Total		**1,840**	**360**	**96**	**–**	**2,296**
Financial liabilities						
Trade and other payables[2]	14	–	–	9	918	**927**
Derivative contracts		–	–	4	–	**4**
Unsecured bank loans	17	–	–	–	104	**104**
Finance leases	17	–	–	–	631	**631**
Unsecured other	17	–	–	–	311	**311**
Total		**–**	**–**	**13**	**1,964**	**1,977**

(1) Excludes input taxes of US$126 million included in other receivables. Refer to note 9 Trade and other receivables.

(2) Excludes input taxes of US$24 million included in other payables. Refer to note 14 Trade and other payables.

30 June 2014 US$M	Note	Loans and receivables	Available for sale securities	Held at fair value through profit or loss	Other financial assets and liabilities at amortised cost	Total
Financial assets						
Cash and cash equivalents	16	145	–	–	–	145
Loans to equity accounted investments	9	22	–	–	–	22
Trade and other receivables[1]	9	340	–	–	–	340
Total		507	–	–	–	507
Financial liabilities						
Trade and other payables[2]	14	–	–	–	338	338
Owing to BHP Billiton Group entities	17	–	–	–	831	831
Finance leases	17	–	–	–	2	2
Total		–	–	–	1,171	1,171

(1) Excludes input taxes of US$6 million included in other receivables. Refer to note 9 Trade and other receivables.

(2) Excludes input taxes of US$1 million included in other payables. Refer to note 14 Trade and other payables.

NOTES TO FINANCIAL STATEMENTS – CAPITAL STRUCTURE AND FINANCING

19. Financial assets and financial liabilities (continued)

(b) Accounting classification and fair value (continued)

All financial assets are initially recognised at the fair value of consideration paid. Subsequently, financial assets are carried at fair value or amortised cost less impairment. Where non-derivative financial assets are carried at fair value, gains and losses on re-measurement are recognised directly in equity unless the financial assets have been designated as being held at fair value through profit or loss, in which case the gains and losses are recognised directly in the income statement. Financial assets are designated as being held at fair value through profit or loss where this is necessary to reduce measurement inconsistencies for related assets and liabilities.

The South32 Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognised financial assets that is created or retained by the South32 Group is reported as a separate asset or liability.

All financial liabilities other than derivatives are initially recognised at fair value of consideration received net of transaction costs as appropriate (initial cost) and, with the exception of financial liabilities which have been designated in fair value hedging relationships, are subsequently carried at amortised cost. The South32 Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

Financial assets and liabilities are offset and the net amount presented in the balance sheet when, and only when, the South32 Group has a legal right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Derivatives, including those embedded in other contractual arrangements but separated for accounting purposes because they are not clearly and closely related to the host contract, are initially recognised at fair value on the date the contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss on re-measurement depends on whether the derivative is designated as a hedging instrument, and, if so, the nature of the item being hedged. The measurement of fair value is based on quoted market prices. Where no price information is available from a quoted market source, alternative market mechanisms or recent comparable transactions, fair value is estimated based on the South32 Group's views on relevant future prices, net of valuation allowances to accommodate liquidity, modelling, credit and other risks implicit in such estimates.

Forward exchange contracts and interest rate swaps held for hedging purposes are accounted for as either cash flow or fair value hedges. Derivatives embedded within other contractual arrangements and the majority of commodity-based transactions executed through derivative contracts do not qualify for hedge accounting.

Derivatives that do not qualify for hedge accounting

Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement.

Available for sale and trading investments

Available for sale and trading investments are measured at fair value. Gains and losses on the re-measurement of trading investments are recognised directly in the income statement. Gains and losses on the re-measurement of available for sale investments are recognised directly in equity and subsequently recognised in the income statement when realised by sale or redemption, or when a reduction in fair value is judged to represent an impairment.

Measurement of fair value

The carrying amount of financial assets and liabilities measured at fair value is principally calculated with reference to quoted prices in active markets for identical assets or liabilities. Where no price information is available from a quoted market source, alternative market mechanisms or recent comparable transactions, fair value is estimated based on the South32 Group's views on relevant future prices, net of valuation allowances to accommodate liquidity, modelling and other risks implicit in such estimates during the reporting period. Movements in the fair value of financial assets and liabilities may be recognised through the income statement or in other comprehensive income. The following table shows the South32 Group's financial assets and liabilities carried at fair value with reference to the nature of valuation inputs used:

Level 1 - Valuation is based on unadjusted quoted prices in active markets for identical financial assets and liabilities.

Level 2 - Valuation is based on inputs (other than quoted prices included in Level 1) that are observable for the financial asset or liability, either directly (i.e. as unquoted prices) or indirectly (i.e. derived from prices).

Level 3 - Valuation is based on inputs that are not based on observable market data.

NOTES TO FINANCIAL STATEMENTS – CAPITAL STRUCTURE AND FINANCING

19. Financial assets and financial liabilities (continued)

(b) Accounting classification and fair value (continued)

30 June 2015

US$M	Level 1	Level 2	Level 3	Total
Financial assets and liabilities				
Trade and other receivables	–	25	–	25
Trade and other payables	–	(9)	–	(9)
Derivative contracts	–	–	67	67
Investments – available for sale	–	131	229	360
Total	**–**	**147**	**296**	**443**

Level 3 financial assets and liabilities

The following table shows the movements in the South32 Group's Level 3 financial assets and liabilities:

US$M	2015
At the beginning of the financial year	**–**
Acquisition of subsidiaries and operations[1]	**353**
Disposal on change from control to joint control of South Africa Manganese and Samancor AG [1]	**(143)**
Additions	**2**
Unrealised gains/(losses) recognised in the income statement[2]	**8**
Unrealised gains/(losses) recognised in other comprehensive income[3]	**76**
At the end of the financial year	**296**

(1) Refer to note 4 South32 Limited demerger.

(2) Unrealised gains and losses recognised in the income statement are recorded in expenses excluding net finance cost. Refer to note 6 Expenses.

(3) Unrealised gains and losses recognised in other comprehensive income are recorded in the financial assets reserve. Refer to note 24 Other equity.

Sensitivity analysis

The carrying amount of financial assets and liabilities that are valued using inputs other than observable market data are calculated using appropriate valuation models, including discounted cash flow modelling, with inputs such as commodity prices, foreign exchange rates and inflation. The potential effect of using reasonably possible alternative assumptions in these models, based on a change in the most significant input by 10 per cent while holding all other variables constant, is shown in the following table.

30 June 2015

			Profit before taxation		Equity	
US$M	Carrying amount	Significant input	10% increase in input	10% decrease in input	10% increase in input	10% decrease in input
Financial assets and liabilities						
Derivative contracts	67	Aluminium price as quoted on the LME	(64)	64	(43)	43
Investments – available for sale	229	Aluminium price as quoted on the LME Foreign exchange rate	–	–	60	(69)
Total	**296**		**(64)**	**64**	**17**	**(26)**

(c) Offsetting financial assets and liabilities

There was no offsetting of financial assets or financial liabilities during the reporting period (2014: US$ nil).

NOTES TO FINANCIAL STATEMENTS – CAPITAL STRUCTURE AND FINANCING

19. Financial assets and financial liabilities (continued)

(d) Capital management

The South32 Group's strategy is to invest in metals and mining operations where our distinctive capabilities and regional model enable us to stretch performance in a sustainable way. The South32 Group will invest capital in assets where they fit its strategy. The South32 Group's priorities for cash flow are:

- Maintain safe and reliable operations and an investment grade credit rating through the cycle
- Distribute a minimum of 40 per cent of Underlying earnings as dividends to 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 and
- Consistent with South32's priorities for cash flow and commitment to maximise total shareholder returns, other alternatives including special dividends, share buy-backs and high return investment opportunities will compete for excess capital

20. Share capital

Share capital	2015		2014	
	Shares	US$M	Shares	US$M
At the beginning of the financial year	**450,000,003**	**561**	450,000,003	561
Share split[1][2]	**2,761,691,100**	**–**	–	–
Proceeds from the issue of shares[1]	**2,112,071,798**	**14,397**	–	–
At the end of the financial year	**5,323,762,901**	**14,958**	450,000,003	561

(1) Prior to the demerger a number of internal share transfers occurred in connection with the Internal Restructure. Refer to note 4 South32 Limited demerger.

(2) In order to facilitate the demerger South32 Limited has undertaken a share split. As a result South32 Limited's shares have been issued to the relevant BHP Billiton Limited and BHP Billiton Plc shareholders on a one for one basis.

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the South32 Group in proportion to the number and amounts paid on the shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

Incremental costs directly attributable to the issue of ordinary shares, net of any income tax effects, are recognised as a deduction from equity.

The total number of South32 Limited shares of all classes is 5,323,762,901 of which 100 per cent are fully paid ordinary shares (2014: 450,000,003; 100 per cent). The South32 Group does not have authorised capital or par value in respect of its issued shares.

NOTES TO FINANCIAL STATEMENTS – OTHER NOTES

21. Other income

US$M	2015	2014
Dividend income	**2**	–
Gains/(losses) on sale of property, plant and equipment	**(10)**	4
Rental income	**1**	1
Fair value uplift on equity accounted investments[1]	**921**	–
Electricity sales	**206**	–
Other income	**23**	25
Total other income	**1,143**	30

(1) Refer to note 5(b)(ii) Significant items.

NOTES TO FINANCIAL STATEMENTS – OTHER NOTES

22. Auditor's remuneration

The auditor of the South32 Group is KPMG.

US$'000	2015	2014
Fees payable to the Group's auditor for assurance services		
Audit and review of financial statements	**4,459**	297
Other assurance services[1]	**271**	–
Fees payable to the Group's auditor for other services		
All other services[2]	**220**	–
	4,950	297

(1) Mainly comprises assurance in respect of the Group's sustainability reporting and pro forma financial information.

(2) Mainly comprises services in connection with consulting and advice on accounting matters.

23. Pension and other post-retirement obligations

The South32 Group operates or participates in a number of pension (including superannuation) schemes throughout the world. The funding of the schemes complies with local regulations. The assets of the schemes are generally held separately from those of the South32 Group and are administered by trustees or management boards.

For defined contribution schemes or schemes operated on an industry-wide basis where it is not possible to identify assets attributable to the participation by the South32 Group's employees, the pension charge is calculated on the basis of contributions payable.

For defined benefit schemes, the cost of providing pensions is charged to the income statement so as to recognise current and past service costs, interest cost on defined benefit obligations, and the effect of any curtailments or settlements, net of returns on plan assets. Actuarial gains and losses are recognised directly in equity. An asset or liability is consequently recognised in the balance sheet based on the present value of defined benefit obligations less the fair value of plan assets, except that any such asset cannot exceed the present value of expected refunds from and reductions in future contributions to the plan. Defined benefit obligations are estimated by discounting expected future payments using market yields at the reporting date on high-quality corporate bonds in countries that have developed corporate bond markets. However, where developed corporate bond markets do not exist, the discount rates are selected by reference to national government bonds. In both instances, the bonds are selected with terms to maturity and currency that match, as closely as possible, the estimated future cash flows.

Certain South32 Group companies provide post-retirement medical benefits to qualifying retirees. In some cases the benefits are provided through medical care schemes to which the South32 Group, the employees, the retirees and covered family members contribute. In some schemes there is no funding of the benefits before retirement. These schemes are recognised on the same basis as described above for defined benefit pension schemes.

Key estimates, assumptions and judgements

The South32 Group's accounting policy for defined benefit pension schemes requires management to make judgements as to the nature of benefits provided by each scheme and thereby determine the classification of each scheme. For defined benefit schemes, management is required to make annual estimates and assumptions about future returns on classes of scheme assets, future remuneration changes, employee attrition rates, administration costs, changes in benefits, inflation rates, exchange rates, life expectancy and expected remaining periods of service of employees. In making these estimates and assumptions, management considers advice provided by external advisers, such as actuaries. Where actual experience differs to these estimates, actuarial gains and losses are recognised directly in equity.

The South32 Group operates the following pension and post-retirement medical schemes:

Defined contribution schemes

The South32 Group contributed US$41 million (2014: US$23 million) to defined contribution plans and multi-employer defined contribution plans. These contributions are expensed as incurred.

Defined benefit pension schemes

The South32 Group has closed all defined benefit schemes to new entrants. Defined benefit pension schemes remain operating in Australia, South America and South Africa for existing members. Full actuarial valuations are prepared and updated annually to 30 June by local actuaries for all schemes. The Projected Unit Credit valuation method is used. The South32 Group operates final salary schemes that provide final salary benefits only, non-salary related schemes that provide flat dollar benefits and mixed benefit schemes that consist of a final salary defined benefit portion and a defined contribution portion.

The South32 Group follows a coordinated strategy for the funding and investment of its defined benefit pension schemes (subject to meeting all local requirements). The South32 Group's aim is for the value of defined benefit scheme assets to be maintained at close to the value of the corresponding benefit obligations, allowing for some short-term volatility.

NOTES TO FINANCIAL STATEMENTS – OTHER NOTES

23. Pension and other post-retirement obligations (continued)

Defined benefit post-retirement medical schemes

The South32 Group operates two post-retirement medical schemes in South Africa. Full actuarial valuations are prepared by local actuaries for the schemes. All of the post-retirement medical schemes in the South32 Group are unfunded.

The South32 Group's defined benefit pension schemes and post-retirement medical schemes expose the South32 Group to a number of risks:

Risk	Description
Volatility in asset values	The South32 Group is exposed to changes in the value of assets held in funded pension schemes to meet future benefit payments.
Uncertainty in benefit payments	The cost to the South32 Group of meeting future benefit obligations will depend on the value of the benefits paid in the future. To the extent these payments are dependent on future experience, there is some uncertainty. Some of the schemes' benefit obligations are linked to inflation or to salaries, and some schemes provide benefits that are paid for the life of the member. If future experience varies from the assumptions used to value these obligations, the cost of meeting the obligations will vary.
Uncertainty in future funding requirements	Movement in the value of benefit obligations and scheme assets will impact the contributions that the South32 Group will be required to make to the schemes in the future. In many cases, pension schemes are managed under trust, and the South32 Group does not have full control over the rate of funding or investment policy for scheme assets. In addition, the South32 Group is exposed to changes in the regulations applicable to benefit schemes.

The following tables set out details of the South32 Group's defined benefit pension and post-retirement medical schemes.

(a) Balance sheet disclosures

The amounts recognised in the consolidated balance sheet are as follows:

	Defined benefit pension schemes		Post-retirement medical schemes	
US$M	**2015**	**2014**	**2015**	**2014**
Present value of funded defined benefit obligation	**129**	191	**–**	–
Present value of unfunded defined benefit obligation	**26**	–	**103**	34
Fair value of defined benefit scheme assets	**(151)**	(191)	**–**	–
Scheme deficit	**4**	–	**103**	34
Unrecognised surplus	**–**	–	**–**	–
Unrecognised past service credits	**–**	–	**–**	–
Net liability recognised in the consolidated balance sheet	**4**	–	**103**	34

The South32 Group has no legal obligation to settle these liabilities with any immediate contributions or additional one-off contributions. The South32 Group intends to continue to contribute to each defined benefit pension and post-retirement medical scheme in accordance with the latest recommendations of each scheme actuary.

(b) Income statement disclosures

The amounts recognised in the consolidated income statement are as follows:

	Defined benefit pension schemes		Post-retirement medical schemes	
US$M	**2015**	**2014**	**2015**	**2014**
Current service cost	**3**	4	**–**	1
Net interest expense on net defined benefit balance	**1**	–	**4**	1
Past service costs	**–**	(7)	**–**	–
Curtailment and settlement (gains)/losses and other adjustments	**(1)**	–	**–**	–
Total expense	**3**	(3)	**4**	2
– Recognised in employee benefits expense	**2**	(3)	**–**	1
– Recognised in net finance cost	**1**	–	**4**	1

NOTES TO FINANCIAL STATEMENTS – OTHER NOTES

23. Pension and other post-retirement obligations (continued)

(c) Statement of comprehensive income disclosures

The amounts recognised in the consolidated statement of comprehensive income are as follows:

	Defined benefit pension schemes		Post-retirement medical schemes	
US$M	**2015**	**2014**	**2015**	**2014**
Actuarial (gains)/losses[1]	**(3)**	(1)	–	(5)
Total amount recognised in the statement of comprehensive income	**(3)**	(1)	–	(5)

(1) During the year ended 30 June 2014, the US$5 million gain on post-retirement medical schemes includes a gain of US$3 million due to the removal of prior period unrecognised past service credits.

(d) Movements in net defined benefit liability

The change in the net defined benefit liability is as follows:

	Defined benefit pension schemes		Post-retirement medical schemes	
US$M	**2015**	**2014**	**2015**	**2014**
Net defined benefit liability at the beginning of the financial year	**–**	6	**34**	38
Acquisition of subsidiaries and operations[1]	**(5)**	–	**151**	–
Divestment of subsidiaries and operations[1]	**–**	–	**(35)**	–
Disposal on change from control to joint control of South Africa Manganese and Samancor AG[1]	**17**	–	**(47)**	–
Amount recognised in the income statement	**3**	(3)	**4**	2
Remeasurement (gain)/loss recognised in other comprehensive income	**(3)**	(1)	**–**	(5)
Disbursements and settlements paid to participants	**(1)**	–	**(2)**	–
Employer contributions	**(5)**	(2)	**–**	(1)
Foreign exchange (gains)/losses	**(2)**	–	**(2)**	–
Net defined benefit liability at the end of the financial year	**4**	–	**103**	34

(1) Refer to note 4 South32 Limited demerger.

The change in the present value of the defined benefit obligation is as follows:

	Defined benefit pension schemes		Post-retirement medical schemes	
US$M	**2015**	**2014**	**2015**	**2014**
Defined benefit obligation at the beginning of the financial year	**191**	196	**34**	35
Acquisition of subsidiaries and operations[1]	**239**	–	**151**	–
Divestment of subsidiaries and operations[1]	**(159)**	–	**(35)**	–
Disposal on change from control to joint control of South Africa Manganese and Samancor AG[1]	**(99)**	–	**(47)**	–
Current service cost	**3**	4	**–**	1
Past service cost	**–**	(7)	**–**	–
Settlement gains	**(1)**	–	**–**	–
Interest cost	**9**	7	**4**	1
Actuarial (gains)/losses due to experience	**(2)**	(2)	**–**	(3)
Actuarial (gains)/losses due to changes in financial assumptions	**4**	7	**–**	1
Benefits paid to participants	**(16)**	(15)	**(2)**	(1)
Foreign exchange (gains)/losses	**(14)**	1	**(2)**	–
Defined benefit obligation at the end of the financial year	**155**	191	**103**	34

(1) Refer to note 4 South32 Limited demerger.

NOTES TO FINANCIAL STATEMENTS – OTHER NOTES

23. Pension and other post-retirement obligations (continued)

(d) Movements in net defined benefit liability (continued)

Weighted average maturity profile of defined benefit obligation

	Defined benefit pension schemes		Post-retirement medical schemes	
Years	**2015**	**2014**	**2015**	**2014**
Weighted average duration of defined benefit obligation (years)	**9**	10	**14**	10

The change in the fair value of scheme assets for defined benefit pension schemes is as follows:

US$M	**2015**	**2014**
Fair value of scheme assets at the beginning of the financial year	**191**	190
Acquisition of subsidiaries and operations[1]	**244**	–
Divestment of subsidiaries and operations[1]	**(159)**	–
Disposal on change from control to joint control of South Africa Manganese and Samancor AG[1]	**(116)**	–
Interest income on scheme assets	**8**	7
Return on scheme assets greater than the discount rate	**5**	6
Employer contributions	**5**	2
Benefits paid to participants	**(15)**	(15)
Foreign exchange gains/(losses)	**(12)**	1
Fair value of scheme assets at the end of the financial year	**151**	191

(1) Refer to note 4 South32 Limited demerger.

(e) Plan assets

The fair value of defined benefit pension scheme assets by major asset class is as follows:

Asset class	**Fair value**	
US$M	**2015**	**2014**
Bonds[1]	**78**	177
Equities	**15**	8
Cash and cash equivalents	**7**	5
Property	**3**	1
Other[2]	**48**	–
Total	**151**	191

(1) The bonds asset class as at 30 June 2015 includes Fixed Interest Government bonds of US$33 million (2014: US$31 million), Index Linked Government bonds of US$45 million (2014: US$24 million) and Corporate bonds of US$ nil (2014: US$122 million).

(2) Scheme assets classified as 'Other' as at 30 June 2015 primarily comprise insurance contracts in South Africa.

The fair value of scheme assets includes no amounts relating to any of the South32 Group's own financial instruments or any of the property occupied by or other assets used by the South32 Group.

Scheme assets are invested in a diversified range of asset classes, predominantly comprising bonds and equities. In some locations, scheme trustees and other bodies have legal responsibility for the investment of scheme assets and decisions on investment strategy are taken in consultation with the South32 Group.

The South32 Group monitors its exposure to changes in equity markets, interest rates and inflation, and measures its balance sheet pension risk using a risk-based approach. Asset-liability studies are carried out periodically for the major pension schemes and the suitability of investment strategies for all defined benefit pension schemes are also reviewed periodically.

The South32 Group's aim is to progressively shift defined benefit pension scheme assets towards investments that match the anticipated profile of the benefit obligations, as funding levels improve, and as benefit obligations mature. Over time, this is expected to result in a further reduction in the total exposure of pension scheme assets to equity markets. For pension schemes that pay lifetime benefits, the South32 Group may consider and support the purchase of annuities to back these benefit obligations if it is commercially sensible to do so.

NOTES TO FINANCIAL STATEMENTS – OTHER NOTES

23. Pension and other post-retirement obligations (continued)

(e) Plan assets (continued)

Estimated contributions for the defined benefit pension and post-retirement medical schemes are as follows:

US$M	Defined benefit pension schemes	Post-retirement medical schemes
Estimated employer contributions for the year ending 30 June 2016	3	–
Estimated benefits paid to participants directly by employer for the year ending 30 June 2016	2	6

(f) Actuarial assumptions

The principal actuarial assumptions at the reporting date (expressed as weighted averages) for defined benefit pension schemes are as follows:

	Australia		South Africa		South America		USA	
%	2015	2014	2015	2014[1]	2015	2014[1]	2015[2]	2014
Discount rate	**3.6**	3.3	**8.8**	n/a	**8.9**	n/a	**n/a**	3.9
Pension increase rate	**n/a**	n/a	**7.2**	n/a	**3.8**	n/a	**n/a**	n/a
Future salary increases	**3.6**	3.9	**8.7**	n/a	**4.5**	n/a	**n/a**	4.5

(1) Defined benefit pension balances were not applicable in South Africa and South America in FY2014 as these balances were acquired as part of the Internal Restructure in FY2015. Refer to note 4 South32 Limited demerger.

(2) Defined benefit pension balances are not applicable in the USA in FY2015 as these balances were disposed as part of the Internal Restructure. Refer to note 4 South32 Limited demerger.

The principal actuarial assumptions at the reporting date (expressed as weighted averages) for post-retirement medical schemes are as follows:

	South Africa		USA	
%	2015	2014[1]	2015[2]	2014
Discount rate	**9.3**	n/a	**n/a**	3.7
Medical cost trend rate (ultimate)	**8.9**	n/a	**n/a**	4.5

(1) Post-retirement medical liabilities were not applicable in South Africa in FY2014 as these balances were acquired as part of the Internal Restructure in FY2015. Refer to note 4 South32 Limited demerger.

(2) Post-retirement medical liabilities are not applicable in the USA in FY2015 as these balances were disposed as part of the Internal Restructure. Refer to note 4 South32 Limited demerger.

Assumptions regarding future mortality can be material depending upon the size and nature of the post-retirement medical schemes' liabilities. Post-retirement mortality assumptions in South Africa are based on post-retirement mortality tables that are standard in the region.

For the main post-retirement medical schemes, these tables imply the following expected future lifetimes (in years) for employees aged 65 as at the balance sheet date: South African males 19.2 (2014: USA males 19.1), South African females 23.7 (2014: USA females 21.0).

NOTES TO FINANCIAL STATEMENTS – OTHER NOTES

23. Pension and other post-retirement obligations (continued)

(f) Actuarial assumptions (continued)

Sensitivity to assumptions

The South32 Group's defined benefit obligation at the reporting date has been determined using actuarial calculations that require assumptions about future events. The estimated sensitivity of the defined benefit obligation to each significant assumption shown below has been determined at an individual scheme level if each assumption were changed in isolation. In practice, the schemes are subject to multiple external experience items which may vary the defined benefit obligation over time.

The estimated effects of variations in the principal actuarial assumptions on the South32 Group's defined benefit obligation at the reporting date are as follows:

	Increase/(decrease) in defined benefit obligation	
US$M	**Defined benefit pension schemes**	**Post-retirement medical schemes**
Discount rate		
Increase of 1%	(12)	(12)
Decrease of 1%	15	15
Future salary increases		
Increase of 1%	4	n/a
Decrease of 1%	(4)	n/a
Mortality		
Increase in life expectancy at age 65 of 1 year	2	4
Decrease in life expectancy at age 65 of 1 year	(2)	(4)
Medical cost trend rate (initial and ultimate)		
Increase of 1%	n/a	15
Decrease of 1%	n/a	(12)
Pension increase rate		
Increase of 1%	7	n/a
Decrease of 1%	(5)	n/a

NOTES TO FINANCIAL STATEMENTS – OTHER NOTES

24. Other equity

(a) Movements of reserves and retained earnings

US$M	2015	2014
Employee share awards reserve		
At the beginning of the financial year	**–**	–
Accrued employee entitlement for unexercised awards	**1**	–
At the end of the financial year	**1**	–
Financial assets reserve		
At the beginning of the financial year	**–**	–
Net valuation gains/(losses) on available for sale investments taken to equity	**65**	–
Deferred tax relating to revaluation gains and losses	**(33)**	–
At the end of the financial year	**32**	–
Other reserves		
At the beginning of the financial year	**–**	–
Acquisition and divestment of subsidiaries and operations[1]	**(3,569)**	–
Other movements	**(21)**	–
At the end of the financial year	**(3,590)**	–
Total reserves	**(3,557)**	–
Retained earnings/(accumulated losses)		
At the beginning of the financial year	**552**	502
Profit/(loss) for the year	**(919)**	46
Actuarial gains/(losses) on pension and medical schemes	**3**	6
Tax recognised within other comprehensive income	**(1)**	(2)
Total comprehensive income	**(917)**	50
At the end of the financial year	**(365)**	552

(1) Refer to note 4 South32 Limited demerger

(b) Nature and purpose of reserves

Employee share awards reserve

The employee share awards reserve represents the accrued employee entitlements to share awards that have been charged to the income statement and have not yet been exercised.

Financial assets reserve

The financial assets reserve represents the revaluation of available for sale financial assets. Where a revalued financial asset is sold or impaired, the relevant portion of the reserve is transferred to the income statement.

Other reserves

Other reserves primarily consist of the common control transaction reserve of US$3,569 million, which reflects the difference between consideration paid and the carrying value of assets and liabilities acquired, as well as the gain/loss on disposal of entities as part of the demerger of South32 Limited from the BHP Billiton Group. Refer to note 4 South32 Limited demerger.

NOTES TO FINANCIAL STATEMENTS – OTHER NOTES

25. Employee share ownership plans

The South32 Group did not have any share-based compensation schemes in place prior to the South32 Group's separation from BHP Billiton and therefore no comparative information has been provided.

Awards were provided under the following employee share ownership plans for the year ended 30 June 2015:

- Replacement Awards for:
  - the BHP Billiton Long Term Incentive Plan (LTIP)
  - the BHP Billiton Management Award Plan (MAP)
  - the BHP Billiton Short Term Incentive Plan (STIP)
  - the BHP Billiton Group Short Term Incentive Plan (GSTIP) and
  - the BHP Billiton Transitional Plan
- the FY2015 Transitional Award Plan

These awards take the form of rights to receive ordinary shares in South32 Limited. Awards are made subject to performance hurdles (Replacement LTIP, Replacement Transitional Plan and FY2015 Transitional Plan) and service conditions (all plans). Subject to the performance conditions and service conditions being met and the extent to which they are met, the awards will vest and the participants will become entitled to the appropriate number of ordinary shares. Awards under the plans do not confer any rights to participate in a share issue, however, there is discretion under the plans to adjust the awards in response to a variation in South32's share capital.

The Replacement LTIP and Replacement STIP are eligible to receive a payment equal to the dividend amount that would have been earned on the underlying shares awards to those participants (Dividend Equivalent Payment). The Dividend Equivalent Payment is made to participants once the underlying shares are issued or transferred to them. No Dividend Equivalent Payment is made in respect of awards that lapse. No other awards are eligible for a Dividend Equivalent Payment.

(a) Description of share-based payment arrangements

A description of the Group's share-based payment arrangements are as follows:

(i) Replacement Awards

The Replacement Awards were made to members of the Executive Committee that were former BHP Billiton employees, to compensate for BHP Billiton awards that were unvested at the time of demerger (25 May 2015). On 25 May 2015, participants received a one-time award of rights in South32 shares at an equivalent value, on equivalent terms and conditions and with the same vesting date.

Replacement BHP Billiton LTIP

The Replacement LTIP awards have a five year performance period from grant of the original BHP Billiton award. The performance hurdle testing for the awards is split into two periods: the BHP Billiton period (from grant up to 24 May 2015) and the South32 period (from 25 May 2015 to date of vesting). During the BHP Billiton period, performance is based on BHP Billiton's Total Shareholder Return (TSR) relative to a combination of the Peer Group TSR (a specified group of peer companies) for two thirds of the award and the MSCI World Index for one third. During the South32 period, South32 Limited's TSR has to be greater than the Euromoney Global Mining Index (constrained by company and sector) for two thirds of the award and the MSCI World Index for one third. To the extent that the performance hurdles are not achieved, awards are forfeited and there is no retesting. For full vesting, the awards must exceed the median TSR of the Peer Group and Index Groups by at least 5.5 per cent per annum.

Replacement BHP Billiton MAP

There are no performance conditions attached to the awards. Awards will vest at the end of the vesting period (three years from grant of the original BHP Billiton award) provided participants remain in South32 employment.

Replacement BHP Billiton STIP

There are no performance conditions attached to the awards. Awards will vest at the end of the vesting period (two years from grant of the original BHP Billiton award) provided participants remain in South32 employment.

Replacement BHP Billiton GSTIP

There are no performance conditions attached to the awards. Awards will vest at the end of the vesting period (two years from grant of the original BHP Billiton award) provided participants remain in South32 employment.

Replacement BHP Billiton Transitional Award

The Transitional Awards have two tranches. The first tranche has a three year service and performance condition from grant of the original BHP Billiton award. The second tranche has a four year service and performance condition from grant of the original BHP Billiton award. The performance hurdle testing for the awards is split into two periods: the BHP Billiton period (from grant up to 24 May 2015) and the South32 period (from 25 May 2015 to the date of vesting). The South32 Remuneration Committee has absolute discretion to determine whether the performance conditions have been met, having regard to: (1) TSR over the period, (2) the participant's contribution to company outcomes and (3) the participant's personal performance. For each measure, the relevant performance outcomes for BHP Billiton or South32 are applied.

NOTES TO FINANCIAL STATEMENTS – OTHER NOTES

25. Employee share ownership plans (continued)

(a) Description of share-based payment arrangements (continued)

(ii) FY2015 Transitional Award

The FY2015 Transitional Award is a one-off grant which has been made to one Executive Committee member to bridge the gap between the total remuneration package whilst employed by BHP Billiton and the total remuneration package for the first three year's employment with South32.

The Award has three equal tranches, vesting in 2016, 2017 and 2018 respectively. Service and performance conditions apply for each period from grant. The South32 Remuneration Committee has absolute discretion to determine whether the performance conditions have been met, having regard to: (1) South32 Limited's TSR over the period, (2) the participant's contribution to South32 Limited's outcomes, and (3) the participant's personal performance.

(b) Measurement of fair values

The fair value at grant date of equity-settled share awards is charged to the income statement over the period for which the benefits of employee services are expected to be derived. The corresponding accrued employee entitlement is recorded in the employee share awards reserve.

Where awards are forfeited because non-market based vesting conditions are not satisfied, the expense previously recognised is proportionately reversed. Where shares in South32 Limited are acquired by on-market purchases prior to settling the vested entitlement, the cost of the acquired shares is carried as treasury shares and deducted from equity. Where awards are satisfied by delivery of acquired shares, any difference between their acquisition cost and the remuneration expense recognised is charged directly to retained earnings. The tax effect of awards granted is recognised in income tax expense, except to the extent that the total tax deductions are expected to exceed the cumulative remuneration expense. In this situation, the excess of the associated current or deferred tax is recognised in other comprehensive income and forms part of the employee share awards reserve.

(i) Equity-settled share-based payment arrangements

The fair value of the Replacement LTIP awards has been measured using a Monte Carlo methodology. This model considers the following factors:

- Expected life of the award
- Current market price of the underlying shares
- Expected volatility (of the individual company and of each peer group)
- Expected dividends
- Risk-free interest rate and
- Market-based performance hurdles

Service and non-market performance conditions attached to the arrangements were not taken into account in measuring fair value.

The fair value of all other awards has been measured using a Black Scholes methodology. This model considers the following factors:

- Expected life of the award
- Current market price of the underlying shares
- Expected dividends and
- Risk-free interest rate

Service and non-market performance conditions attached to the arrangements were not taken into account in measuring fair value. The inputs used in the measurement of the fair values at grant date of the equity-settled share-based payments plans were as follows.

	Replacement BHP Billiton LTIP	Replacement BHP Billiton MAP	Replacement BHP Billiton STIP	Replacement BHP Billiton GSTIP	Replacement Transitional Award	FY2015 Transitional Award
Fair value at grant date (US$) (weighted average)	0.79[1]	1.69[1]	1.76[1]	1.71[1]	1.71[1]	1.32[2]
Share price at grant date (US$)	1.76	1.76	1.76	1.76	1.76	1.45
Exercise price	–	–	–	–	–	–
Expected volatility[3]	35%	35%	35%	35%	35%	35%
Expected life (weighted-average in years)	3.47	1.77	1.28	1.28	1.24	2.18
Risk-free interest rate based on government bonds (weighted average)	2.25%	1.67%	1.96%	1.56%	2.00%	2.01%

(1) Grant date 25 May 2015.

(2) Grant date 29 June 2015.

(3) Expected volatility has been based on an evaluation of the volatility of 13 companies which collectively represent a similar business operation, commodity mix and market capitalisation to South32.

NOTES TO FINANCIAL STATEMENTS – OTHER NOTES

25. Employee share ownership plans (continued)

(b) Measurement of fair value (continued)

(ii) Cash-settled share-based payment arrangement

In certain circumstances, the Replacement BHP Billiton MAP and Replacement BHP Billiton GSTIP awards were taxable to the participant at the grant date. Where a participant was subject to tax at the grant date, 49 per cent of the total value of the Replacement awards was settled in cash to enable the participant to pay the expected cash liability on awards. The remaining 51 per cent was settled in rights in South32 shares. The amount of the cash payment was calculated based on the South32 share price at grant. The cash payment was made shortly after grant and during FY2015.

In the event that any of the Rights lapse prior to the vesting date of the Replacement MAP or GSTIP awards, any refund of tax that the participant receives as a result of amending their tax return to reduce the number of rights is repayable to South32.

The total cash payment made for the reasons outlined above in FY2015 was US$514,515.

There were no outstanding cash-settled share-based awards at 30 June 2015.

(c) Reconciliation of outstanding share awards

None of the awards listed below have an exercise price.

Number of awards 2015	Replacement BHP Billiton LTIP	Replacement BHP Billiton MAP	Replacement BHP Billiton STIP	Replacement BHP Billiton GSTIP	Replacement Transitional Award	FY2015 Transitional Award	Total
Outstanding 1 July	–	–	–	–	–	–	**–**
Granted during the year	7,286,350	703,746	1,018,425	325,909	941,908	1,616,241	**11,892,579**
Forfeited during the year	–	–	–	–	–	–	**–**
Vesting during the year	–	–	–	–	–	–	**–**
Outstanding at 30 June	7,286,350	703,746	1,018,425	325,909	941,908	1,616,241	**11,892,579**
Exercisable at 30 June	–	–	–	–	–	–	**–**

NOTES TO FINANCIAL STATEMENTS – OTHER NOTES

26. Contingent liabilities

Contingent liabilities at reporting date, not otherwise provided for in the financial statements, are categorised as arising from:

US$M	2015	2014
Associates and joint ventures		
Actual or potential litigation	**–**	1
Total associates and joint ventures	**–**	1
Subsidiaries and joint operations		
Actual or potential litigation[1]	**198**	–
Total subsidiaries and joint operations	**198**	–
Total contingent liabilities	**198**	1

(1) Excludes amounts indemnified by BHP Billiton Group, as per the Separation Deed.

The actual or potential litigation relates primarily to numerous tax assessments or matters arising from tax audits relating to transactions in prior years in Brazil, Colombia and South Africa. Additionally, there are a number of legal claims or potential claims against the South32 Group, the outcome of which cannot be foreseen at present, and for which no amounts have been included in the table above.

27. Commitments

US$M	2015	2014
Capital expenditure commitments	**51**	67
Lease expenditure commitments		
Finance leases		
Within one year	**64**	1
After one year but not more than five years	**262**	1
More than five years	**1,122**	–
Total minimum lease payments under finance leases	**1,448**	2
Less amounts representing finance charges	**(817)**	–
Finance lease liability	**631**	2
Operating leases		
Within one year	**32**	3
After one year but not more than five years	**112**	7
More than five years	**46**	8
Total commitments under operating leases	**190**	18
Other expenditure commitments		
Within one year	**40**	–
After one year but not more than five years	**10**	–
More than five years	**22**	–
Total other expenditure commitments	**72**	–

Operating lease assets are not capitalised and rental payments are included in the income statement on a straight-line basis over the lease term. Provision is made for the present value of future operating lease payments in relation to surplus lease space, when it is first determined that the space will be of no probable future benefit. Operating lease incentives are recognised as a liability when received and subsequently reduced by allocating lease payments between rental expense and reduction of the liability.

NOTES TO FINANCIAL STATEMENTS – OTHER NOTES

28. Subsidiaries

Significant subsidiaries of the South32 Group, which are those with the most significant contribution to the South32 Group's net profit/loss or net assets, are as follows:

				Effective interest	
Significant subsidiaries	**Country of incorporation**	**Principal activity**	**Acquisition date**	**2015 %**	**2014 %**
Cerro Matoso SA[1]	Colombia	Nickel mining and ferronickel smelting	2 Feb 2015	**99.9**	–
Dendrobium Coal Pty Ltd	Australia	Coal mining	Not applicable[4]	**100**	100
Endeavour Coal Pty Ltd	Australia	Coal mining	Not applicable[4]	**100**	100
Hillside Aluminium Proprietary Limited[1]	South Africa	Aluminium smelting	28 Jan 2015	**100**	–
Illawarra Coal Holdings Pty Ltd	Australia	Investment holding company	Not applicable[4]	**100**	100
Illawarra Services Pty Ltd	Australia	Coal preparation plant	Not applicable[4]	**100**	100
South32 Aluminium (Holdings) Pty Ltd	Australia	Holding company	Not applicable[4]	**100**	100
South32 Aluminium (RAA) Pty Ltd[1]	Australia	Bauxite mining and alumina refining	8 May 2015	**100**	–
South32 Aluminium (Worsley) Pty Ltd[1]	Australia	Bauxite mining and alumina refining	8 May 2015	**100**	–
South32 (BMSA) Pty Ltd (formerly BHP Billiton Energy Coal Operations Pty Ltd)	Australia	Investment holding company	Not applicable[4]	**100**	100
South32 Cannington Pty Ltd (formerly BHP Billiton Energy Coal Investment Pty Ltd)	Australia	Silver, lead and zinc mining	Not applicable[4]	**100**	100
South32 Group Operations Pty Ltd	Australia	Administrative services	Not applicable[5]	**100**	–
South32 International Investment Holdings Pty Ltd	Australia	Holding company	Not applicable[6]	**100**	–
South32 International Investment Pty Ltd	Australia	Holding company	Not applicable[7]	**100**	–
South32 Jersey Limited[1]	Jersey	Holding company	2 Feb 2015	**100**	–
South32 Marketing Pte Ltd	Singapore	Commodity marketing and trading	Not applicable[8]	**100**	–
South32 Metais SA[1]	Brazil	Alumina refining and aluminium smelting	3 Jul 2014	**100**	–
South32 SA Coal Holdings Proprietary Limited[1][2]	South Africa	Coal mining	2 Feb 2015	**100**	–
South32 SA Holdings Limited[1]	South Africa	Holding company	2 Feb 2015	**100**	–
South32 SA Investments Limited[1]	United Kingdom	Investment holding company	2 Feb 2015	**100**	–
South32 SA Limited[1]	South Africa	Service company	2 Feb 2015	**100**	–
South32 Treasury Limited	Australia	Financing company	Not applicable[9]	**100**	–
BHP Billiton New Mexico Coal Inc[3]	USA	Holding company	Not applicable[3]	**–**	100
San Juan Coal Company[3]	USA	Coal mining	Not applicable[3]	**–**	100

(1) The subsidiaries were acquired under the Internal Restructure. Refer to note 4 South32 Limited demerger.

(2) The South32 Group's effective interest in South32 SA Coal Holdings Proprietary Limited will reduce to 90 per cent pursuant to Broad-Based Black Economic Empowerment transactions in South Africa. South32's voting rights in South32 SA Coal Holdings Proprietary Limited is 90 per cent.

(3) The South32 Group's interest in BHP Billiton New Mexico Coal Inc and San Juan Coal Company were disposed of as part of the Internal Restructure within BHP Billiton prior to demerger. Refer to note 4 South32 Limited demerger.

(4) The entities were subsidiaries of South32 Limited (formerly BHP Billiton Coal Holdings Pty Ltd) as at 30 June 2014.

(5) South32 Group Operations Pty Ltd was incorporated on 20 August 2014.

(6) South32 International Investment Holdings Pty Ltd was incorporated on 26 August 2014.

(7) South32 International Investment Pty Ltd was incorporated on 26 August 2014.

(8) South32 Marketing Pte Ltd was incorporated on 27 August 2014.

(9) South32 Treasury Limited was incorporated on 20 August 2014.

NOTES TO FINANCIAL STATEMENTS – OTHER NOTES

29. Investments accounted for using the equity method

The South32 Group's interests in equity accounted investments with the most significant contribution to the South32 Group's net profit/(loss) or net assets are listed below:

Significant joint ventures	Country of incorporation/ principal place of business	Principal activity	Reporting date	Acquisition date	Ownership interest	
					2015 %	2014 %
Australia Manganese[1][2]	Australia	Producer of manganese ore and alloy	30 Jun 2015	8 May 2015[4]	**60**	–
South Africa Manganese[1][3]	South Africa	Producer of manganese ore and alloy	30 Jun 2015	3 Feb 2015[4]	**60**	–

(1) The joint ventures were acquired under the Internal Restructure. Refer to note 4 South32 Limited demerger.

(2) Australia Manganese consists of an investment in Groote Eylandt Mining Company Pty Limited.

(3) South Africa Manganese consists of an investment in Samancor Holdings (Proprietary) Limited.

(4) Refer to Note 4(c) Manganese assets.

A reconciliation of the carrying amount of the equity-accounted investments is set out below.

Year ended 30 June 2015 **US$M**	**Investment in joint ventures**
At the beginning of the financial year	**–**
Acquisitions	**1,626**
Fair value uplift on change to joint control[1]	**921**
Share of profit/(loss)	**(70)**
Impairments[2]	**(770)**
At the end of the financial year	**1,707**

(1) Refer to note 5(b)(ii) Significant items.

(2) Refer to note 13 Impairment of non-financial assets.

NOTES TO FINANCIAL STATEMENTS – OTHER NOTES

29. Investments accounted for using the equity method (continued)

The following table summarises the financial information relating to each of the South32 Group's significant equity accounted investments. The South32 Group had no material equity accounted investments as at 30 June 2014.

	Joint ventures	
2015 **US$M**	**Australia Manganese**	**South Africa Manganese[1]**
Reconciliation of carrying amount of investments accounted for using the equity method		
Current assets	251	308
Non-current assets	1,115	1,232
Current liabilities	(678)	(113)
Non-current liabilities	(288)	(587)
Net assets – 100%	**400**	**840**
Net assets – South32 share	240	489
Fair value uplift[2]	751	749
Impairment	–	(740)
Amortisation on fair value uplift	(6)	(10)
Elimination of gain/(loss) on intragroup sales	3	(2)
Carrying amount of investments accounted for using the equity method	**988**	**486**
Reconciliation of share of profit/(loss) of equity accounted investments		
Revenue – 100%	126	217
Profit/(loss) after taxation from continuing operations – 100%	(1)	(94)
Profit/(loss) after taxation from continuing operations – South32 share	(1)	(56)
Amortisation of fair value uplift	(6)	(10)
Elimination of gain/(loss) on intragroup sales	3	(2)
Share of profit/(loss) of equity accounted investments	**(4)**	**(68)**
Cash and cash equivalents	1	18
Current financial liabilities (excluding trade and other payables and provisions)	(490)	–
Non-current financial liabilities (excluding trade and other payables and provisions)	–	(125)
Depreciation and amortisation	(34)	(44)
Interest income	–	1
Interest expense	(9)	(3)
Income tax (expense)/benefit (excluding royalty-related taxation)	(28)	12

(1) South Africa Manganese includes 60 per cent interest in Samancor Manganese (Proprietary) Limited and 54 per cent in Hotazel Manganese Mines (Proprietary) Limited.

(2) The fair value uplift in relation to Australia Manganese represents the fair value uplift on loss of control prior to the date of the Internal Restructure. Refer to note 4(c) Manganese assets.

2015	**US$M**
Carrying amount of investments accounted for using the equity method	
Australia Manganese and South Africa Manganese	1,474
Individually immaterial[1]	233
Total	**1,707**

(1) Individually immaterial consists of investments in Samancor AG (60 per cent), Richards Bay Coal Terminal Proprietary Limited (21.1 per cent) and Port Kembla Coal Terminal Limited (16.7 per cent).

NOTES TO FINANCIAL STATEMENTS – OTHER NOTES

29. Investments accounted for using the equity method (continued)

2015	US$M
Share of profit/(loss) of equity accounted investments	
Australia Manganese and South Africa Manganese	(72)
Individually immaterial[1]	2
Total	**(70)**

(1) Individually immaterial consists of investments in Samancor AG (60 per cent), Richards Bay Coal Terminal Proprietary Limited (21.1 per cent) and Port Kembla Coal Terminal Limited (16.7 per cent).

The following table summarises the contingent liabilities and commitments relating to the South32 Group's significant equity accounted investments as at 30 June 2015.

GROUP SHARE

US$M	2015
Share of contingent liabilities relating to joint ventures	–
Share of commitments relating to joint ventures[1]	**43**

(1) Balance relates to capital commitments with a maturity of less than a year of US$31 million (2014: US$ nil) in Australia Manganese; and capital commitments with a maturity of less than a year of US$5 million (2014: US$ nil) and finance lease commitments with a term to maturity of up to 3 years of US$7 million (2014: US$ nil) in South Africa Manganese.

The South32 Group uses the term 'equity accounted investments' to refer to associates and joint ventures collectively.

Associates are entities in which the South32 Group holds significant influence. Significant influence is the power to participate in the financial and operating policy decisions of an entity but is not control or joint control. If the South32 Group holds 20 per cent or more of the voting power of an entity, it is presumed that the South32 Group has significant influence, unless it can be clearly demonstrated that this is not the case. Significant influence can also arise when the South32 Group has less than 20 per cent of voting power but it can be demonstrated that the South32 Group has the power to participate in the financial and operating policy decisions of the associate. Investments in associates are accounted for using the equity method.

Joint ventures are joint arrangements in which the parties with joint control of the arrangement have rights to the net assets of the arrangement. Joint arrangements exist when two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. A separate vehicle, not the parties, will have the rights to the assets and obligations to the liabilities, relating to the arrangement. More than an insignificant share of output from a joint venture is sold to third parties, which indicates that the joint venture is not dependent on the parties to the arrangement for funding and that the parties to the arrangement have no obligation for the liabilities of the arrangement. Joint ventures are accounted for using the equity method.

Under the equity method, an investment in associates or joint ventures is recorded initially at cost to the South32 Group, including the value of any goodwill on acquisition. In subsequent periods, the carrying amount of the investment is adjusted to reflect the South32 Group's share of its post-acquisition profit or loss and other comprehensive income. After application of the equity method, including recognising the South32 Group's share of the joint ventures' results, the value of the investment will be assessed for impairment if there is objective evidence that an impairment of the investment may have occurred. Where the carrying value of an equity accounted investment is reduced to nil after having applied equity accounting principles (and the South32 Group has no legal or constructive obligation to make further payments, nor has made payments on behalf of the associate or joint venture), dividends received from the associate or joint venture will be recognised in the South32 Group's result as a 'Share of operating profit/(loss) of equity accounted investments'.

NOTES TO FINANCIAL STATEMENTS – OTHER NOTES

30. Interest in joint operations

Significant joint operations of the South32 Group, which are those with the most significant contributions to the South32 Group's net profit or net assets, are as follows:

				Effective interest	
				2015	2014
Significant joint operations	**Country of operation**	**Principal activity**	**Acquisition date**	**%**	**%**
Alumar[1]	Brazil	Alumina refining	3 Jul 2014	**36**	–
		Aluminium smelting	3 Jul 2014	**40**	–
Mozal SARL[1][2]	Mozambique	Aluminium smelting	27 Mar 2015	**47.1**	–
Worsley[1][3]	Australia	Bauxite mining and alumina refining	8 May 2015	**86**	–

(1) These joint operations were acquired under the Internal Restructure. Refer to note 4 South32 Limited demerger.

(2) This joint arrangement is an incorporated entity. However it is classified as a joint operation as the participants are entitled to receive output, not dividends, from the arrangement .

(3) Whilst the South32 Group holds a greater than 50 per cent interest in Worsley, all the participants approved the operating and capital budgets and therefore the South32 Group has joint control over the relevant activities of Worsley.

Joint operations are joint arrangements in which the parties with joint control have rights to the assets and obligations for the liabilities relating to the arrangement. The activities of a joint operation are primarily designed for the provision of output to the parties to the arrangement, indicating that:

- the parties have the rights to substantially all the economic benefits of the assets of the arrangement and
- all liabilities are satisfied by the joint participants through their purchases of that output. This indicates that, in substance, the joint participants have an obligation for the liabilities of the arrangement

The consolidated financial statements of the South32 Group include its share of the assets in joint operations, together with its share of the liabilities, revenues and expenses arising jointly or otherwise from those operations and its revenue derived from the sale of its share of output from the joint operation. All such amounts are measured in accordance with the terms of each arrangement, which are usually in proportion to the Group's interest in the joint operation.

31. Key management personnel

(a) Key management compensation

US$'000	2015	2014
Short-term employee benefits	**1,754**	–
Post-employment benefits	**44**	–
Other long-term benefits	**36**	–
Share-based payments	**1,320**	–
Total	**3,154**	–

(b) Transactions with key management personnel

There were no transactions other than key management personnel compensation during the year ended 30 June 2015 (2014: US$ nil).

(c) Loans with key management personnel

There were no loans with key management personnel as at 30 June 2015 (2014: US$ nil).

(d) 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 2015 (2014: US$ nil).

NOTES TO FINANCIAL STATEMENTS – OTHER NOTES

32. Related party transactions

(a) Parent entity

The ultimate parent entity of the South32 Group is South32 Limited, which is domiciled and incorporated in Australia. Prior to the demerger, the ultimate parent entity of the South32 Group was BHP Billiton Limited.

(b) Subsidiaries

The percentage of ordinary shares held in significant subsidiaries is disclosed in note 28 Subsidiaries.

(c) Joint ventures

The percentage interest held in significant joint ventures is disclosed in note 29 Investments accounted for using the equity method.

(d) Joint operations

The percentage interest held in significant joint operations is disclosed in note 30 Interests in joint operations.

(e) Associates

The percentage interest held in associates is disclosed in note 29 Investments accounted for using the equity method.

(f) Key management personnel

Disclosures relating to key management personnel are set out in note 31 Key management personnel.

(g) 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

	Joint ventures		Associates	
US$'000	**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

	Joint ventures		Associates	
US$'000	**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.

Terms and conditions

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

NOTES TO FINANCIAL STATEMENTS – OTHER NOTES

33. Parent entity information

(a) Summary financial information

The individual financial statements for the parent entity, South32 Limited, show the following aggregate amounts:

US$M	2015	2014
Result of parent entity		
Profit/(loss) after taxation for the year	**(3,067)**	3
Other comprehensive income	**–**	–
Total comprehensive income	**(3,067)**	3
Financial position of parent entity at year end		
Current assets	**39**	17
Total assets	**12,309**	936
Current liabilities	**32**	–
Total liabilities	**62**	–
Net assets	**12,247**	936
Total equity of the parent entity comprising		
Share capital	**14,958**	561
Reserves	**(19)**	–
Retained earnings/(accumulated losses)	**(2,692)**	375
Total equity	**12,247**	936

(b) Parent company guarantees

South32 Limited has guaranteed a US commercial paper programme of US$1,500 million. South32 Limited has also guaranteed a Group Revolving Credit Facility of US$1,500 million, which backs the US commercial paper programme and remains undrawn as at 30 June 2015.

South32 Limited has entered into a Deed of Support with the effect that the Company guarantees debts in respect of South32 Group Operations Pty Ltd.

(c) Contingent liabilities

The parent entity did not have any contingent liabilities at 30 June 2015 or 30 June 2014.

(d) Commitments

The parent entity did not have any contractual commitments for the acquisition of property, plant and equipment at 30 June 2015 or 30 June 2014.

34. Subsequent events

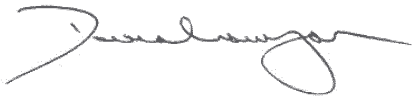
No matters or circumstances have arisen since the end of the financial year that have significantly affected, or may significantly affect, the operations, results of operations or state of affairs of the South32 Group in subsequent accounting periods.

DIRECTORS' DECLARATION

In accordance with a resolution of the Directors of the South32 Group, we state that:

1. In the opinion of the directors:
   (a) The consolidated financial statements and notes that are set out on pages 161 to 221 and the Remuneration Report on pages 130 to 150 in the Directors' Report are in accordance with the *Corporations Act 2001*, including:
      (i) Giving a true and fair view of the South32 Group's financial position as at 30 June 2015 and of its performance for the year ended on that date; and
      (ii) Complying with Australian Accounting Standards and *Corporations Regulations 2001*.
   (b) There are reasonable grounds to believe that the South32 Group will be able to pay its debts as and when they become due and payable.
2. The directors have been given the declarations required by Section 295A of the *Corporations Act 2001* from the Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2015.
3. The directors draw attention to Note 2 to the consolidated financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the Board of Directors.



David Crawford AO
Chairman

Graham Kerr
Chief Executive Officer

Dated 8 September 2015

LEAD AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

To: the Directors of South32 Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2015 there have been:

(i) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

(ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

Denise McComish
Partner

Perth
8 September 2015

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOUTH32 LIMITED

Report on the financial report

We have audited the accompanying financial report of South32 Limited (the company), which comprises the consolidated balance sheet as at 30 June 2015, and consolidated income statement and consolidated statement of comprehensive income, consolidated cash flow statement and consolidated statement of changes in equity for the year ended on that date, notes 1 to 34 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In note 2, the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Group comply with International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB).

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Group's financial position and of its performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion

In our opinion:

(a) the financial report of the Group is in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the Group's financial position as at 30 June 2015 and of its performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

(b) the financial report also complies with International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB) as disclosed in note 2.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOUTH32 LIMITED (CONTINUED)

Report on the remuneration report

We have audited the remuneration report included on pages 130 to 150 of the Directors' Report for the year ended 30 June 2015. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion

In our opinion, the remuneration report of South32 Limited for the year ended 30 June 2015, complies with Section 300A of the *Corporations Act 2001*.

KPMG

Denise McComish
Partner

Perth
8 September 2015

WE HAVE A SIMPLE STRATEGY TO MAXIMISE RETURN ON INVESTED CAPITAL AND TOTAL SHAREHOLDER RETURNS

SHAREHOLDER INFORMATION

SECTION 11: SHAREHOLDER INFORMATION

STOCK EXCHANGES

As at 21 August 2015, South32 has a primary listing on the Australian Securities Exchange (ASX), a secondary listing on the Johannesburg Stock Exchange (JSE) and is admitted to the standard segment of the Official List of the UK Listing Authority and its ordinary shares are admitted to trading on the London Stock Exchange (LSE).

South32 has a programme for American Depositary Shares (ADSs) that trade over the counter in the United States. Citibank N.A. is the Depositary in respect of the ADSs issued by South32.

SHAREHOLDINGS AND RIGHTS HOLDINGS IN SOUTH32

Shareholdings in South32

Share capital

The details of the share capital for South32 is presented in note 20 Share capital in the financial statements.

Voting rights

South32 shareholders may directly or indirectly hold ordinary shares in South32.

In some cases, they may also hold beneficial interests to South32 shares in other forms, including depositary interests that provide for trading or holding in the UK CREST system (Depositary Interests) and ADSs.

Each ordinary share and each Depositary Interest in South32 entitles the holder to one vote.

Each South32 ADS is equivalent to five ordinary shares.

Substantial shareholders

As at 21 August 2015, there were no shareholders in South32 who, together with their associates, held 5 per cent or more of the voting rights in South32, as would be notified under section 671B of the Corporations Act 2001.

20 largest shareholders

The following table sets out the 20 largest shareholders listed on the register of shareholders of South32 and details of their shareholding as at 21 August 2015.

	Shareholder	Number of fully paid shares	% of issued capital
1	JP Morgan Nominees Australia Limited	834,685,578	15.68
2	HSBC Custody Nominees (Australia) Limited	813,181,876	15.28
3	National Nominees Limited	452,806,931	8.51
4	Citicorp Nominees Pty Ltd	287,742,517	5.41
5	Strate Dematerialised Shares[1]	211,761,726	3.98
6	Citicorp Nominees Pty Limited <Citibank NY ADR DEP A/C>	197,271,765	3.71
7	HSBC Custody Nominees (Australia) Limited – A/C 2	121,163,144	2.28
8	BNP Paribas Noms Pty Ltd <DRP>	115,257,276	2.17
9	Chase Nominees Limited	66,162,212	1.24
10	AMP Life Limited	47,643,533	0.90
11	State Street Nominees Limited <OM02>	44,502,417	0.84
12	Nortrust Nominees Limited	36,226,016	0.68
13	Neweconomy Com Au Nominees Pty Limited <900 Account>	31,821,884	0.60
14	The Bank of New York (Nominees) Limited	27,839,227	0.52
15	HSBC Custody Nominees (Australia) Limited <NT-Comnwlth Super Corp A/C>	26,406,256	0.50
16	Citicorp Nominees Pty Limited <Colonial First State INV A/C>	25,620,119	0.48
17	Apollo Nominees Ltd <CRE>	23,566,108	0.44
18	Security Services Nominees Limited <230007>	23,026,145	0.43
19	The Bank of New York (Nominees) Limited <RZB>	20,397,928	0.38
20	Lynchwood Nominees Limited <2006420>	20,116,486	0.38

(1) The largest holder on South32's South African register is the STRATE nominee, which holds the majority of shares in South Africa (including for some of the shareholders listed above) in a dematerialised form.

The Top 20 report looks through the UK Depositary, which holds the South32 Shares underlying the Depositary Interest Structure.

Distribution of shareholdings as at 21 August 2015

The following table shows the distribution of shareholders by size of shareholding.

	South32 Limited		
	Number of Shareholders	**% of Shareholders**	**Number of Shares**
Size of holding			
1 – 1,000	338,460	62.93	130,280,258
1,001 – 5,000	147,871	27.49	337,509,556
5,001 – 10,000	28,138	5.23	201,945,029
10,001 – 100,000	22,388	4.16	497,526,984
100,001 and over	1,036	0.19	4,156,501,074
Total	**537,893**	**100.00**	**5,323,762,901**

Shareholders with less than a marketable parcel

As at 21 August 2015, there were 173,958 shareholders holding less than a marketable parcel (A$500) based on the market price of A$1.52.

On-market purchases of South32 securities

During the 2015 financial year, no securities were purchased on-market for the purposes of South32's employee incentive schemes.

Escrowed and restricted securities

South32 does not have any class of restricted securities or securities subject to voluntary escrow on issue.

Rights holdings in South32 as at 21 August 2015

South32 has 11,892,579 rights on issue. These rights do not carry any rights to voting.

The following table shows the distribution of rights holders by size of rights holdings.

	South32 Limited	
	Number of Rights holders	**Number of Rights**
Size of holding		
1 – 1,000	-	-
1,001 – 5,000	-	-
5,001 – 10,000	-	-
10,001 – 100,000	-	-
100,001 and over	5	11,892,579
Total	**5**	**11,892,579**

ANCILLARY INFORMATION FOR OUR SHAREHOLDERS

This Annual Report provides the detailed financial data and information on South32 performance required to comply with the reporting regimes in Australia, South Africa and the United Kingdom.

Shareholders will receive a copy of the Annual Report if they have requested a copy via the Share Registrar. ADS holders and stakeholders may view all documents online at *www.south32.net.*

Change of shareholder details and enquiries

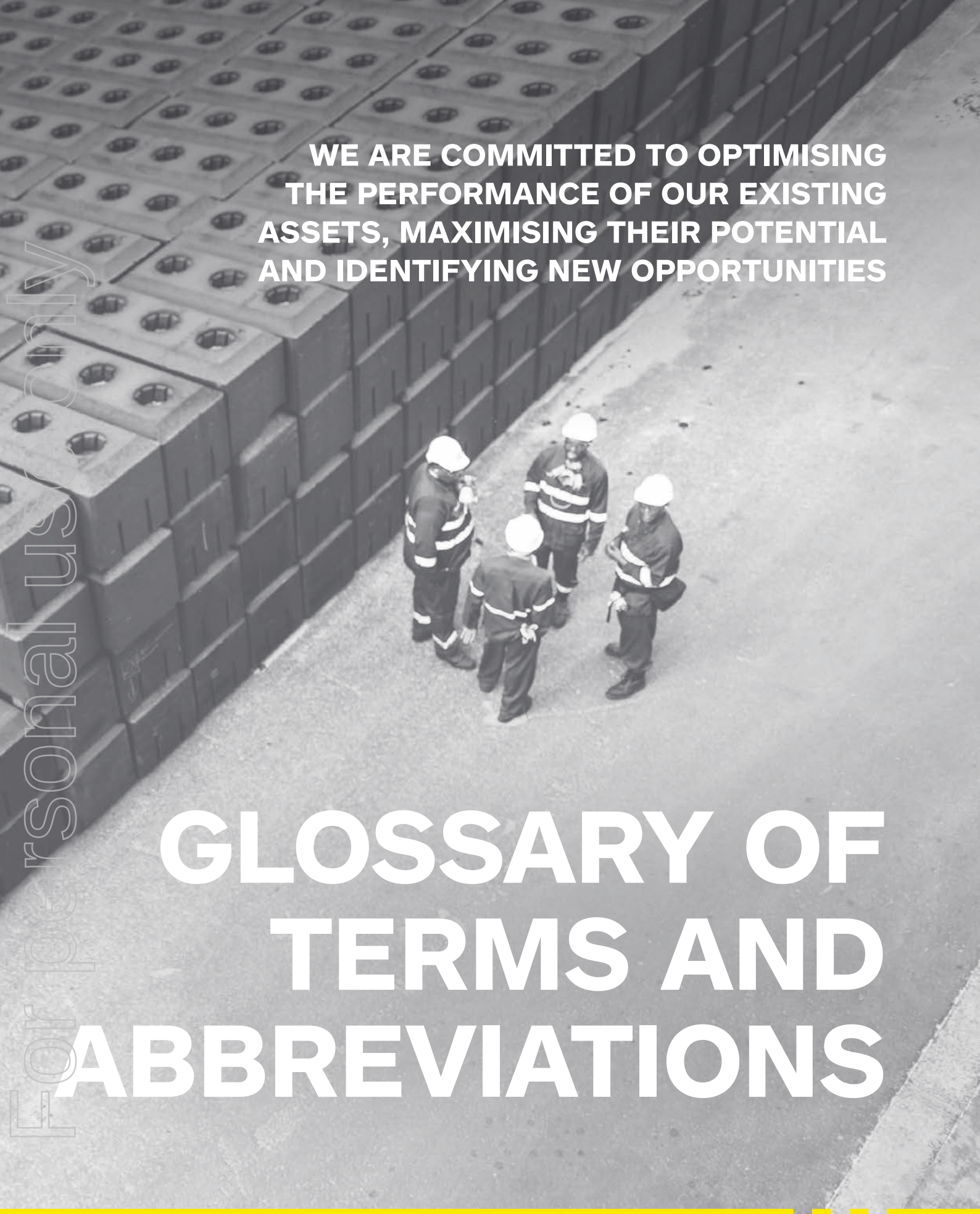
Shareholders wishing to contact South32 on any matter relating to their shares are invited to telephone the appropriate office of the Share Registrar listed on the inside back cover of the Annual Report.

Shareholders can also access their current shareholding details and change those details online at *www.computershare.com*. The website requires shareholders to quote their Shareholder Reference Number (SRN) or Holder Identification Number (HIN) to access this information.

ADS holders should deal directly with Citibank Shareholder Services on all matters related to their ADSs.

Annual General Meeting date

South32's AGM will be held on 18 November 2015 at 2pm Australian Western Standard Time (AWST), at the Grand Ballroom, Hyatt Regency Perth, 99 Adelaide Terrace, Perth Western Australia 6000, Australia. If there is a change to this date, all relevant stock exchanges will be notified.



WE ARE COMMITTED TO OPTIMISING THE PERFORMANCE OF OUR EXISTING ASSETS, MAXIMISING THEIR POTENTIAL AND IDENTIFYING NEW OPPORTUNITIES

GLOSSARY OF TERMS AND ABBREVIATIONS

SECTION 12: GLOSSARY OF TERMS AND ABBREVIATIONS

MINING RELATED TERMS

2D
Two dimensional.

3D
Three dimensional.

Alumina
Aluminium oxide (Al_2O_3). Alumina is produced from bauxite in the refining process. Alumina is then converted (reduced) in an electrolysis cell to produce aluminium metal.

Ash
Inorganic material remaining after combustion.

AusIMM
The Australasian Institute of Mining and Metallurgy.

Bauxite
Chief ore of aluminium.

Beneficiation
The process of physically separating ore from gangue prior to subsequent processing of the beneficiated ore.

Brownfield
An exploration or development project located within an existing mineral province, that can share infrastructure and management with an existing operation.

Coal Resources
The same meaning as Mineral Resources, but specifically concerning coal.

Coal Reserves
The same meaning as Ore Reserves, but specifically concerning coal.

Coking coal
Used in the manufacture of coke, which is used in the steelmaking process by virtue of its carbonisation properties. Coking coal may also be referred to as metallurgical coal.

Competent Person
A minerals industry professional who is a Member or Fellow of The Australasian Institute of Mining and Metallurgy, or of the Australian Institute of Geoscientists, or of a 'Recognised Professional Organisation' (RPO), as included in a list available on the JORC and ASX websites. These organisations have enforceable disciplinary processes, including the powers to suspend or expel a member.

A Competent Person must have a minimum of five years' relevant experience in the style of mineralisation or type of deposit under consideration and in the activity that the person is undertaking (JORC Code, 2012)

Cut-off grade
A nominated grade above which is defined some mineral aspect of the reserve or resource. For example, the lowest grade of mineralised material that qualifies as economic for estimating an Ore Reserve.

EITI (Extractive Industry Transparency Initiative)
An international initiative dedicated to the enhancement of transparency around the payments of taxes and royalties derived from resource development.

Energy coal
Used as a fuel source in electrical power generation, cement manufacture and various industrial applications. Energy coal may also be referred to as steaming or thermal coal.

FAusIMM
Fellow of the Australasian Institute of Mining and Metallurgy.

Flotation
A method of selectively recovering minerals from finely ground ore using a froth created in water by specific reagents. In the flotation process, certain mineral particles are induced to float by becoming attached to bubbles of froth and the unwanted mineral particles sink.

Grade
The relative quantity, or the percentage, of metal or mineral content in an orebody.

Greenfield
The development or exploration located outside the area of influence of existing mine operations/infrastructure.

ICMM
International Council on Mining and Metals.

Indicated Mineral Resource
That part of a Mineral Resource for which quantity, grade (or quality), densities, shape and physical characteristics are estimated with sufficient confidence to allow the application of modifying factors in sufficient detail to support mine planning and evaluation of the economic viability of the deposit.

MSAIMM
Member of the Southern African Institute of Mining and Metallurgy.

Inferred Mineral Resource
That part of a Mineral Resource for which quantity and grade (or quality) are estimated on the basis of limited geological evidence and sampling. Geological evidence is sufficient to imply but not verify geological and grade (or quality) continuity.

JORC Code
A set of minimum standards, recommendations and guidelines for public reporting in Australasia of Exploration Results, Mineral Resources and Ore Reserves. The guidelines are defined by the Australasian Joint Ore Reserves Committee (JORC), which is sponsored by the Australian mining industry and its professional organisations.

Leaching
The process by which a soluble metal can be economically recovered from minerals in ore by dissolution.

Marketable Coal Reserves
Represents beneficiated or otherwise enhanced coal product where modifications due to mining, dilution and processing have been considered, must be publicly reported in conjunction with, but not instead of, reports of Coal Reserves.

MAusIMM
Member of the Australasian Institute of Mining and Metallurgy.

Measured Mineral Resource
That part of a Mineral Resource for which quantity, grade (or quality), densities, shape and physical characteristics are estimated with confidence sufficient to allow the application of Modifying Factors to support detailed mine planning and final evaluation of the economic viability of the deposit.

Metallurgical coal
A broader term than coking coal, which includes all coals used in steelmaking, such as coal used for the pulverised coal injection process.

Modifying factors
Considerations used to convert Mineral Resources to Ore Reserves. These include, but are not restricted to, mining, processing, metallurgical, infrastructure, economic, marketing, legal, environmental, social and governmental factors.

Mineral Resource
A concentration or occurrence of solid material of economic interest in or on the Earth's crust in such form, grade (quality) and quantity that there are reasonable prospects for eventual economic extraction. The location, quantity, grade (or quality), continuity and other geological characteristics of a Mineral Resource are known, estimated or interpreted from specific geological evidence and knowledge, including sampling (JORC Code 2012).

Mineralisation
Any single mineral or combination of minerals occurring in a mass, or deposit, of economic interest.

OC/OP (Open-cut/open-pit/open-cast)
Surface working in which the working area is kept open to the sky.

Ore Reserves
The economically mineable part of a Measured and/or Indicated Mineral Resource. It includes diluting materials and allowances for losses, which may occur when the material is mined or extracted and is defined by studies at Pre-Feasibility or Feasibility level as appropriate that include application of Modifying Factors. Such studies demonstrate that, at the time of reporting, extraction could reasonably be justified.

Pr.Sci.Nat.
Professional Natural Scientist of South African Council for Natural Scientific Professions.

Probable Ore Reserves
The economically mineable part of an Indicated and, in some circumstances, a Measured Mineral Resource. The confidence in the Modifying Factors applying to a Probable Ore Reserve is lower than that applying to a Proved Ore Reserve. Consideration of the confidence level of the Modifying Factors is important in conversion of Mineral Resources to Ore Reserves. A Probable Ore Reserve has a lower level of confidence than a Proved Ore Reserve but is of sufficient quality to serve as the basis for a decision on the development of the deposit (JORC Code 2012).

Proved Ore Reserves
A Proved Ore Reserve represents the highest confidence category of reserve estimate and implies a high degree of confidence in geological and grade continuity, and the consideration of the Modifying Factors. The style of mineralisation or other factors could mean that Proved Ore Reserves are not achievable in some deposits (JORC Code 2012). Implies the highest degree of geological, technical and economic confidence in the estimate at the level of production increments used to support mine planning and production scheduling.

Reserve life
Current stated ore reserves estimate divided by the current approved nominated production rate as at the end of the financial year.

Run of mine product (ROM)
Product mined in the course of regular mining activities.

SACNASP
South African Council for Natural Scientific Professions.

SAIMM
Southern African Institute of Mining and Metallurgy.

Sands
Tailings produced as a by-product during beneficiation of ore.

SP (Stockpile)
An accumulation of ore or mineral built up when demand slackens or when the treatment plant or beneficiation equipment is incomplete or temporarily unable to process the mine output; any heap of material formed to create a buffer for loading or other purposes or material dug and piled for future use.

Tailings
Those portions of washed or milled ore that are too poor to be treated further or remain after the required metals and minerals have been extracted.

Total Coal Reserves
Run of mine reserves as outputs from the mining activities.

Total Ore Reserves
Proved Ore Reserves plus Probable Ore Reserves.

Total Mineral Resource
The sum of Inferred, Indicated and Measured Resources.

Yield
The proportion of metal contained in ore that can be extracted during processing.

FINANCE, MARKETING AND GENERAL TERMS

AASB
Australian Accounting Standards Board.

ACARP
Australian Coal Association Research program.

ADS (American Depositary Share)
An American Depositary Share is a share issued under a deposit agreement that has been created to permit US-resident investors to hold shares in non-US companies and trade them on the stock exchanges in the US.

AGM
Annual General Meeting.

AO
Officer of the Order of Australia.

A$
Australian dollars being the currency of the Commonwealth of Australia.

AllShare Plan
An annual gift to South32 employees of South32 share rights or cash rights to the value of at least US$1,250 per annum.

ASIC (Australian Securities and Investments Commission)
The Australian Government agency that enforces laws relating to companies, securities, financial services and credit in order to protect consumers, investors and creditors.

ASX
Australian Securities Exchange.

AUD
Australian dollar.

BAML
Bank of America Merrill Lynch Australia.

B-BBEE
Broad-Based Black Economic Empowerment.

BRL
Brazilian real.

Board
The Board of Directors of South32.

BUSA
Business Unity South Africa.

CEO
Chief Executive Officer.

CFaR
Cash Flow at Risk.

CFO
Chief Financial Officer.

CGU
Cash generating unit.

CLO
Chief Legal Officer.

Community investment
Contributions made to support communities in which we operate or have an interest. Our contributions to community programs comprise cash, in-kind support and administration costs.

Demerger
On 6 May 2015, shareholders of BHP Billiton approved the demerger of South32 to create a separate listed entity on the ASX with secondary listings on the London Stock Exchange and the Johannesburg Stock Exchange.

DTR
UK Financial Conduct Authority's Disclosure and Transparency Rules.

EBIT
Earnings before interest and taxation.

EBITDA
Earnings before interest, taxation, depreciation and amortisation.

EIP
South32 Equity Incentive Plan.

EPS
Earnings per share.

ESOP (Employee Share Ownership Plan)
An employee share ownership plan that entitles participants to shares in South32 Limited or group companies.

FOB (Free on board...named port of shipment)
The seller delivers when the goods pass the ship's rail at the named port of shipment. This means that the buyer has to bear all costs and risks of loss of, or damage to the goods from that point. The FOB term requires the seller to clear the goods for export. This term can be used only for sea or inland waterway transport.

Free cash flow before interest and tax
Free cash flow before interest and tax represents operating cash flows from continuing operations including dividends received from equity accounted investments, before financing activities and tax, and after capital expenditure.

FVLCD
Fair value less costs of disposal.

FY20XX
Refers to the financial year ending 30 June 20XX, where XX is the two-digit number for the year.

GAAP
Generally accepted accounting principles.

Gearing
Gearing is defined as the ratio of net debt to net debt plus net assets.

GHG (Greenhouse gas)
For South32 reporting purposes, these are the aggregate anthropogenic carbon dioxide equivalent emissions of carbon dioxide (CO_2), methane (CH_4), nitrous oxide (N_2O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs) and sulphur hexafluoride (SF_6). Measured according to the World Resources Institute/World Business Council for Sustainable Development Greenhouse Gas Protocol.

Group
Refers to South32 Limited and its controlled entities.

GSTIP
Group short-term incentive plan.

HIN
Holder Identification Number.

HSE
Health, safety and environment.

HSEC
Health, safety, environment and community.

IASB
International Accounting Standards Board.

IFRS (International Financial Reporting Standards)
Accounting standards as issued by the International Accounting Standards Board.

Implementation Deed
The Implementation Deed entered into on the 17 March 2015 between BHP Billiton Limited, BHP Billiton Plc and South32 Limited.

IMSBC
International Maritime Solid Bulk Cargoes code.

Internal Restructure
Prior to the demerger, the South32 Group and BHP Billiton Group were required to undertake a number of internal share and asset transfers in connection with the corporate restructure

IPCC
Intergovernmental Panel on Climate Change.

JSE
Johannesburg Stock Exchange.

KMP
Key management personnel.

KPIs
Key performance indicators.

LBMA
Daily London Bullion Market Association.

LSE
London Stock Exchange.

LME
London Metal Exchange.

LTI
Long-term incentive.

LTIP
BHP Billiton Long-term Incentive Plan.

MAP
BHP Billiton Management Award Plan.

Manganese asset
South Africa Manganese, Australia Manganese and Samancor AG.

Margin on third party products
Comprises Underlying EBIT on third party products, divided by third party product revenue.

MRN
Mineração Rio do Norte.

MRRT
Mineral Resources Rent Tax.

MSR
Minimum shareholding requirement.

Net debt
Comprises interest bearing liabilities, including finance leases, less cash and cash equivalents.

Net operating assets
Represents operating assets net of operating liabilities, excluding the carrying value of equity accounted investments and predominantly excludes cash balances, interest bearing liabilities and tax balances.

NYSE
New York Stock Exchange.

Occupational illness
An illness that occurs as a consequence of work-related activities or exposure. It includes acute or chronic illnesses or diseases, which may be caused by inhalation, absorption, ingestion or direct contact.

OEL (Occupational exposure limit)
The concentration of a substance or agent, exposure to which, according to current knowledge, should not cause adverse health effects nor cause undue discomfort to nearly all workers.

OSHA
United States Government Occupational Safety and Health Administration.

PDMRs
Persons discharging managerial responsibilities.

Pre-demerger
The period from 1 July 2014 to 24 May 2015 when South32 was a subsidiary of BHP Billiton Ltd.

Post-demerger
The period from 25 May 2015 to 30 June 2015 when South32 began as an independent entity.

PwC
PricewaterhouseCoopers Australia.

ROIC (Return on invested capital)
Calculated as pro forma Underlying EBIT less the discount on rehabilitation provisions included in net finance costs, tax effected by the South32 Group's Underlying effective tax rate, divided by the sum of fixed assets (excluding any rehabilitation asset and other non-cash adjustments) and inventories. Manganese is included in the calculation on a proportional consolidation basis.

Shared value
The identification of opportunities that create economic value while also advancing the environmental and social outcomes of the communities and regions in which South32 operates.

SRN
Shareholder Reference Number.

STI
Short-term incentive.

STIP
BHP Billiton Short-term incentive plan.

Stewardship
The responsible management of entrusted resources.

TRIF (Total recordable injury frequency)
The sum of (fatalities + lost-time cases + restricted work cases + medical treatment cases) x 1,000,000 ÷ actual hours worked. Stated in units of per million hours worked. We adopt the United States Government Occupational Safety and Health Administration guidelines for the recording and reporting of occupational injury and illnesses.

TSR (Total shareholder return)
TSR measures the return delivered to shareholders over a certain period through the change in share price and any dividends paid. It is the measure used to compare South32's performance to that of other relevant companies under the LTIP.

TSX
Toronto Stock Exchange.

USD/US$
The Group's reporting currency and the functional currency of the majority of operations is the US dollar, as this is assessed to be the principal currency of the economic.

Underlying EBIT
Underlying EBIT is profit from continuing operations before net finance costs, taxation and any exceptional items. Underlying EBIT is not an IFRS measure of profitability, financial performance or liquidity and may be defined and used in differing ways by different entities. We believe that Underlying EBIT provides useful information, but should not be considered as an indication of, or alternative to, attributable profit as an indicator of operating performance.

Underlying EBIT margin
Comprises Underlying EBIT excluding third party product EBIT, divided by revenue excluding third party product revenue.

Underlying EBITDA
Underlying EBIT before depreciation and amortisation.

Underlying EBITDA margin
Comprises Underlying EBITDA excluding third party product EBITDA, divided by revenue excluding third party product revenue.

Underlying earnings
Profit after taxation and earnings adjustment items. Earnings adjustments represent items that do not reflect the underlying operations of South32. We believe that Underlying earnings provides useful information, but should not be considered as an indication of, or an alternative to, attributable profit as an indicator of operating performance.

Underlying effective tax rate
Comprises pro forma Underlying income tax expense excluding royalty related taxation divided by pro forma Underlying profit before tax; both the numerator and denominator exclude equity accounted investments.

VWAP
Volume Weighted Average Price.

WMC CGU
Wolvekrans Middelburg Complex cash generating unit.

TERMS USED IN RESOURCES AND RESERVES

A.Al_2O_3
available alumina

Ag
silver

Al_2O_3
alumina

CV
calorific value

Fe
iron

HCFeMn
high-carbon ferromanganese

Met
metallurgical coal

Mn
manganese

Ni
nickel

Pb
lead

R.SiO_2
reactive silica

S
sulphur

SiO_2
silica

Th
thermal coal

VM
Volatile Matter

Zn
zinc

UNITS OF MEASURE

%
percentage or per cent

dmt
dry metric tonne

dmtu
dry metric tonne unit

g/t
grams per tonne

ha
hectare

KCal/Kg
Kilo calories per kilogram

kL
kilolitre

km
kilometre

koz
thousand ounces

kt
kilotonnes

ktpa
kilotonnes per annum

kV
kilovolt

kW
kilowatt

ML
megalitre

Moz
million ounces

MW
megawatt

m
metre

Mt
million tonnes

Mtpa
million tonnes per annum

oz
ounce

TJ
terajoule

t
tonnes

ktCO_2-e
kilotonnes of carbon dioxide equivalent

tpa
tonnes per annum

tpd
tonnes per day

tph
tonnes per hour

US$/oz
US dollars per ounce

US$/t
US dollars per tonne

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CORPORATE DIRECTORY

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