APPENDIX 4D

SOUTH32 LIMITED

(ABN 84 093 732 597)

RESULTS FOR ANNOUNCEMENT TO THE MARKET

This page and the accompanying 56 pages comprise the half year end financial information given to the Australian Securities Exchange (ASX) under Listing Rule 4.2A. This statement includes the consolidated results of the South32 Group for the half year ended 31 December 2018 (H1 FY19) compared with the half year ended 31 December 2017 (H1 FY18) on a statutory basis.

The half year report should be read in conjunction with the Financial Report for the year ended 30 June 2018.

US$M	H1 FY19	H1 FY18	%
Revenue	3,811	3,494	up 9%
Profit/(loss) after tax	635	543	up 17%
Underlying earnings	642	544	up 18%

Net tangible assets per share

Net tangible assets per ordinary share were US$2.10 as at 31 December 2018 (US$2.05 as at 30 June 2018).

Dividends

The Board has resolved to pay an interim dividend of US 5.1 cents per share (fully franked) for the half year ended 31 December 2018 and a special dividend of US 1.7 cents per share (fully franked).

The record date for determining entitlements to dividends is 8 March 2019; payment date is 4 April 2019.

Financial Results and Outlook
Half Year ended 31 December 2018

14 February 2019 **ASX, LSE, JSE Share Code: S32 ADR: SOUHY**

South32 delivers earnings growth, reshapes portfolio and continues shareholder returns

"Record production at Australia Manganese, strong operating performance more broadly and higher commodity prices delivered a 17 per cent increase in Profit after tax for the half year, while Underlying earnings per share grew by 20 per cent as we continued to benefit from our on-market share buy-back program.

"Our strong start to the year means that our production guidance is unchanged for all of our operations with the exception of Illawarra Metallurgical Coal where we have upgraded guidance by 7 per cent. We have also lowered our unit cost guidance as we have maintained operating discipline and benefited from a stronger US dollar.

"We continued to reshape our portfolio by acquiring the high-grade Hermosa resource and a 50% interest in and operatorship of the Eagle Downs Metallurgical Coal project during the period. We are also progressing our early stage exploration projects and remain on track to divest South Africa Energy Coal with binding bids expected by 30 June 2019.

"We are well positioned for the second half of the year, with a net cash balance of US$678M and an improving outlook for production and costs. This strong position has allowed us to return US$511M to shareholders in respect of the period with today's declaration of a US$258M fully franked interim dividend and an US$86M fully franked special dividend.

"Having established a strong track record, we will continue to return any excess capital to shareholders in a timely and efficient manner by monitoring our financial position within the context of the prevailing macro-economic environment and our capital management framework. This will involve the continuation of our existing US$1B capital management program with the recommencement of our on-market share buy-back following release of our financial results."

Graham Kerr, South32 CEO

Financial highlights			
US$M	**H1 FY19**	**H1 FY18**	**% Change**
Revenue(1)	3,811	3,494	9%
Profit/(loss)	908	673	35%
Profit/(loss) after tax	635	543	17%
Basic earnings per share (US cents)(2)	12.5	10.5	19%
Ordinary dividends per share (US cents)(3)	5.1	4.3	19%
Special dividends per share (US cents)(4)	1.7	3.0	(43)%
Other financial measures			
Underlying EBITDA(5)	1,305	1,087	20%
Underlying EBITDA margin(6)	38.3%	35.7%	2.6%
Underlying EBIT(5)	925	724	28%
Underlying EBIT margin(7)	26.9%	23.7%	3.2%
Underlying earnings(5)	642	544	18%
Basic Underlying earnings per share (US cents)(2)	12.6	10.5	20%
ROIC(8)	13.9%	12.1%	1.8%
Ordinary shares on issue (million)	5,051	5,181	(2.5)%

Safety

We are working hard to create a workplace where we can guarantee that everyone goes home safe and well at the end of every shift. In order to make this breakthrough we are creating an inclusive workplace where all work is well-designed and we continuously improve and learn. Our Total Recordable Injury Frequency (TRIF)[9][10] declined from 5.1 to 4.8 per million hours worked in H1 FY19.

Performance summary

The Group's statutory profit after tax increased by 17% to US$635M in H1 FY19, Underlying earnings increased by 18% (or US$98M) to US$642M and basic Underlying earnings per share increased by 20% to US12.6 cents per share as we benefitted from our on-market share buy-back program. This significant increase in profitability was driven by strong production, higher commodity prices and disciplined cost control.

Following our strong start to the year and a favourable movement in currency markets, we have lowered FY19 Operating unit cost guidance for the majority of operations, while production guidance for Illawarra Metallurgical Coal has been increased by 7% to 6.5Mt. We have also lowered Capital expenditure[11] guidance, including equity accounted investments (EAI), by 9% to US$762M to reflect the reclassification of US$20M of planned exploration expenditure at Hermosa to capitalised exploration, the appreciation of the US dollar and a lower rate of spend in H1 FY19 (US$349M).

Specific highlights included:

- A 106% increase in production at Illawarra Metallurgical Coal as the Appin colliery continued to ramp-up towards historical rates;
- Record ore production at Australia Manganese as the primary circuit maintained high utilisation rates and the Premium Concentrate Ore (PC02) circuit operated at 120% of design capacity;
- The commencement of several improvement initiatives at Worsley Alumina that are expected to support a sustainable increase in production to nameplate capacity of 4.6Mt (100% basis) ahead of future de-bottlenecking activities;
- Mineração Rio do Norte S.A (MRN) partner approval to undertake a pre-feasibility study for a project that has the potential to extend the life of the bauxite mine by more than 20 years[12] at a relatively low capital cost;
- The acquisition of the remaining 83% interest in Arizona Mining[13] for US$1.4B (including transaction costs), which adds the Hermosa project's high grade zinc-lead-silver resource[14] and a prospective land package to our portfolio; and
- The commencement of a feasibility study at Eagle Downs Metallurgical Coal, following our acquisition of a 50% interest in the project and assumption of operating control for US$106M[15].

Subsequent to period end we also elected to maintain our option with Trilogy Metals Inc. (TSX:TMQ) for the third and final year, which retains our right to earn a 50% interest in the Upper Kobuk Mineral projects in Alaska by committing approximately US$150M to a 50:50 joint venture by 31 January 2020.

We finished the period with a net cash balance of US$678M having generated free cash flow from operations, including distributions from our manganese EAI, of US$718M. Our strong financial position and disciplined approach to capital management has allowed us to return US$511M to shareholders in respect of the period, including:

- A US$258M fully franked interim dividend, which we have resolved to pay in April in accordance with our dividend policy which seeks to return a minimum 40% of Underlying earnings in each six month period;
- An US$86M fully franked special dividend, which we have also resolved to pay in April; and
- The continuation of our on-market share buy-back program whereby we purchased 68M shares at an average price of A$3.39 per share for a cash consideration of US$167M.

With payment of this special dividend we will have completed 87% of our US$1B capital management program with the remaining US$127M scheduled to be returned to shareholders by 10 April 2019, depending on market liquidity and value. Having established a strong track record, we will continue to return any excess capital to shareholders in a timely and efficient manner by monitoring our financial position within the context of the prevailing macroeconomic environment and our capital management framework.

Earnings

The Group's statutory profit after tax increased by US$92M (or 17%) to US$635M in H1 FY19. Consistent with our accounting policies, various items are excluded from the Group's statutory profit to derive Underlying earnings including: losses on fair value movements of non-trading derivative instruments and other investments (US$28M pre-tax); exchange rate gains associated with the Group's non US dollar denominated net debt (US$21M pre-tax); the tax expense for all pre-tax earnings adjustments and exchange rate variations on tax balances (US$11M), and profit associated with earnings adjustments included in our EAI (US$11M). Further information on these earnings adjustments is included on page 42.

On this basis, the Group generated Underlying EBITDA of US$1.3B for an operating margin of 38% as stronger volumes, primarily at Illawarra Metallurgical Coal, and higher average realised prices underpinned a US$300M increase in sales revenue, excluding third party products. The Group's Operating unit costs also benefitted from weaker producer currencies, however total costs rose with higher production and price-linked royalties, elevated raw material costs across our aluminium value chain and an increase in maintenance costs at Worsley Alumina. Depreciation and amortisation also increased by a modest US$17M to US$380M, meaning that Underlying EBIT increased by US$201M (or 28%) to US$925M. This higher level of profitability, a change in our geographic earnings mix and permanent differences led to a US$103M (or 85%) increase in our Underlying income tax expense to US$224M. As a result, Underlying earnings increased by US$98M (or 18%) to US$642M.

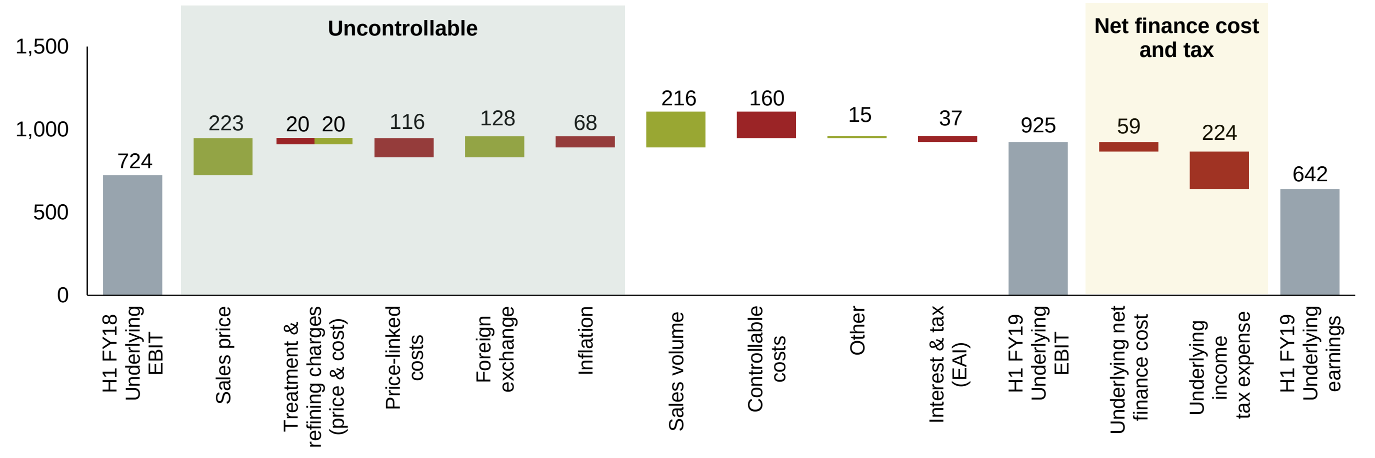
Profit/(loss) to Underlying EBITDA reconciliation		
US$M	**H1 FY19**	**H1 FY18**
Profit/(loss)	908	673
Earnings adjustments to derive Underlying EBIT	17	51
Underlying EBIT	**925**	**724**
Depreciation and amortisation	380	363
Underlying EBITDA	**1,305**	**1,087**

Profit/(loss) after tax to Underlying earnings reconciliation		
US$M	**H1 FY19**	**H1 FY18**
Profit/(loss) after tax	635	543
Earnings adjustments to derive Underlying EBIT	17	51
Earnings adjustments to derive Underlying net finance cost	(21)	11
Earnings adjustments to derive Underlying income tax expense	11	(61)
Underlying earnings	**642**	**544**

Earnings analysis

The following key factors influenced Underlying EBIT in H1 FY19, relative to H1 FY18.

Reconciliation of movements in Underlying EBIT (US$M)[16][17][18]



Earnings analysis	US$M	Commentary
H1 FY18 Underlying EBIT	**724**	
Change in sales price	223	Higher average realised prices: Alumina (+US$175M) Manganese ore (+US$88M) Energy coal (+US$39M) Lower average realised prices: Precious and base metals (-US$62M)
Treatment & refining charges	-	Net impact from reclassifying (AASB 15)[19] Cannington's treatment and refining charges
Net impact of price-linked costs	(116)	LME-linked electricity costs at Hillside Aluminium (+US$5M) Smelter raw material costs (-US$46M), including pitch and coke Distribution costs and diesel price (-US$26M) Royalties (-US$25M, volume and price) Caustic soda prices at Worsley Alumina and Brazil Alumina (-US$12M) Bauxite costs at Brazil Alumina (-US$12M)
Change in exchange rates	128	Australian dollar (+US$70M) South African rand (+US$42M) Brazilian real (+US$14M)
Change in inflation	(68)	Southern Africa (-US$43M) Australia (-US$17M)
Change in sales volume	216	Illawarra Metallurgical Coal (+US$327M) Hillside Aluminium (+US$35M) Australia Manganese (+US$29M) South Africa Energy Coal (-US$134M) Mozal Aluminium (-US$40M)
Controllable costs	(160)	Hillside Aluminium (-US$78M, primarily inventory movements) Worsley Alumina (-US$38M, primarily maintenance) Illawarra Metallurgical Coal (-US$28M, primarily volume) Brazil Alumina (-US$16M, primarily inventory movements)
Other	15	EBIT on third party product (+US$23M) Depreciation and amortisation (-US$18M)
Interest & tax (EAI)	(37)	Stronger profitability in our jointly controlled manganese operations
H1 FY19 Underlying EBIT	**925**	

Net finance cost

The Group's Underlying net finance cost, excluding EAI, was US$59M in H1 FY19, which primarily reflects the unwinding of the discount applied to our closure and rehabilitation provisions (US$52M), finance lease interest (US$25M) and interest on our net cash balances (US$22M).

Underlying net finance cost reconciliation		
US$M	**H1 FY19**	**H1 FY18**
Unwind of discount applied to closure and rehabilitation provisions	(52)	(52)
Finance lease interest	(25)	(27)
Other	18	20
Underlying net finance cost	**(59)**	**(59)**
Add back earnings adjustment for exchange rate variations on net debt	21	(11)
Net finance cost	**(38)**	**(70)**

Tax expense

The Group's Underlying income tax expense, which excludes tax associated with EAI, was US$224M for an Underlying effective tax rate[20] (ETR) of 37.3% in H1 FY19 (H1 FY18: 28.0%). The increase in ETR reflects the differing tax rates that our operations are exposed to and the change in our geographic earnings mix, and the disproportionate effect of intragroup agreements and other permanent differences when margins are compressed or losses are incurred in specific jurisdictions. The primary corporate tax rates applicable to the Group for H1 FY19 include: Australia 30%, South Africa 28%, Colombia 37%[21], Mozambique 0%[21] and Brazil 34%.

The Underlying income tax expense for our manganese EAI was US$172M, including royalty related taxation of US$42M at GEMCO (Australia Manganese), for an Underlying ETR of 38.8% (H1 FY18: 36.2%).

Underlying income tax expense reconciliation and Underlying ETR		
US$M	**H1 FY19**	**H1 FY18**
Underlying EBIT	925	724
Include: Underlying net finance cost	(59)	(59)
Remove: Share of profit/(loss) of equity accounted investments	(265)	(232)
Underlying profit/(loss) before tax	**601**	**433**
Income tax expense	**235**	**60**
Tax effect of earnings adjustments to Underlying EBIT	5	23
Tax effect of earnings adjustments to net finance cost	(7)	4
Exchange rate variations on tax balances	(9)	34
Underlying income tax expense	**224**	**121**
Underlying effective tax rate	**37.3%**	**28.0%**

Cash flow

The Group's free cash flow from operations, excluding EAI, was US$456M in H1 FY19. Working capital increased by US$93M as we established inventories at Illawarra Metallurgical Coal ahead of two longwall moves in Q3 FY19 and the timing of shipments impacted sales at Mozal Aluminium. Provisions and other liabilities also declined as we continued to invest in progressive rehabilitation at South Africa Energy Coal. These impacts were partially offset by movements in receivables and payables, with no change to our payment terms with customers or suppliers. Our debtor days remained broadly unchanged at 22.

Working capital movement reconciliation	
US$M	**Movement**
Trade and other receivables	82
Inventories	(108)
Trade and other payables	50
Provisions and other liabilities	(117)
Working capital movement	**(93)**

Total capital expenditure[11], excluding EAI, increased by US$104M to US$306M in H1 FY19 as Major project activity ramped up at the Klipspruit Life Extension (KPSX) project[22] and preliminary work was undertaken to progress the Hermosa project following the acquisition of Arizona Mining in August 2018. Total capital expenditure included:

- Sustaining capital expenditure, comprising Stay-in-business, Minor discretionary and Deferred stripping (including underground development) of US$206M (H1 FY18: US$195M); and
- Major project capital expenditure of US$90M (H1 FY18: US$4M) relating to the KPSX (US$55M), Hermosa (US$33M) and Eagle Downs Metallurgical Coal (US$2M) projects.

The purchase of intangibles and the capitalisation of exploration expenditure accounted for a further US$10M (H1 FY18: US$3M).

Total capital expenditure associated with EAI increased by US$24M to US$53M during H1 FY19 as we invested in additional tailings storage capacity at Australia Manganese.

Total capital expenditure, including EAI, in H1 FY19 was US$359M (H1 FY18: US$231M).

Free cash flow from operations, excluding equity accounted investments		
US$M	**H1 FY19**	**H1 FY18**
Profit/(loss)	908	673
Non-cash items	429	418
(Profit)/loss from equity accounted investments	(276)	(232)
Change in working capital	(93)	(421)
Cash generated	**968**	**438**
Total capital expenditure, excluding equity accounted investments, including intangibles and capitalised exploration	(306)	(202)
Operating cash flows before financing activities and tax, and after capital expenditure	**662**	**236**
Interest (paid)/received	1	(3)
Income tax (paid)/received	(207)	(181)
Free cash flow from operations	**456**	**52**

We also received (net) distributions totalling US$262M from our manganese EAI in H1 FY19, comprising dividends and capital returns totalling US$286M and a modest drawdown in shareholder loans (-US$24M).

Balance sheet, dividends and capital management

While the Group generated free cash flow from operations, including net distributions from EAI, of US$718M (H1 FY18: US$290M), our net cash balance decreased by US$1.4B to US$678M at 31 December 2018 (30 June 2018: US$2.0B) as we funded the Arizona Mining and Eagle Downs Metallurgical Coal transactions out of our cash reserves for a combined investment of US$1.5B. We also paid our final shareholder dividend in respect of FY18 of US$316M and directed US$167M towards our on-market share buy-back program as we purchased 68M shares at an average price of A$3.39 per share.

Net cash/(debt)		
US$M	**H1 FY19**	**FY18**
Cash and cash equivalents	1,565	2,970
Finance leases	(553)	(570)
Other interest bearing liabilities	(334)	(359)
Net cash/(debt)	**678**	**2,041**

Demonstrating the disciplined and flexible approach we are taking to our capital management program, our Board resolved to pay a fully franked interim dividend of US$258M, representing 40% of Underlying earnings in H1 FY19, and a fully franked special dividend of US$86M. With payment of this special dividend we will have completed 87% of our US$1B capital management program with the remaining US$127M scheduled to be returned to shareholders by 10 April 2019, depending on market liquidity and value.

Our capital management framework remains unchanged and we continue to believe that a combination of high operating leverage and undue financial leverage delivers a sub-optimal outcome for shareholders. With the declaration of our interim and special dividends, this approach will allow us to return US$2.4B to shareholders in respect of the last three year period, equivalent to 20% of our market capitalisation[23]. Having established this strong track record, we will continue to return any excess capital to shareholders in a timely and efficient manner by monitoring our financial position within the context of the prevailing macroeconomic environment and our capital management framework.

Consistent with our commitment to maintain an investment grade credit rating, Standard and Poor's and Moody's reaffirmed their respective BBB+ and Baa1 credit ratings for the Group.

Dividends announced				
Period	**Dividend per share (US cents)**	**US$M**	**Franking**	**Pay-out ratio**
H1 FY18	4.3	223	100%	41%
February 2018 special dividend	3.0	155	81%	NA
H2 FY18	6.2	317	100%	40%
H1 FY19	5.1	258	100%	40%
February 2019 special dividend	1.7	86	100%	NA

South32 shareholders registered on the South African branch register will not be able to dematerialise or rematerialise their shareholdings between 6 and 8 March 2019 (both dates inclusive), nor will transfers to/from the South African branch register be permitted between 28 February and 8 March 2019 (both dates inclusive).

Details of the currency exchange rates applicable for the dividend will be announced to the relevant stock exchanges. Further dividend information is available on our website (www.south32.net).

South32 American Depositary Receipts (ADRs) each represent five fully paid ordinary shares in South32 and ADR holders will receive dividends accordingly, subject to the terms of the Depositary Agreement.

Dividend timetable	Date
Announce currency conversion into rand	1 March 2019
Last day to trade cum dividend on the Johannesburg Stock Exchange (JSE)	5 March 2019
Ex-dividend date on the JSE	6 March 2019
Ex-dividend date on the ASX and London Stock Exchange (LSE)	7 March 2019
Record date (including currency election date for ASX)	8 March 2019
Payment date	**4 April 2019**

Outlook

Production

The Group's production volumes are expected to rise by 5%[24] in FY19, or 7%[24] on a per share basis as we benefit from our ongoing on-market share buy-back program.

Production guidance (South32's share)[18]	FY18	H1 FY19	FY19e	FY20e	Key guidance assumptions
Worsley Alumina					**Unchanged**
Alumina production (kt)	3,764	1,906	3,965	3,965	Improvement in calciner availability in H2 FY19, notwithstanding maintenance scheduled for Q3 FY19
Brazil Alumina (non-operated)					**Unchanged**
Alumina production (kt)	1,304	636	1,355	1,370	Introduction of package boilers in H2 FY19 to support the ramp-up of the De-bottlenecking Phase One project
Hillside Aluminium					**Unchanged (subject to load-shedding)**
Aluminium production (kt)	712	360	720	720	Pot relining cycle to reach its peak in FY19 To test technical capacity
Mozal Aluminium					**Unchanged (subject to load-shedding)**
Aluminium production (kt)	271	135	269	273	Pot relining cycle to reach its peak in FY19 AP3XLE energy efficiency project to add production from FY20
South Africa Energy Coal[25]					**Unchanged**
Total coal production (kt)	27,271	12,171	29,000	30,300	Domestic volumes to benefit from the sale of lower quality stockpiled material and a new shift pattern at Khutala
Domestic coal production (kt)	15,154	7,731	17,500	16,900	
Export coal production (kt)	12,117	4,440	11,500	13,400	Export volumes to increase following the recommissioning of the Klipspruit dragline in January 2019
Illawarra Metallurgical Coal					**FY19 guidance increased by 7%**
Total coal production (kt)	4,244	3,840	↑*6,500*	7,000	Two longwall moves scheduled for Q3 FY19
Metallurgical coal production (kt)	3,165	3,082	↑*5,200*	5,800	A substantial uplift in development rates at Appin is required to sustain the operation of two longwalls in parallel from H2 FY20
Energy coal production (kt)	1,079	758	↑*1,300*	1,200	
Australia Manganese					**Unchanged (subject to market demand)**
Manganese ore production (kwmt)	3,396	1,811	3,350	Subject to demand	Wet season expected to impact production across H2 FY19
South Africa Manganese					**Unchanged (subject to market demand)**
Manganese ore production (kwmt)	2,145	1,075	2,050	Subject to demand	Dependent on the economics of higher cost trucking
Cerro Matoso					**Unchanged**
Ore to kiln (kt)	2,722	1,401	2,750	2,500	Continued use of lower grade stockpiled ore
Payable nickel production (kt)	43.8	21.1	40.5	35.6	Planned furnace outage in H2 FY20
Cannington					**Unchanged (subject to review)**
Ore processed (kdmt)	2,355	1,244	2,400	2,500	Guidance is unchanged, but remains subject to review pending our assessment of the impact to logistics infrastructure resulting from the floods in North Queensland
Payable zinc equivalent production (kt)[26]	187.2	95.2	188.1	187.1	
Payable silver production (koz)	12,491	6,067	11,750	10,850	
Payable lead production (kt)	104.4	48.3	98.0	94.7	
Payable zinc production (kt)	41.3	26.3	51.0	57.3	

The denotation (e) refers to an estimate or forecast year.

Costs and capital expenditure

Operating unit cost performance

Broad appreciation of the US dollar and robust operating performance ensured that Operating unit costs were well controlled at the majority of our upstream operations in H1 FY19, however underlying inflationary pressure from raw materials continued to impact our aluminium value chain with the greatest pressure being felt at our smelters.

Operating unit cost[18][27]	H1 FY18	H2 FY18	H1 FY19	H1 FY19 adjusted[a]	FY19 prior guidance[b]	Commentary H1 FY19 performance to guidance
Worsley Alumina						
(US$/t)	224	247	**233**	237	**230**	Lower volumes, a skew in caustic soda costs as high priced inventory was consumed and additional maintenance activity, partially offset by depreciation of the Australian dollar
Brazil Alumina (non-operated)						
(US$/t)	234	269	**291**	NA	**NA**	Depreciation of the Brazilian real, offset by a skew in caustic soda costs as high priced inventory was consumed, lower volumes and higher maintenance and bauxite costs
Hillside Aluminium						
(US$/t)	1,680	1,962	**2,161**	NA	**NA**	Higher raw material inputs costs, primarily alumina, partially offset by lower LME-linked electricity costs
Mozal Aluminium						
(US$/t)	1,694	1,945	**1,938**	NA	**NA**	Largely unchanged from H2 FY18
South Africa Energy Coal[25]						
(US$/t)	36	37	**38**	40	**41**	Depreciation of the South African rand, noting that FY19 guidance includes a skew in export production to H2 FY19
Illawarra Metallurgical Coal						
(US$/t)	149	136	**87**	90	**105**	Significant improvement in longwall performance and depreciation of the Australian dollar, noting that FY19 guidance includes two longwall moves in Q3 FY19
Australia Manganese ore (FOB)						
(US$/dmtu)	1.55	1.72	**1.51**	1.54	**1.63**	Depreciation of the Australian dollar and record production with the PC02 circuit operating at ~120% of design capacity
South Africa Manganese ore (FOB)						
(US$/dmtu)	2.31	2.74	**2.63**	2.65	**2.56**	Greater utilisation of high cost trucking and higher price-linked royalties, partially offset by depreciation of the South African rand
Cerro Matoso						
(US$/t)[c]	119	137	**136**	139	**136**	Depreciation of the Colombian peso and higher volumes, noting FY19 guidance reflects a production skew to H1 FY19
(US$/lb)	3.41	3.92	**4.05**	4.15	**4.21**	
Cannington						
(US$/t)[d]	170	130	**120**	128	***131***	Depreciation of the Australian dollar and higher mill throughput, noting FY19 guidance reflects a production skew to H1 FY19

(a) H1 FY19 adjusted is restated to reflect price and foreign exchange rate assumptions used for FY19 prior guidance (refer to footnote 28 on page 26).

(b) FY19 prior guidance includes commodity price and foreign exchange rate forward curves or our internal expectations (refer to footnote 28 on page 26).

(c) US dollar per tonne of ore to kiln.

(d) US dollar per tonne of ore processed. Periodic movements in finished product inventory may impact Operating unit costs as related marketing costs may change. The H1 FY19 results reflect the Group's adoption of AASB 15 *Revenue from Contracts with Customers*, with revenue recognised net of treatment and refining charges (previously recognised on a gross basis with treatment and refining charges included as a separate expense). These changes result in lower realised prices and Operating unit costs, with no net impact to earnings. FY19 prior guidance has been adjusted from US$147/t to US$131/t to reflect these changes. Prior periods have not been restated to reflect these changes.

Operating unit cost guidance

Updated FY19 Operating unit cost guidance primarily reflects revised currency and price assumptions as production guidance has been maintained for the majority of our operations. Illawarra Metallurgical Coal is the exception as an improvement in longwall performance has underpinned a 7% increase to prior production guidance. That being said, the relative skew in production to either H1 FY19 or H2 FY19 for a number of operations will have a meaningful impact on half-on-half unit cost performance. Separately, Operating unit costs at our refineries will benefit from lower raw material costs in H2 FY19 as higher priced material that was held in inventory was consumed in H1 FY19.

Operating unit cost guidance by upstream operation[18][27]				
	FY19 prior guidance[a]	FY19 adjusted guidance[b]	FY19 new guidance[c]	Commentary
Worsley Alumina				
(US$/t)	230	216	227	Depreciation of the Australian dollar, partially offset by additional expenditure to improve calciner performance and sustainably achieve nameplate capacity Caustic soda costs and consumption rates to decline in H2 FY19
South Africa Energy Coal[25]				
(US$/t)	41	39	38	Depreciation of the South African rand Production to recover in H2 FY19 with recommissioning of the Klipspruit dragline
Illawarra Metallurgical Coal				
(US$/t)	105	102	97	Upgraded production guidance and depreciation of the Australian dollar Two longwall moves scheduled for H2 FY19
Australia Manganese ore (FOB)				
(US$/dmtu)	1.63	1.59	1.57	Depreciation of the Australian dollar and an improvement in equipment productivity H2 FY19 to be impacted by the wet season
South Africa Manganese ore (FOB)				
(US$/dmtu)	2.56	2.55	2.56	Higher price-linked royalties offset by depreciation of the South African rand
Cerro Matoso				
(US$/t)[d]	136	139	135	Depreciation of the Colombian peso, partially offset by costs arising from the recent Constitutional Court of Colombia ruling[30]
(US$/lb)	4.21	4.02	4.12	
Cannington				
(US$/t)[e]	*131*	127	129	Depreciation of the Australian dollar, partially offset by additional mining and rehabilitation activity

(a) FY19 prior guidance includes commodity price and foreign exchange rate forward curves or our internal expectations (refer to footnote 28 on page 26).

(b) FY19 adjusted guidance is FY19 prior guidance, restated to reflect price and foreign exchange rate assumptions used for FY19 new guidance (refer to footnote 29 on page 26).

(c) FY19 new guidance includes commodity price and foreign exchange rate forward curves or our internal expectations for the remainder of FY19, as at January 2019 (refer to footnote 29 on page 26).

(d) US dollar per tonne of ore to kiln.

(e) US dollar per tonne of ore processed. Periodic movements in finished product inventory may impact Operating unit costs as related marketing costs may change. FY19 Prior guidance has been adjusted from US$147/t to US$131/t to reflect the Group's adoption of AASB 15 *Revenue from Contracts with Customers*, with revenue recognised net of treatment and refining charges (previously recognised on a gross basis with treatment and refining charges included as a separate expense). These changes result in lower realised prices and Operating unit costs, with no net impact to earnings.

Other expenditure guidance

FY19 guidance for Group and unallocated costs, excluding greenfield exploration, is unchanged at US$80M (H1 FY19: US$40M). While guidance for greenfield exploration expenditure to progress our early stage projects also remains unchanged at US$41M (H1 FY19: US$8M), we do expect to capitalise US$20M (H1 FY19: US$7M) of exploration expenditure to increase our knowledge of the Hermosa resource(14).

Depreciation and amortisation, and tax expense

Depreciation and amortisation guidance for FY19 is unchanged at approximately US$750M (H1 FY19: US$380M), excluding EAI, and US$85M (H1 FY19: US$44M) for our EAI. From a taxation perspective, our geographic earnings mix will have a significant bearing on our ETR given differing country tax rates, while the impact of intragroup agreements and other permanent differences will continue to be magnified when margins are compressed or losses are incurred in specific jurisdictions. Whilst it is therefore difficult to predict our ETR (excluding EAI), we do expect it to decline in H2 FY19, particularly if the alumina to aluminium price ratio falls.

Capital expenditure guidance

We have lowered FY19 guidance for Sustaining capital expenditure, including EAI, by US$30M to US$545M. This adjustment primarily reflects appreciation of the US dollar, the lower rate of underground development at Illawarra Metallurgical Coal in H1 FY19 and additional expenditure incurred to recover from and mitigate the impact of the Klipspruit dragline incident at South Africa Energy Coal. This incident has been confirmed as an insurable event and we are working through the claim to assess the quantum and timing of any recovery.

Major project capital expenditure guidance for FY19 has been lowered by US$48M to US$217M. This reduction primarily reflects the reclassification of US$20M of expenditure to capitalised exploration at Hermosa, the timing of activity at South Africa Energy Coal's KPSX project and appreciation of the US dollar. The modest reduction in underlying activity at Hermosa from Arizona Mining's preliminary estimate is not expected to have a bearing on the development schedule as the deferral of activity to progress the twin exploration declines does not impact the critical path. Capital expenditure required to progress the Eagle Downs Metallurgical Coal project (US$7M) is also included within guidance for the first time as the transaction was concluded in the period. Major project capital expenditure guidance does not account for the potential progression of the Dendrobium next domain project at Illawarra Metallurgical into final feasibility in H2 FY19.

Capital expenditure (South32's share)(11)(18)			
US$M	**FY19e prior guidance**	**FY19e new guidance**	**Commentary**
Worsley Alumina	56	60	Initiatives to support uplift in production to nameplate
Brazil Alumina	40	32	
Hillside Aluminium	24	18	
Mozal Aluminium	18	20	
South Africa Energy Coal(25)	66	100	Recovery from Klipspruit dragline incident in H1 FY19
Illawarra Metallurgical Coal	170	128	Lower rate of underground development in H1 FY19
Australia Manganese	75	65	
South Africa Manganese	35	30	
Cerro Matoso	41	37	
Cannington	50	55	Additional investment in underground development
Sustaining capital expenditure (including EAI)	**575**	**545**	
Equity accounted adjustment(a)	(110)	(95)	
Sustaining capital expenditure (excluding EAI)	**465**	**450**	
South Africa Energy Coal(22)(25)	165	140	Timing of activity at KPSX
Hermosa	100	70	Reclassification of US$20M of expenditure to exploration
Eagle Downs Metallurgical Coal	-	7	Initial guidance
Major capital expenditure (including EAI)	**265**	**217**	
Equity accounted adjustment(a)	-	**-**	
Major capital expenditure (excluding EAI)	**265**	**217**	

(a) The equity accounting adjustment reconciles the proportional consolidation of the South32 manganese operations to the treatment of the manganese operations on an equity accounted basis.

Operations analysis

A summary of the underlying performance of the Group's operations is presented below and more detailed analysis is presented on pages 15 to 24. Unless otherwise stated: all metrics reflect South32's share; Operating unit cost is Revenue less Underlying EBITDA excluding third party sales divided by sales volumes; and Operating cost is Revenue less Underlying EBITDA excluding third party sales.

Operations table (South32 share)[18]				
	Revenue		Underlying EBIT	
US$M	**H1 FY19**	**H1 FY18**	**H1 FY19**	**H1 FY18**
Worsley Alumina	864	668	344	164
Brazil Alumina	312	240	97	47
Hillside Aluminium	772	734	(39)	120
Mozal Aluminium	280	326	13	60
South Africa Energy Coal[25]	517	622	14	115
Illawarra Metallurgical Coal	574	243	195	(84)
Australia Manganese	581	516	352	299
South Africa Manganese	275	228	100	86
Cerro Matoso	244	244	10	41
Cannington	223	296	47	72
Third party products and services[31]	487	463	28	5
Inter-segment / Group and unallocated	(455)	(342)	(47)	(48)
Total	**4,674**	**4,238**	**1,114**	**877**
Equity accounting adjustment[a]	(863)	(744)	(189)	(153)
South32 Group	**3,811**	**3,494**	**925**	**724**

(a) The equity accounting adjustment reconciles the proportional consolidation of the South32 manganese operations to the treatment of the manganese operations on an equity accounted basis (including third party product).

Worsley Alumina (86% share)

Volumes

Worsley Alumina saleable production increased by 2% (or 41kt) in H1 FY19 to 1,906kt as the refinery benefitted from improved calciner availability in Q2 FY19 and three shipments of stockpiled hydrate were sold opportunistically at alumina equivalent rates. FY19 production guidance remains unchanged at 3,965kt with calciner maintenance scheduled for Q3 FY19.

Operating costs

Operating unit costs increased by 4% in H1 FY19 to US$233/t as additional calciner maintenance was undertaken and the cost of caustic soda increased as higher priced inventory was consumed (H1 FY19: US$535/t, H1 FY18: US$516/t), which more than offset the impact of a weaker Australian dollar.

We have lowered FY19 Operating unit cost guidance by US$3/t to US$227/t with revised exchange rate and raw material price assumptions partially offset by additional maintenance activity that is designed to improve calciner performance and sustainably achieve nameplate capacity. Conversely, caustic soda costs are expected to decline in H2 FY19 as we benefit from the recent reduction in market prices and a fall in consumption rates as the contribution of West Marradong feed rises. Exchange rate and price assumptions for FY19 Operating unit cost guidance are detailed on page 26, footnote 29.

Financial performance

Underlying EBIT increased by 110% (or US$180M) in H1 FY19 to US$344M. A 29% rise in the average realised price of alumina (+US$188M) and a weaker Australian dollar (+US$23M) were partially offset by additional maintenance costs (-US$10M) and an increase in the price of caustic soda (-US$4M).

The average realised price for alumina sales in H1 FY19 reflected a discount of 9% to the Platts Alumina Index (PAX) on a volume weighted M-1 basis. This discount reflects the structure of specific legacy supply contracts with our Mozal Aluminium smelter that are linked to the LME aluminium price and the elevated alumina to aluminium price ratio in the spot market. All alumina sales to other customers were at market based prices.

Capital expenditure

Sustaining capital expenditure increased by US$3M in H1 FY19 to US$25M and is expected to increase to US$60M in FY19 as we commence several improvement initiatives to support a sustainable increase in production to nameplate capacity of 4.6Mt (100% basis) and continue to invest in additional bauxite residue disposal capacity.

South32 share	H1 FY19	H1 FY18
Alumina production (kt)	1,906	1,865
Alumina sales (kt)[32]	1,885	1,886
Realised alumina sales price (US$/t)[32]	*458*	354
Operating unit cost (US$/t)[27]	233	224

South32 share (US$M)	H1 FY19	H1 FY18
Revenue	864	668
Underlying EBITDA	425	246
Underlying EBIT	344	164
Net operating assets[a]	2,871	3,028
Capital expenditure	25	22
All other capital expenditure	25	22
Exploration expenditure	1	-
Exploration expensed	1	-

(a) H1 FY18 reflects balance as at 30 June 2018.

Brazil Alumina (Alumina 36% share, Aluminium 40% share)

Volumes

Brazil Alumina saleable production decreased by 6% (or 40kt) in H1 FY19 to 636kt as unplanned maintenance and power outages impacted performance. FY19 production is expected to approach guidance of 1,355kt with the addition of package boilers designed to support the ramp-up of the De-bottlenecking Phase One project.

Operating costs

Operating unit costs increased by 24% in H1 FY19 to US$291/t as additional maintenance costs were incurred, higher priced caustic soda inventory was consumed and the cost of bauxite supplied by MRN increased as the price reset to reflect the movement in alumina and aluminium prices on a trailing basis.

While specific Operating unit cost guidance is not provided as we are not the operator of the refinery, we do expect some relief from recent inflationary pressure in H2 FY19 given an expected reduction in bauxite and caustic soda costs.

Financial performance

Alumina Underlying EBIT increased by 76% (or US$45M) in H1 FY19 to US$104M as a 36% increase in the average realised price of alumina (+US$84M) was partially offset by lower sales volumes (-US$11M), additional maintenance (-US$4M) and higher bauxite (-US$12M) and caustic soda (-US$8M) costs.

Aluminium Underlying EBIT increased by US$5M in H1 FY19 to a loss of US$7M as an indirect legacy tax obligation was settled and our commitment to purchase electricity from Eletronorte was fulfilled during the prior period following termination of the contract in December 2015.

Capital expenditure

Sustaining capital expenditure increased by US$6M in H1 FY19 to US$16M and is expected to increase to US$32M in FY19 as we invest in additional bauxite residue disposal capacity.

The partners of MRN also agreed to undertake a pre-feasibility study for a project that has the potential to extend the life of the mine by more than 20 years at a relatively low capital cost. MRN has a substantial 503Mt[12] high grade bauxite resource.

South32 share	H1 FY19	H1 FY18
Alumina production (kt)	636	676
Alumina sales (kt)[32]	619	649
Realised alumina sales price (US$/t)[32]	504	370
Alumina operating unit cost (US$/t)[27]	291	234

South32 share (US$M)	H1 FY19	H1 FY18
Revenue	312	240
Alumina	312	240
Aluminium	-	-
Other income	-	41
Underlying EBITDA	125	76
Alumina	132	88
Aluminium	(7)	(12)
Underlying EBIT	97	47
Alumina	104	59
Aluminium	(7)	(12)
Net operating assets/(liabilities)[a]	662	644
Alumina	670	656
Aluminium	(8)	(12)
Capital expenditure	16	10
All other capital expenditure	16	10

(a) H1 FY18 reflects balance as at 30 June 2018.

Hillside Aluminium (100%)

Volumes

Hillside Aluminium saleable production increased by 1% (or 2kt) in H1 FY19 to 360kt as the smelter continued to test its maximum technical capacity, despite an increase in the frequency of load-shedding events. FY19 production guidance remains unchanged at 720kt, but remains subject to load-shedding.

Operating costs

Operating unit costs increased by 29% in H1 FY19 to US$2,161/t as a significant rise in raw material costs created inflationary pressure across the aluminium industry. Alumina, coke, pitch and aluminium price-linked electricity accounted for 71% of the smelter's cost base in H1 FY19 (H1 FY18: 69%). 108 pots were also relined at a cost of US$233k per pot (H1 FY18: 44 pots at US$196k per pot), while 177 pots are scheduled to be relined across FY19 as we reach a peak in the relining cycle.

While Operating unit cost guidance is not provided, the cost profile of Hillside Aluminium will continue to be heavily influenced by the price of power and raw material inputs, given its highly variable cost base. The smelter sources alumina from our Worsley Alumina refinery with prices linked to the Platts alumina index on an M-1 basis, while its power is sourced from Eskom under long-term contracts. The price of electricity supplied to potlines 1 and 2 is linked to the LME aluminium price and the South African rand/US dollar exchange rate. The price of electricity supplied to potline 3 is South African rand based.

Financial performance

Underlying EBIT decreased by 133% (or US$159M) in H1 FY19 to a loss of US$39M as stronger sales volumes (+US$35M) and lower aluminium price-linked power costs (+US$5M) were more than offset by higher raw material input costs (-US$136M), an increase in pot relining costs (-US$16M) and an unfavourable movement in inventory (-US$50M).

Capital expenditure

Sustaining capital expenditure remained largely unchanged in H1 FY19 at US$12M and is expected to increase to US$18M in FY19.

South32 share	H1 FY19	H1 FY18
Aluminium production (kt)	360	358
Aluminium sales (kt)[32]	360	344
Realised sales price (US$/t)[32]	2,144	2,134
Operating unit cost (US$/t)[27]	2,161	1,680

South32 share (US$M)	H1 FY19	H1 FY18
Revenue	772	734
Underlying EBITDA	(6)	156
Underlying EBIT	(39)	120
Net operating assets[(a)]	1,147	1,202
Capital expenditure	12	13
All other capital expenditure	12	13

(a) H1 FY18 reflects balance as at 30 June 2018.

Mozal Aluminium (47.1% share)

Volumes

Mozal Aluminium saleable production decreased by 1% (or 2kt) in H1 FY19 to 135kt as the smelter's operating performance was impacted by an increase in the frequency of load-shedding events. FY19 production guidance remains unchanged at 269kt, subject to load-shedding, whilst the shortfall in sales volumes in H1 FY19 simply reflects timing differences.

Operating costs

Operating unit costs increased by 14% in H1 FY19 to US$1,938/t as a significant rise in raw material input costs created inflationary pressure across the aluminium industry. Alumina, coke and pitch accounted for 53% of the smelter's cost base in H1 FY19 (H1 FY18: 48%). 40[33] pots were also relined across H1 FY19 at a cost of US$219k per pot (H1 FY18: 34[33] pots at US$191k per pot), with 103[33] pots scheduled to be relined in FY19 as we reach a peak in the relining cycle.

While Operating unit cost guidance is not provided, the cost profile of Mozal Aluminium will continue to be heavily influenced by the price of power and raw material inputs, given its highly variable cost base. The smelter sources alumina from our Worsley Alumina refinery with approximately 50% priced as a percentage of the LME aluminium index under a legacy contract and the remainder linked to the Platts alumina index on an M-1 basis, with caps and floors embedded within specific contracts. Its electricity requirements are largely met by hydroelectric power that is generated by Hidroeléctrica de Cahora Bassa (HCB). HCB delivers power into Eskom's South African grid and Mozal Aluminium sources electricity via the Mozambique Transmission Company (Motraco) under a long-term contract. The price of electricity is South African rand based with the rate of escalation linked to a South Africa domestic producer price index.

Financial performance

Underlying EBIT decreased by 78% (or US$47M) in H1 FY19 to US$13M as lower sales volumes (-US$40M) and higher raw material costs (-US$29M) were partially offset by a build in finished goods (+US$28M).

Capital expenditure

Sustaining capital expenditure was unchanged in H1 FY19 at US$8M as the US$18M AP3XLE energy efficiency project commenced the roll out of its pot relining program ahead of schedule. The project is expected to deliver a circa 5% (or 10kt pa) increase in annual production with no associated increase in power consumption. First incremental production is anticipated in FY20, with the full benefit to be realised by FY24. Sustaining capital expenditure of US$20M is anticipated in FY19.

South32 share	H1 FY19	H1 FY18
Aluminium production (kt)	135	137
Aluminium sales (kt)[32]	129	147
Realised sales price (US$/t)[32]	2,171	2,218
Operating unit cost (US$/t)[27]	1,938	1,694

South32 share (US$M)	H1 FY19	H1 FY18
Revenue	280	326
Underlying EBITDA	30	77
Underlying EBIT	13	60
Net operating assets[a]	526	553
Capital expenditure	8	8
All other capital expenditure	8	8

(a) H1 FY18 reflects balance as at 30 June 2018.

South Africa Energy Coal (92% share[25])

Volumes

South Africa Energy Coal saleable production decreased by 9% (or 1,252kt) in H1 FY19 to 12.2Mt as export production was impacted by the dragline incident at Klipspruit in August 2018. Conversely, domestic production benefitted from the commencement of a contract to sell lower quality stockpiled product in Q1 FY19.

FY19 production guidance remains unchanged at 29Mt (17.5Mt domestic, 11.5Mt export), with the recommissioning of the Klipspruit dragline in January 2019 underpinning an increase in export volumes in H2 FY19. Domestic volumes are also expected to benefit from a further increase in the sale of lower quality stockpiled product and the implementation of a new shift pattern at Khutala.

Operating costs

Operating unit costs increased by 6% in H1 FY19 to US$38/t as the impact of the extended dragline outage more than offset a weaker South African rand.

We have lowered FY19 Operating unit cost guidance by US$3/t to US$38/t to reflect the dragline's return to service ahead of schedule and revised exchange rate and price assumptions. Exchange rate and price assumptions for FY19 Operating unit cost guidance are detailed on page 26, footnote 29.

Financial performance

Underlying EBIT decreased by 88% (or US$101M) in H1 FY19 to US$14M as lower sales volumes (-US$134M), a drawdown in inventory associated with the extended dragline outage (-US$10M), higher depreciation (-US$10M) and general inflation (-US$24M) were only partially offset by higher average realised prices (+US$39M), a volume related reduction in rail costs (+US$22M) and a weaker South African rand (+US$18M).

Capital expenditure

Sustaining capital expenditure decreased by US$20M in H1 FY19 to US$48M. FY19 guidance has been increased by US$34M to US$100M as additional expenditure has been incurred to recover from and mitigate the impact of the Klipspruit dragline incident. This incident has been confirmed as an insurable event and we are working through the claim to assess the quantum and timing of any recovery.

We also invested US$55M in Major project capital expenditure in H1 FY19 to progress the 4.3B[22] South African rand KPSX project, which was approved by the Board in November 2017. The 8Mt per annum brownfield project extends the life of the colliery by more than 20 years[34]. The project is approximately 33% complete and remains on schedule and budget, with first production expected in H2 FY19. Major project expenditure of US$140M is expected in FY19.

100 per cent terms[25]	H1 FY19	H1 FY18
Energy coal production (kt)	12,171	13,423
Domestic sales (kt)[32]	7,749	7,334
Export sales (kt)[32]	4,206	5,865
Realised domestic sales price (US$/t)[32]	22	24
Realised export sales price (US$/t)[32]	83	76
Operating unit cost (US$/t)[27]	38	36

100 per cent terms[25] (US$M)	H1 FY19	H1 FY18
Revenue[35]	517	622
Underlying EBITDA	58	149
Underlying EBIT	14	115
Net operating assets/(liabilities)[a]	75	(23)
Capital expenditure	103	72
Major projects (>US$100M)	55	4
All other capital expenditure	48	68

(a) H1 FY18 reflects balance as at 30 June 2018.

Illawarra Metallurgical Coal (100% share)

Volumes

Illawarra Metallurgical Coal saleable production increased by 106% (or 1,980kt) in H1 FY19 to 3.8Mt as the Dendrobium and Appin longwalls performed strongly. Metallurgical coal stockpiles were also established during H1 FY19 in advance of the two longwall moves scheduled in Q3 FY19. FY19 production guidance has been increased by 7% to 6.5Mt to reflect the strong start to the year.

We also reached agreement with employees covered by the Dendrobium Coal Prep Plant Enterprise Agreement in January 2019, having previously reached agreement with the Dendrobium mine's trades and operators, and Appin deputies during H1 FY19. We continue to renegotiate the remaining labour agreements at Illawarra Metallurgical Coal.

Operating costs

Operating unit costs decreased by 42% in H1 FY19 to US$87/t as the operation benefitted from a substantial increase in sales volumes.

We have lowered FY19 Operating unit cost guidance by US$8/t to US$97/t to reflect the increase in production guidance and revised exchange rate and price assumptions. Notwithstanding this reduction in FY19 guidance, costs are expected to increase in H2 FY19 as a result of the planned longwall moves. Exchange rate and price assumptions for FY19 Operating unit cost guidance are detailed on page 26, footnote 29.

Financial performance

Underlying EBIT increased by US$279M in H1 FY19 to US$195M as stronger sales volumes (+US$327M) and a weaker Australian dollar (+US$20M) were partially offset by an increase in price-linked royalties (-US$22M) and depreciation (-US$18M). The volume related impact on costs (-US$41M) was tempered by the high fixed cost base of the operation.

Capital expenditure

Sustaining capital expenditure increased by US$16M in H1 FY19 to US$56M as underground development progressively recovered at Appin, albeit at a slower rate than planned. A substantial uplift in development rates is required to sustain the operation of two longwalls in parallel from H2 FY20.

Sustaining capital expenditure guidance for FY19 has been reduced by US$42M to US$128M, including underground development of US$75M (US$97M previously).

South32 share	H1 FY19	H1 FY18
Metallurgical coal production (kt)	3,082	1,282
Energy coal production (kt)	758	578
Metallurgical coal sales (kt)[32]	2,527	1,057
Energy coal sales (kt)[32]	732	603
Realised metallurgical coal sales price (US$/t)[32]	207	189
Realised energy coal sales price (US$/t)[32]	68	71
Operating unit cost (US$/t)[27]	87	149

South32 share (US$M)	H1 FY19	H1 FY18
Revenue[36]	574	243
Underlying EBITDA	292	(5)
Underlying EBIT	195	(84)
Net operating assets[a]	1,382	1,408
Capital expenditure	56	40
Major projects (>US$100M)	-	-
All other capital expenditure	56	40
Exploration expenditure	4	4
Exploration expensed	3	4

(a) H1 FY18 reflects balance as at 30 June 2018.

Australia Manganese (60% share)

Volumes

Australia Manganese achieved record ore performance in H1 FY19, increasing saleable ore production by 6% (or 110kwmt) to 1,811kwmt. The primary circuit continued to achieve high utilisation rates, while the PC02 circuit operated at approximately 120% of its design capacity, contributing 9% of total production. FY19 production guidance remains unchanged at 3,350kwmt, with the wet season expected to impact production across H2 FY19.

Saleable manganese alloy production decreased by 7% (or 6kt) in H1 FY19 to 76kt as a result of an unplanned outage at one of the four furnaces during Q2 FY19. While the furnace has subsequently returned to service, additional maintenance is planned for H2 FY19.

Operating costs

FOB manganese ore Operating unit costs decreased by 3% in H1 FY19 to US$1.51/dmtu as record performance mitigated a further increase in strip ratio (H1 FY19: 4.1, H1 FY18: 3.6).

We have lowered FY19 Operating unit cost guidance by US$0.06/dmtu to US$1.57/dmtu to reflect the continued improvement in equipment productivity and revised exchange rate and price assumptions. Exchange rate and price assumptions for FY19 Operating unit cost guidance are detailed on page 26, footnote 29.

Financial performance

Underlying EBIT increased by 18% (or US$53M) in H1 FY19 to US$352M as higher realised ore prices (+US$45M), an increase in ore sales volumes (+US$28M) and a weaker Australian dollar (+US$9M) were only partially offset by lower realised alloy prices (-US$9M) and a rise in raw material and freight costs (-US$10M).

Our average realised price for external ore sales in H1 FY19 reflected the high grade 44% manganese lump ore index (CIF China) on a FOB adjusted, volume weighted M-1 basis[37], despite the higher contribution of 40% grade PC02 product to the sales mix.

Capital expenditure

Sustaining capital expenditure increased by US$15M in H1 FY19 to US$36M as we invested in additional tailings capacity. Sustaining capital expenditure of US$65M is anticipated in FY19.

South32 share	H1 FY19	H1 FY18
Manganese ore production (kwmt)	1,811	1,701
Manganese alloy production (kt)	76	82
Manganese ore sales (kwmt)[38]	1,740	1,612
External customers	1,569	1,441
TEMCO	171	171
Manganese alloy sales (kt)[38]	76	78
Realised external manganese ore sales price (US$/dmtu, FOB)[38][39]	6.59	5.96
Realised manganese alloy sales price (US$/t)[38]	1,408	1,526
Ore operating unit cost (US$/dmtu)[39][40]	1.51	1.55
Alloy operating unit cost (US$/t)[40]	987	910

South32 share (US$M)	H1 FY19	H1 FY18
Revenue[41]	581	516
Manganese ore	490	411
Manganese alloy	107	119
Intra-segment elimination	(16)	(14)
Underlying EBITDA	382	328
Manganese ore	350	280
Manganese alloy	32	48
Underlying EBIT	352	299
Manganese ore	322	253
Manganese alloy	30	46
Net operating assets/(liabilities)[(a)]	308	289
Manganese ore	312	284
Manganese alloy	(4)	5
Capital expenditure	36	21
All other capital expenditure	36	21
Exploration expenditure	1	1
Exploration expensed	-	1

(a) H1 FY18 reflects balance as at 30 June 2018.

South Africa Manganese (Ore 44.4% share, Alloy 60% share)

Volumes

South Africa Manganese saleable ore production decreased by 5% (or 54kwmt) in H1 FY19 to 1,075kwmt as an increase in higher quality premium material was more than offset by a decline in fine grained secondary products. While FY19 production guidance remains unchanged at 2,050kwmt, we will continue to monitor market demand and optimise the use of higher cost trucking.

Saleable manganese alloy production decreased by 8% (or 3kt) in H1 FY19 to 33kt as a planned furnace shutdown was completed.

Operating costs

FOB manganese ore Operating unit costs increased by 14% in H1 FY19 to US$2.63/dmtu as we continued to utilise higher cost trucking as an additional route to market and the contribution of premium ore from our underground Wessels mine increased.

FY19 Operating unit cost guidance is unchanged at US$2.56/dmtu. Exchange rate and price assumptions for FY19 Operating unit cost guidance are detailed on page 26, footnote 29.

Financial performance

Underlying EBIT increased by 16% (or US$14M) in H1 FY19 to US$100M as higher realised ore prices (+US$43M) and a weaker South African rand (+US$6M) were partially offset by lower realised alloy prices (-US$8M), a reduction in other income (-US$11M) and general inflation (-US$5M).

Our lower quality fine grained material, which accounted for 10% of sales across H1 FY19 (15% H1 FY18; 13% FY18), receives a product discount when referenced to index prices. Notwithstanding the contribution of this secondary material to our sales mix, our average realised price for external sales of South African ore achieved the medium grade 37% manganese lump ore index price (FOB Port Elizabeth, South Africa) on a volume weighted M-1 basis[42].

Capital expenditure

Sustaining capital expenditure increased by US$9M in H1 FY19 to US$17M and is expected to increase to US$30M in FY19.

South32 share	H1 FY19	H1 FY18
Manganese ore production (kwmt)	1,075	1,129
Manganese alloy production (kt)	33	36
Manganese ore sales (kwmt)[43]	1,010	1,067
External customers	951	985
Metalloys	59	82
Manganese alloy sales (kt)[43]	35	28
Realised external manganese ore sales price (US$/dmtu, FOB)[43][44]	5.85	4.57
Realised manganese alloy sales price (US$/t)[43]	1,086	1,321
Ore operating unit cost (US$/dmtu)[44][45]	2.63	2.31
Alloy operating unit cost (US$/t)[45]	1,171	821

South32 share (US$M)	H1 FY19	H1 FY18
Revenue[46]	275	228
Manganese ore[47]	243	200
Manganese alloy	38	37
Intra-segment elimination	(6)	(9)
Underlying EBITDA	114	100
Manganese ore[47]	117	86
Manganese alloy	(3)	14
Underlying EBIT	100	86
Manganese ore[47]	107	77
Manganese alloy	(7)	9
Net operating assets[a]	310	297
Manganese ore[47]	250	234
Manganese alloy	60	63
Capital expenditure	17	8
All other capital expenditure	17	8

(a) H1 FY18 reflects balance as at 30 June 2018.

Cerro Matoso (99.9% share)

Volumes

Cerro Matoso payable nickel production decreased by 3% (or 0.7kt) in H1 FY19 to 21.1kt following a planned increase in the contribution of lower grade stockpiled ore feed. FY19 production guidance remains unchanged at 40.5kt.

Operating costs

Operating unit costs increased by 19% in H1 FY19 to US$4.05/lb, primarily as a result of higher price-linked royalties and energy costs.

We have lowered FY19 Operating unit cost guidance by US$0.09/lb to US$4.12/lb to primarily reflect the benefit of revised exchange rate and price assumptions, which are partially offset by costs arising from the Constitutional Court of Colombia ruling[30]. Exchange rate and price assumptions for FY19 Operating unit cost guidance are detailed on page 26, footnote 29.

Financial performance

Underlying EBIT decreased by US$31M in H1 FY19 to US$10M as higher price-linked royalties (-US$8M), energy costs (-US$8M), general inflation (-US$4M) and throughput (-US$3M) were partially offset by a weaker Colombian peso (+US$3M).

Finalisation adjustments and the provisional pricing of Nickel sales decreased Underlying EBIT by US$16M in H1 FY19 (+US$19M FY18; +US$5M H1 FY18). Outstanding Nickel sales (3.3kt of nickel) were revalued at 31 December 2018. The final price of these sales will be determined in H2 FY19.

Capital expenditure

Sustaining capital expenditure increased marginally to US$13M in H1 FY19 and is expected to increase to US$37M in FY19 as we prepare for the planned furnace refurbishment in FY20.

South32 share	H1 FY19	H1 FY18
Ore mined (kwmt)	1,209	2,087
Ore processed (kdmt)	1,401	1,340
Ore grade processed (%, Ni)	1.68	1.83
Payable nickel production (kt)	21.1	21.8
Payable nickel sales (kt)[48]	21.3	21.3
Realised nickel sales price (US$/lb)[48]	*5.20*	5.20
Operating unit cost (US$/lb)[27]	4.05	3.41
Operating unit cost (US$/t)	136	119

South32 share (US$M)	H1 FY19	H1 FY18
Revenue	244	244
Underlying EBITDA	54	84
Underlying EBIT	10	41
Net operating assets[(a)]	505	551
Capital expenditure	13	11
All other capital expenditure	13	11
Exploration expenditure	4	5
Exploration expensed	3	4

(a) H1 FY18 reflects balance as at 30 June 2018.

Cannington (100% share)

Volumes

Cannington payable zinc equivalent[26] production increased by 11% (or 9.8kt) in H1 FY19 to 95.2kt as silver and zinc grades improved and mill throughput tracked to plan. FY19 zinc equivalent production guidance is unchanged at 188.1kt (silver 11,750koz, lead 98.0kt and zinc 51.0kt), but remains subject to review pending our assessment of the impact to logistics infrastructure resulting from the floods in North Queensland.

Operating costs

Operating unit costs decreased by 29% to US$120/t in H1 FY19 as the adoption of AASB 15 *Revenue from Contracts with Customers*[19], which affects the accounting classification of treatment and refining charges, reduced costs by US$21/t. A temporary build in finished goods inventory and stronger throughput rates provided a further benefit.

We have lowered FY19 Operating unit cost guidance by US$2/t to US$129/t[a] to reflect the benefit of revised exchange rate and price assumptions, which are partially offset by an increase in mining and rehabilitation activity. Exchange rate and price assumptions for FY19 Operating unit cost guidance are detailed on page 26, footnote 29.

Financial performance

Underlying EBIT decreased by 35% (or US$25M) in H1 FY19 to US$47M as lower average realised prices (-US$61M)[b] were partially offset by inventory movements (+US$13M), a weaker Australian dollar (+US$10M) and higher sales volumes (+US$8M).

Finalisation adjustments and the provisional pricing of Cannington concentrates decreased Underlying EBIT by US$9.8M in H1 FY19 (US$0.1M FY18; US$5.5M H1 FY18). Outstanding concentrate sales (containing 2Moz of silver, 25.3kt of lead and 6.2kt of zinc) were revalued at 31 December 2018. The final price of these sales will be determined in H2 FY19.

Capital expenditure

Sustaining capital expenditure increased by US$5M in H1 FY19 to US$28M and is expected to increase to US$55M in FY19.

South32 share	H1 FY19	H1 FY18
Ore mined (kwmt)	1,306	1,209
Ore processed (kdmt)	1,244	1,168
Ore grade processed (g/t, Ag)	183	165
Ore grade processed (%, Pb)	4.8	5.1
Ore grade processed (%, Zn)	2.9	2.6
Zinc equivalent production (kt)	95.2	85.4
Payable silver production (koz)	6,067	5,175
Payable lead production (kt)	48.3	49.4
Payable zinc production (kt)	26.3	20.2
Payable silver sales (koz)[32]	6,340	5,429
Payable lead sales (kt)[32]	47.1	48.6
Payable zinc sales (kt)[32]	24.7	25.7
Realised silver sales price (US$/oz)[32]	14.7	16.8
Realised lead sales price (US$/t)[32]	1,625[19]	2,517
Realised zinc sales price (US$/t)[32]	2,120[19]	3,192
Operating unit cost (US$/t ore processed)[49]	120[19]	170

South32 share (US$M)	H1 FY19	H1 FY18
Revenue	223	296
Underlying EBITDA	74	97
Underlying EBIT	47	72
Net operating assets[c]	234	210
Capital expenditure	28	23
All other capital expenditure	28	23
Exploration expenditure	3	2
Exploration expensed	2	2

(a) FY19 Prior guidance has been adjusted from US$147/t to US$131/t to reflect the Group's adoption of AASB *15 Revenue from Contracts with Customers*, with revenue recognised net of treatment and refining charges (previously recognised on a gross basis with treatment and refining charges included as a separate expense). These changes result in lower realised prices and Operating unit costs, with no net impact to earnings. Prior periods have not been restated to reflect the changes.

(b) Excludes the impact of the change in accounting treatment for treatment and refining charges on revenue (-US$20M). This impact is equally offset by a reduction in costs (+US$20M).

(c) H1 FY18 reflects balance as at 30 June 2018.

Notes

(1) Revenue includes revenue from third party products and services.

(2) H1 FY19 basic earnings per share is calculated as Profit/(loss) after tax divided by the weighted average number of shares for H1 FY19 (5,079 million). H1 FY19 basic Underlying earnings per share is calculated as Underlying earnings divided by the weighted average number of shares for H1 FY19. H1 FY18 basic earnings per share is calculated as Profit/(loss) after tax divided by the weighted average number of shares for H1 FY18 (5,191 million). H1 FY18 basic Underlying earnings per share is calculated as Underlying earnings divided by the weighted average number of shares for H1 FY18.

(3) H1 FY19 ordinary dividends per share is calculated as H1 FY19 ordinary dividend announced (US$258M) divided by the number of shares on issue at 31 December 2018 (5,051 million).

(4) H1 FY19 special dividends per share is calculated as H1 FY19 special dividend announced (US$86M) divided by the number of shares on issue at 31 December 2018 (5,051 million). Paragraph 16.26(i) of the Johannesburg Stock Exchange (JSE) listing rules states that the requisite exchange control authority from the Financial Surveillance Department of the South African Reserve Bank (SARB) is required to be provided to the JSE before the JSE can approve payment of special dividends to South African shareholders.

(5) Underlying EBIT is profit before net finance costs, tax and any earnings adjustment items, including impairments. Underlying EBIT is reported inclusive of South32's share of net finance costs and tax of equity accounted investments. Underlying EBITDA is Underlying EBIT, before depreciation and amortisation. Underlying earnings is Profit/(loss) after tax and earnings adjustment items. Underlying earnings is the key measure that South32 uses 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 operations and operational management are assessed based on Underlying EBIT. 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 non-trading derivative instruments and other investments;
- Major corporate restructures; and
- Earnings adjustments included in profit/(loss) of equity accounted investments.

In addition, items that do not reflect the underlying operations of South32, and are individually significant to the financial statements, are excluded to determine Underlying earnings. Significant items are detailed in the Financial Information.

(6) Comprises Underlying EBITDA excluding third party product EBITDA, divided by revenue excluding third party product revenue.

(7) Comprises Underlying EBIT excluding third party product EBIT, divided by revenue excluding third party product revenue.

(8) Return on invested capital (ROIC) is a key measure that South32 uses to assess performance. ROIC is calculated as annualised Underlying EBIT less the discount on rehabilitation provisions included in net finance cost, tax effected by the Group's Underlying effective tax rate (ETR), divided by the sum of fixed assets (excluding any rehabilitation asset and unproductive capital spent on Major projects) and inventories. Manganese is included in the calculation on a proportional consolidation basis.

(9) To ensure that incident classification definitions are applied uniformly across our workforce, we have adopted the United States Government Occupational Safety and Health Assessment (OSHA) guidelines for the recording and reporting of occupational injuries and illnesses.

(10) 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, for employees and contractors. Stated in units of per million hours worked.

(11) Total capital expenditure comprises Capital expenditure, the purchase of intangibles and capitalised exploration expenditure. Capital expenditure comprises Sustaining capital expenditure and Major projects capital expenditure. Sustaining capital expenditure comprises Stay-in-business (SIB), Minor discretionary and Deferred stripping (including underground development) capital expenditure.

(12) The information in this report that relates to Mineral Resource estimates for MRN was declared as part of South32's Annual Resource and Reserve declaration in the Annual Report 2018 (www.south32.net) issued on 7 September 2018 and prepared by M A H Monteiro in accordance with the requirements of the JORC Code. South32 confirms that it is not aware of any new information or data that materially affects the information included in the original announcement. All material assumptions and technical parameters underpinning the estimates in the relevant market announcement continue to apply and have not materially changed. South32 confirms that the form and context in which the Competent Person's findings are presented have not been materially modified from the original market announcement.

(13) Refer to exchange release on 13 August 2018 "South32 completes acquisition of Arizona Mining".

(14) The information that relates to estimates of Mineral Resources for the Hermosa Project are qualifying foreign estimates under ASX Listing Rules and reference should be had to the clarifying statement on Mineral Resources in the market announcement 'South32 to acquire Arizona Mining in agreed all cash offer' dated 18 June 2018, in accordance with ASX Listing Rule 5.12. South32 is not in possession of any new information or data relating to the foreign estimate that materially impacts on the reliability of the estimates. South32 confirms that the information contained in the clarifying statement in the 18 June 2018 market announcement continues to apply and has not materially changed. The estimates of Mineral Resources are not reported in accordance with the JORC Code. Competent persons have not done sufficient work to classify the foreign estimates as Mineral Resources in accordance with JORC Code. It is uncertain that following evaluation and further exploration that the foreign estimates will be able to be reported as Mineral Resources or Ore Reserves in accordance with the JORC Code.

(15) Refer to media release on 14 September 2018 "South32 completes acquisition of 50% interest in Eagle Downs and assumes operatorship".

(16) Sales price variance reflects the revenue impact of changes in commodity prices, based on the current period's sales volume. Price-linked costs variance reflects the change in royalties together with the change in input costs driven by changes in commodity prices or market traded consumables. Foreign exchange reflects the impact of exchange rate movements on local currency denominated costs and sales. Volume variance reflects the revenue impact of sales volume changes, based on the comparative period's sales prices. Controllable costs variance represents the impact from changes in the Group's controllable local currency cost base, including the variable cost impact of production volume changes on expenditure, and period-on-period movements in inventories. The controllable cost variance excludes earnings adjustments including significant items.

(17) Underlying net finance cost and Underlying income tax expense are actual H1 FY19 results, not half-on-half variances.

(18) South32's ownership share of operations are presented as follows: Worsley Alumina (86% share), Hillside Aluminium (100%), Mozal Aluminium (47.1% share), Brazil Alumina (Alumina 36% share, Aluminium 40% share), South Africa Energy Coal (100% share until Broad-Based Black Economic Empowerment (B-BBEE) vendor loans are repaid), Illawarra Metallurgical Coal (100%), Australia Manganese (60% share), South Africa Manganese (60% share), Cerro Matoso (99.9% share), and Cannington (100%).

(19) The H1 FY19 results reflect the Group's adoption of AASB 15 *Revenue from Contracts with Customers*, with revenue recognised net of treatment and refining charges (previously recognised on a gross basis with treatment and refining charges included as a separate expense). These changes result in lower realised prices and Operating unit costs, with no net impact to earnings. Prior periods have not been restated to reflect these changes.

Notes

(20) Underlying ETR is Underlying income tax expense, excluding royalty related tax, divided by Underlying profit before tax; both the numerator and denominator exclude equity accounted investments.

(21) The Colombian corporate tax rate was 40% during CY17, 37% during CY18 and is 33% in CY19. The corporate tax rate will decrease on an annual basis by a percent each year, stabilising at 30% from 1 January 2022. The Mozambique operations are subject to a royalty on revenues instead of income tax.

(22) Refer to the market announcement “South32 approves Klipspruit Life Extension Project” dated 27 November 2017.

(23) Market capitalisation as at 31 December 2018. Calculated as the number of shares on issue (5,051 million), the South32 closing share price A$3.35, and an AUD:USD exchange rate of 0.71.

(24) Based on revenue equivalent sales or production (where applicable) which assumes average realised prices remain unchanged from FY18. Figures are converted to per share basis by dividing FY18 and FY19e revenue equivalent sales or production (where applicable) by the weighted average number of shares for FY18 (5,159 million) and H1 FY19 (5,079 million) respectively.

(25) South32’s interest in South Africa Energy Coal is accounted at 100% until Broad-Based Black Economic Empowerment (B-BBEE) vendor loans are repaid.

(26) Payable zinc equivalent (kt) was calculated by aggregating revenues from payable silver, lead and zinc, and dividing the total Revenue by the price of zinc. FY18 realised prices for zinc (US$3,185/t), lead (US$2,463/t) and silver (US$16.6/oz) have been used for FY18, FY19e and FY20e. Zinc equivalent is used to compare Cannington with the recently acquired Hermosa project which is currently reported in zinc equivalent terms.

(27) Operating unit cost is Revenue less Underlying EBITDA, excluding third party sales, divided by sales volumes. Operating cost is Revenue less Underlying EBITDA excluding third party sales. Additional manganese disclosures are included in footnotes 39 and 44 on page 26.

(28) FY19 prior Operating unit cost guidance included royalties (where appropriate) and the influence of exchange rate assumptions, and were predicated on various assumptions for FY19, including: an alumina price of US$411/t; an average blended coal price of US$149/t for Illawarra Metallurgical Coal; a manganese ore price of US$6.20/dmtu for 44% manganese product; a nickel price of US$6.92/lb; a thermal coal price of US$93/t (API4) for South Africa Energy Coal; a silver price of US$17.58/troy oz; a lead price of US$2,406/t; a zinc price of US$3,066/t; an AUD:USD exchange rate of 0.76; a USD:ZAR exchange rate of 13.43; a USD:COP exchange rate of 2,927; and a reference price for caustic soda; all of which reflected forward markets as at June 2018 or our internal expectations.

(29) FY19 new Operating unit cost guidance includes royalties (where appropriate) and the influence of exchange rates, and includes various assumptions for FY19, including: an alumina price of US$443/t; an average blended coal price of US$173/t for Illawarra Metallurgical Coal; a manganese ore price of US$6.58/dmtu for 44% manganese product; a nickel price of US$5.47/lb; a thermal coal price of US$92/t (API4) for South Africa Energy Coal; a silver price of US$15.06/troy oz; a lead price of US$2,023/t (gross of treatment and refining charges); a zinc price of US$2,587/t (gross of treatment and refining charges); an AUD:USD exchange rate of 0.72; a USD:ZAR exchange rate of 14.02; a USD:COP exchange rate of 3,096; and a reference price for caustic soda; all of which reflected forward markets as at January 2019 or our internal expectations.

(30) On 24 September 2018, we announced that the Constitutional Court of Colombia had issued its final ruling on our application to annul its decision regarding the alleged health and environmental impacts of our Cerro Matoso operation on the surrounding communities. The Court annulled those orders requiring Cerro Matoso to pay direct financial compensatory damages to community members and establish an ethnic development fund. The orders requiring Cerro Matoso to provide ongoing health care to community members alleging health impacts, and to submit to a new consultative environmental licensing process, were not annulled.

(31) Third party products and services sold comprise US$33M for aluminium, US$16M for alumina, US$241M for coal, US$129M for freight services, US$61M for aluminium raw materials and US$7M for manganese. Underlying EBIT on third party products comprise nil for aluminium, US$3M for alumina, US$27M for coal, (-US$3M) for freight services, US$1M for aluminium raw materials and nil for manganese.

(32) 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.

(33) Presented on a 100% basis.

(34) The information in this report that relates to Coal Reserve estimates for Klipspruit was declared as part of South32's Annual Resource and Reserve declaration in the Annual Report 2018 (www.south32.net) issued on 7 September 2018 and prepared by P Mulder in accordance with the requirements of the JORC Code. South32 confirms that it is not aware of any new information or data that materially affects the information included in the original announcement. All material assumptions and technical parameters underpinning the estimates in the relevant market announcement continue to apply and have not materially changed. South32 confirms that the form and context in which the Competent Person’s findings are presented have not been materially modified from the original market announcement.

(35) South Africa Energy Coal Revenue includes domestic and export sales Revenue.

(36) Illawarra Metallurgical Coal Revenue includes metallurgical coal and energy coal sales Revenue.

(37) The quarterly sales volume weighted average of the Metal Bulletin 44% manganese lump ore index (CIF Tianjin, China) on the basis of a one month lag to published pricing (Month minus one or “M-1”) was US$6.98/dmtu in H1 FY19.

(38) Volumes and realised prices do not include any third party trading that may be undertaken independently of equity production. Realised ore prices are calculated as external sales Revenue less freight and marketing costs, divided by external sales volume. Realised alloy prices are calculated as sales Revenue, including sinter Revenue, divided by alloy sales volume. Ore converted to sinter and alloy, and sold externally, is eliminated as an intracompany transaction.

(39) Manganese Australia H1 FY19 average manganese content of external ore sales was 45.8% on a dry basis (H1 FY18: 46.1%). 95% of H1 FY19 external manganese ore sales (H1 FY18: 94%) were completed on a CIF basis. H1 FY19 realised FOB ore prices and Operating unit costs have been adjusted for freight and marketing costs of US$25M (H1 FY18: US$21M), consistent with our FOB cost guidance.

(40) FOB ore operating unit cost is Revenue less Underlying EBITDA, freight and marketing costs, divided by ore sales volume. Alloy operating unit cost is Revenue less Underlying EBITDA divided by alloy sales volumes and includes costs associated with sinter sold externally.

(41) Revenues associated with sales from GEMCO to TEMCO are eliminated as part of the consolidation. Internal sales occur on a commercial basis.

(42) The quarterly sales volume weighted average of the Metal Bulletin 37% manganese lump ore index (FOB Port Elizabeth, South Africa) on the basis of a one month lag to published pricing (Month minus one or “M-1”) was US$5.91/dmtu in H1 FY19.

(43) Volumes and prices do not include any third party trading that may be undertaken independently of equity production. Realised ore prices are calculated as external sales Revenue less freight and marketing costs, divided by external sales volume. Realised alloy prices are calculated as sales Revenue, divided by alloy sales volume. Ore converted to sinter and alloy, and sold externally, is eliminated as an intracompany transaction. Manganese ore sales are grossed-up to reflect a 60% accounting effective interest.

(44) Manganese South Africa H1 FY19 average manganese content of external ore sales was 40.3% on a dry basis (H1 FY18: 40.3%). 71% of H1 FY19 external manganese ore sales (H1 FY18: 68%) were completed on a CIF basis. H1 FY19 realised FOB ore prices and operating costs have been adjusted for freight and marketing costs of US$20M (H1 FY18: US$16M), consistent with our FOB cost guidance.

Notes

(45) FOB ore operating unit cost is Revenue less Underlying EBITDA, freight and marketing costs, divided by ore sales volume. Alloy operating unit cost is Revenue less Underlying EBITDA divided by alloy sales volumes.

(46) Revenues associated with sales from Hotazel Manganese Mines (HMM) to Metalloys are eliminated as part of the consolidation. Internal sales occur on a commercial basis.

(47) Consistent with the presentation of South32's segment information, South Africa Manganese ore production and sales have been reported at 60%. South32 has a 44.4% ownership interest in HMM. 26% of HMM is owned by a B-BBEE consortium comprising Ntsimbintle Mining (9%), NCAB Resources (7%), Iziko Mining (5%) and HMM Education Trust (5%). The interest owned by NCAB Resources, Iziko Mining and HMM Education Trust were acquired using vendor finance with the loans repayable via distributions attributable to these parties, pro rata to their share in HMM. Until these loans are repaid, South32's interest in HMM is accounted at 54.6%.

(48) Volumes and prices do not include any third party trading that may be undertaken independently of equity production. Cerro Matoso realised nickel sales price is inclusive of by-products. Realised sales price is calculated as sales Revenue divided by sales volume.

(49) Cannington Operating unit cost is Revenue less Underlying EBITDA divided by ore processed. Periodic movements in finished product inventory may impact operating unit costs as related marketing costs may change.

Figures in Italics indicate that an adjustment has been made since the figures were previously reported.

The following abbreviations may be used throughout this report: US$ million (US$M); US$ billion (US$B); December half year (H1 FY19); calendar year (CY); grams per tonne (g/t); tonnes (t); thousand tonnes (kt); thousand tonnes per annum (ktpa); million tonnes (Mt); million tonnes per annum (Mtpa); ounces (oz); thousand ounces (koz); million ounces (Moz); thousand wet metric tonnes (kwmt); million wet metric tonnes (Mwmt); million wet metric tonnes per annum (Mwmt pa); thousand dry metric tonnes (kdmt); dry metric tonne unit (dmtu); pound (lb); megawatt (MW); Australian Securities Exchange (ASX); London Stock Exchange (LSE); Johannesburg Stock Exchange (JSE); equity accounted investments (EAI); and American Depositary Receipts (ADR).

South32 Financial Information

For the half year ended 31 December 2018

CONSOLIDATED INCOME STATEMENT

for the half year ended 31 December 2018

US$M	Note	H1 FY19	H1 FY18
Revenue			
Group production	4	**3,331**	3,031
Third party products and services	4	**480**	463
		3,811	3,494
Other income		**84**	130
Expenses excluding net finance cost		**(3,263)**	(3,183)
Share of profit/(loss) of equity accounted investments		**276**	232
Profit/(loss)		**908**	673
Comprising:			
Group production		**880**	668
Third party products and services		**28**	5
Profit/(loss)		**908**	673
Finance expenses		**(72)**	(100)
Finance income		**34**	30
Net finance cost	7	**(38)**	(70)
Profit/(loss) before tax		**870**	603
Income tax (expense)/benefit		**(235)**	(60)
Profit/(loss) after tax		**635**	543
Attributable to:			
Equity holders of South32 Limited		**635**	543
Profit/(loss) for the period attributable to the equity holders of South32 Limited			
Basic earnings per share (cents)	6	**12.5**	10.5
Diluted earnings per share (cents)	6	**12.4**	10.3

The accompanying notes form part of the half year consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the half year ended 31 December 2018

US$M	H1 FY19	H1 FY18
Profit/(loss) for the period	**635**	543
Other Comprehensive Income		
Items that may be reclassified to the Consolidated Income Statement:		
Available for sale investments:		
Net gains/(losses) recognised in equity	**-**	76
Net (gains)/losses transferred to the Consolidated Income Statement	**-**	(31)
Tax benefit/(expense) recognised within Other Comprehensive Income	**-**	(5)
Cash Flow hedges:		
Transfer of net gains/(losses) recognised in equity	**(5)**	-
Total items that may be reclassified to the Consolidated Income Statement	**(5)**	40
Items not to be reclassified to the Consolidated Income Statement:		
Investments in equity instruments designated as fair value through Other Comprehensive Income (FVOCI)		
Net fair value gains/(losses)	**(28)**	-
Tax benefit/(expense)	**10**	-
Equity accounted investments – share of Other Comprehensive Income/(loss)	**(1)**	-
Gains/(losses) on pension and medical schemes	**2**	(1)
Tax benefit/(expense) recognised within Other Comprehensive Income	**(1)**	-
Total items not to be reclassified to the Consolidated Income Statement	**(18)**	(1)
Total Other Comprehensive Income/(loss)	**(23)**	39
Total Comprehensive Income/(loss)	**612**	582
Attributable to:		
Equity holders of South32 Limited	**612**	582

The accompanying notes form part of the half year consolidated financial statements.

CONSOLIDATED BALANCE SHEET

as at 31 December 2018

US$M	H1 FY19	FY18
ASSETS		
Current assets		
Cash and cash equivalents	**1,565**	2,970
Trade and other receivables	**737**	826
Other financial assets	**93**	80
Inventories	**990**	886
Current tax assets	**24**	8
Other	**25**	51
Total current assets	**3,434**	4,821
Non-current assets		
Trade and other receivables	**301**	248
Other financial assets	**297**	613
Inventories	**80**	76
Property, plant and equipment	**9,848**	8,196
Intangible assets	**212**	221
Equity accounted investments	**686**	697
Deferred tax assets	**228**	245
Other	**34**	16
Total non-current assets	**11,686**	10,312
Total assets	**15,120**	15,133
LIABILITIES		
Current liabilities		
Trade and other payables	**863**	830
Interest bearing liabilities	**284**	333
Other financial liabilities	**-**	2
Current tax payables	**116**	135
Provisions	**304**	360
Deferred income	**4**	4
Total current liabilities	**1,571**	1,664
Non-current liabilities		
Trade and other payables	**2**	5
Interest bearing liabilities	**603**	596
Deferred tax liabilities	**464**	445
Provisions	**1,649**	1,705
Deferred income	**8**	9
Total non-current liabilities	**2,726**	2,760
Total liabilities	**4,297**	4,424
Net assets	**10,823**	10,709
EQUITY		
Share capital	**14,326**	14,493
Treasury shares	**(60)**	(83)
Reserves	**(3,510)**	(3,333)
Retained earnings/(accumulated losses)	**68**	(367)
Total equity attributable to equity holders of South32 Limited	**10,824**	10,710
Non-controlling interests	**(1)**	(1)
Total equity	**10,823**	10,709

The accompanying notes form part of the half year consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

for the half year ended 31 December 2018

US$M	H1 FY19	H1 FY18
Operating activities		
Profit/(loss) before tax	**870**	603
Adjustments for:		
Non-cash significant items	**-**	(31)
Depreciation and amortisation expense	**380**	363
Employee share awards expense	**23**	24
Net finance cost	**38**	70
Share of (profit)/loss of equity accounted investments	**(276)**	(232)
Fair value (gains)/losses on derivative instruments and other investments	**26**	62
Changes in assets and liabilities:		
Trade and other receivables	**82**	(223)
Inventories	**(108)**	(172)
Trade and other payables	**50**	38
Provisions and other liabilities	**(117)**	(64)
Cash generated from operations	**968**	438
Interest received	**38**	30
Interest paid	**(37)**	(33)
Income tax (paid)/received	**(207)**	(181)
Dividends received	**-**	9
Dividends received from equity accounted investments	**280**	70
Net cash flows from operating activities	**1,042**	333
Investing activities		
Purchases of property, plant and equipment	**(296)**	(199)
Exploration expenditure	**(26)**	(23)
Exploration expenditure expensed and included in operating cash flows	**16**	22
Purchase of intangibles	**-**	(2)
Investment in financial assets	**(208)**	(63)
Investment in subsidiaries and jointly controlled entities, net of their cash	**(1,507)**	-
Cash outflows from investing activities	**(2,021)**	(265)
Proceeds from financial assets	**166**	196
Distribution from equity accounted investments	**6**	-
Net cash flows from investing activities	**(1,849)**	(69)
Financing activities		
Proceeds from interest bearing liabilities	**2**	27
Repayment of interest bearing liabilities	**(60)**	(10)
Purchase of shares by South32 Limited Employee Incentive Plans Trusts (ESOP Trusts)	**(53)**	(36)
Share buy-back	**(167)**	(93)
Dividends paid	**(316)**	(333)
Net cash flows from financing activities	**(594)**	(445)
Net increase/(decrease) in cash and cash equivalents	**(1,401)**	(181)
Cash and cash equivalents, net of overdrafts, at the beginning of the period	**2,970**	2,675
Foreign currency exchange rate changes on cash and cash equivalents	**(4)**	1
Cash and cash equivalents, net of overdrafts, at the end of the period	**1,565**	2,495

The accompanying notes form part of the half year consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the half year ended 31 December 2018

	Attributable to equity holders of South32 Limited						
US$M	**Share capital**	**Treasury shares**	**Reserves**	**Retained earnings/ (accumulated losses)**	**Total**	**Non-controlling interests**	**Total equity**
Balance as at 1 July 2018	**14,493**	**(83)**	**(3,333)**	**(367)**	**10,710**	**(1)**	**10,709**
Adjustments for transition to new accounting standards(1)	**-**	**-**	**(12)**	**10**	**(2)**	**-**	**(2)**
Restated balance as at 1 July 2018	**14,493**	**(83)**	**(3,345)**	**(357)**	**10,708**	**(1)**	**10,707**
Profit/(loss) for the period	**-**	**-**	**-**	**635**	**635**	-	**635**
Other Comprehensive Income/(loss)	**-**	**-**	**(23)**	**-**	**(23)**	-	**(23)**
Total Comprehensive Income/(loss)	**-**	**-**	**(23)**	**635**	**612**	**-**	**612**
Transactions with owners:							
Dividends	**-**	**-**	**-**	**(316)**	**(316)**	**-**	**(316)**
Shares bought back and cancelled(2)	**(167)**	**-**	**-**	**-**	**(167)**	**-**	**(167)**
Accrued employee entitlements for unexercised awards, net of tax	**-**	**-**	**30**	**-**	**30**	**-**	**30**
Purchase of shares by ESOP Trusts	**-**	**(53)**	**-**	**-**	**(53)**	**-**	**(53)**
Employee share awards exercised	**-**	**76**	**(27)**	**(49)**	**-**	**-**	**-**
Tax recognised for employee share awards exercised	**-**	**-**	**-**	**10**	**10**	**-**	**10**
Transfer of cumulative fair value gain on equity instruments designated as FVOCI(3)	**-**	**-**	**(145)**	**145**	**-**	**-**	**-**
Balance as at 31 December 2018	**14,326**	**(60)**	**(3,510)**	**68**	**10,824**	**(1)**	**10,823**
Balance as at 1 July 2017	14,747	(26)	(3,503)	(982)	10,236	(1)	10,235
Profit/(loss) for the period	-	-	-	543	543	-	543
Other Comprehensive Income/(loss)	-	-	40	(1)	39	-	39
Total Comprehensive Income/(loss)	-	-	40	542	582	-	582
Transactions with owners:							
Dividends	-	-	-	(333)	(333)	-	(333)
Shares bought back and cancelled(2)	(93)	-	-	-	(93)	-	(93)
Accrued employee entitlements for unexercised awards	-	-	24	-	24	-	24
Purchase of shares by ESOP Trusts	-	(36)	-	-	(36)	-	(36)
Employee share awards exercised	-	24	(13)	(11)	-	-	-
Balance as at 31 December 2017	14,654	(38)	(3,452)	(784)	10,380	(1)	10,379

(1) Refer to note 3 New standards and interpretations.

(2) Represents 68,444,442 (31 December 2017: 37,168,657) shares permanently cancelled through the on-market share buy-back during the period.

(3) The Group completed its acquisition of the remaining 83 per cent of issued and outstanding shares of Arizona Mining Inc and derecognised its existing 17 per cent interest as an investment in equity instruments designated as FVOCI.

The accompanying notes form part of the half year consolidated financial statements.

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NOTES TO FINANCIAL STATEMENTS – BASIS OF PREPARATION

The consolidated financial statements of South32 Limited (referred to as the Company) and its subsidiaries and joint arrangements (collectively, the Group) for the half year ended 31 December 2018 were authorised for issue in accordance with a resolution of the Directors on 14 February 2019.

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 (ASX), 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 Group are described in note 4 Segment information.

2. Basis of preparation

The half year consolidated financial statements are a general purpose condensed financial report which:

- Have been prepared in accordance with AASB 134 Interim Financial Reporting, IAS 34 Interim Financial Reporting and the Corporations Act
- 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 functional currency of the majority of the Group's operations, and all values are rounded to the nearest million dollars (US$M or US$ million) unless otherwise stated, in accordance with ASIC Corporations Instrument 2016/191
- Present reclassified comparative information where required for consistency with the current period's presentation
- Have been prepared on the basis of accounting policies and methods of computation consistent with those applied in the 30 June 2018 annual consolidated financial statements, except for the change in accounting standards set out in note 3 New standards and interpretations which became effective on 1 July 2018 without restatement of prior years

In preparing these half year consolidated financial statements, management has made judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 30 June 2018.

For a full understanding of the financial performance and financial position of the Group it is recommended that the half year consolidated financial statements be read in conjunction with the annual consolidated financial statements for the year ended 30 June 2018. Consideration should also be given to any public announcements made by the Company in accordance with the continuous disclosure obligations of the ASX Listing Rules.

The following exchange rates relative to the US dollar have been applied in the half year consolidated financial statements.

	Average for the half year ended 31 December 2018	Average for the half year ended 31 December 2017	As at 31 December 2018	As at 30 June 2018	As at 31 December 2017
Australian dollar(1)	0.72	0.78	0.71	0.74	0.78
Brazilian real	3.88	3.21	3.87	3.85	3.31
Colombian peso	3,062	2,982	3,250	2,945	2,984
South African rand	14.18	13.41	14.43	13.73	12.40
Euro(2)	1.15	1.18	1.14	1.16	1.19

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

3. New standards and interpretations

New accounting standards and interpretations effective from 1 July 2018

The Group has changed some of its accounting policies as a result of new or revised accounting standards which became effective for the annual reporting period commencing on 1 July 2018. New policies and standards are:

AASB 9 Financial Instruments

The Group has adopted AASB 9 *Financial Instruments* with a date of initial application of 1 July 2018. The nature and impact of the key changes to the Group's accounting policies resulting from the adoption of AASB 9 are summarised below.

(i) Classification and measurement of financial assets and financial liabilities

AASB 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through Other Comprehensive Income (FVOCI) and fair value through profit or loss (FVTPL). The classification of a financial asset is based on the cash flow characteristics and the business model used for the management of the financial asset. AASB 9 eliminates the previous AASB 139 *Financial Instruments: Recognition and Measurement* financial asset classification of held to maturity, loans and receivables and available for sale.

The adoption of AASB 9 has not had a significant impact on the Group's accounting policies for financial liabilities as AASB 9 largely retains the existing requirements in AASB 139 for the classification and measurement of financial liabilities.

(ii) Impairment of financial assets

AASB 9 replaces the 'incurred loss' model in AASB 139 with an expected credit loss model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments classified as FVOCI, but not to investments in equity instruments. Under AASB 9, credit losses are recognised earlier than under AASB 139.

(iii) Transition

For transition, the Group has elected to apply the limited exemption in AASB 9 relating to the classification, measurement and impairment requirements for financial assets and accordingly has not restated comparative periods. Any resulting adjustments to carrying values in the opening balance sheet have been recognised in opening retained earnings as at 1 July 2018.

The following table summarises the impact, net of tax, of transition to AASB 9 on retained earnings at 1 July 2018.

US$M	Impact from adopting AASB 9 on 1 July 2018
Retained earnings/(accumulated losses)	
Closing balance under AASB 139 (30 June 2018)	(367)
Recognition of expected credit losses under AASB 9	(2)
Reclassification of available for sale investments to investments held at FVTPL[1]	17
Tax impact	(5)
Opening balance under AASB 9 (1 July 2018)	**(357)**

(1) The investment in unit trusts held by the South32 South Africa Energy Coal Rehabilitation Trust Fund does not meet the definition of an equity instrument under AASB 9. These investments are therefore classified as investments held at FVTPL (FY18: Available for sale). Refer to note 8 Financial assets and financial liabilities.

3. New standards and interpretations (continued)

New accounting standards and interpretations effective from 1 July 2018 (continued)

AASB 9 Financial Instruments (continued)

(iv) Classification of financial assets and financial liabilities on the date of initial application of AASB 9

	Classification under AASB 139	Classification under AASB 9	Carrying amount US$M
Financial assets			
Cash and cash equivalents	Loans and receivables	Amortised cost	2,970
Trade and other receivables(1)	Loans and receivables	Amortised cost	576
Trade and other receivables – provisional pricing	Held at FVTPL	Held at FVTPL	87
Derivative contracts	Held at FVTPL	Held at FVTPL	146
Derivative contracts	Cash flow hedges	Cash flow hedges	5
Loans to equity accounted investments(1)	Loans and receivables	Amortised cost	94
Interest bearing loans receivable	Loans and receivables	Amortised cost	38
Investments in equity instruments – FVOCI(2)	Available for sale	Designated as FVOCI	406
Other investments – held at FVTPL(3)	Available for sale	Held at FVTPL	136
Financial liabilities			
Trade and other payables	Other financial liabilities at amortised cost	Amortised cost	820
Trade and other payables – provisional pricing	Held at FVTPL	Held at FVTPL	2
Derivative contracts	Held at FVTPL	Held at FVTPL	2
Finance leases	Other financial liabilities at amortised cost	Amortised cost	570
Unsecured other	Other financial liabilities at amortised cost	Amortised cost	359

(1) Trade and other receivables and loans to equity accounted investments are reduced by the recognition of an impairment provision as a result of applying the expected credit loss model under AASB 9, US$1 million each. The impact was recognised in opening retained earnings at 1 July 2018 on transition to AASB 9.

(2) Investments in equity instruments designated as FVOCI represent investments that the Group intends to hold for long-term strategic purposes. As permitted by AASB 9, on an instrument by instrument basis, the Group has elected to designate these investments as held at FVOCI at the date of initial application.

(3) Other investments held at FVTPL which were previously classified as available for sale, are not equity instruments and are therefore unable to be designated as investments held at FVOCI.

AASB 15 Revenue from Contracts with Customers

The Group adopted AASB 15 *Revenue from Contracts with Customers* from 1 July 2018 using the modified retrospective approach where transitional adjustments are recognised in retained earnings. Therefore, the comparative information has not been restated and continues to be reported under AASB 118 *Revenue*.

The impact of the change in accounting policy did not have a material impact on the amount of revenue recognised as the transfer of risk and rewards under AASB 118 is equivalent with the fulfilment of the performance obligation to deliver commodities. Any differences arising from freight services for Cost, Insurance and Freight (CIF) contracts are immaterial in the current and comparative periods.

Revenue will be recognised net of treatment and refining charges (previously recognised on a gross basis with treatment and refining charges included as a separate expense).

4. Segment information

(a) Description of segments

The operating segments (also referred to as operations), are organised and managed separately according to the nature of products produced.

Certain members of the Lead Team (the chief operating decision makers) 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 operations are presented on a proportional consolidation basis, which is the measure used by the Group's management to assess their performance.

The principal activities of each operating segment as the Group is currently structured are summarised as follows:

Operating segment	Principal activities
Worsley Alumina	Integrated bauxite mine and alumina refinery in Western Australia, Australia
Brazil Alumina	Alumina refinery in Brazil
Hillside Aluminium	Aluminium smelter in South Africa
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
Eagle Downs Metallurgical Coal	Exploration and development of metallurgical coal deposit in Queensland, Australia
Australia Manganese	Integrated producer of manganese ore in the Northern Territory and alloy in Tasmania, Australia
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 in Queensland, Australia
Hermosa	Exploration and development option for zinc, lead and silver sulphide deposit in Tucson, United States

All operations are operated or jointly operated by the Group except Brazil Alumina, which is operated by Alcoa.

(b) Segment results

Segment performance is measured by Underlying EBIT and Underlying EBITDA. Underlying EBIT is profit before net finance cost, tax 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 Group's consolidated profit after tax is set out on the following pages. Segment revenue is measured on the same basis as in the Consolidated Income Statement.

The 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 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 expense and finance income) and income taxes are managed on a Group basis and are not allocated to operating segments.

Total assets and liabilities for each operating segment represent operating assets and liabilities which predominantly 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 Group's investment in equity accounted investments, with no adjustment for cash, interest bearing liabilities and tax balances of the equity accounted investment.

Revenue recognition policy applicable from 1 July 2018

The Group has applied AASB 15 using the modified retrospective method. The impact of changes in accounting standards are disclosed in note 3 New standards and interpretations.

Revenue is measured based on the consideration specified in the contract with a customer and excludes amounts collected on behalf of third parties. Revenue is not reduced for royalties and other taxes payable from group production.

4. Segment information (continued)

(b) Segment results (continued)

Revenue recognition policy applicable from 1 July 2018 (continued)

The following is a description of the principal activities from which the Group generates its revenue.

Revenue from the sale of commodities

The Group primarily sells the following commodities: alumina, aluminium, energy coal, metallurgical coal, manganese ore, manganese alloy, ferronickel, silver, lead and zinc. The sales of these commodities are considered to be performance obligations as they are the contractual promises by the Group, to transfer distinct goods to customers.

The transaction price allocated to each performance obligation is recognised as the performance obligation is satisfied. Satisfaction occurs when control of the promised commodity is transferred to the customer.

For the sale of commodities, revenue is therefore recognised at a point in time, net of treatment and refining charges (where applicable). The majority of the Group's sales agreements specify that title passes on the bill of lading date, which is the date the commodity is delivered to the shipping agent, and the Group no longer has control over the commodity. For these sales, revenue is recognised on the bill of lading date. For certain sales (principally energy coal sales to adjoining power stations), title passes, and revenue is recognised when the goods have been delivered.

For certain commodities, the sales price is determined on a provisional basis at the date of sale and adjustments to the sales price subsequently occur 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 up to 180 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 characteristics of a commodity derivative. Accordingly, the fair value of the final sales price adjustment is re-estimated continuously and changes in fair value are disclosed separately as 'Other' revenue. In all cases, fair value is estimated by reference to forward market prices.

Revenue from the provision of freight services

The Group sells most of its commodities on either Free On Board (FOB) or CIF Incoterms. In the case of CIF Incoterms, the Group is responsible for shipping services after the date at which control of the commodities passes to the customer at the port of loading. The provision of shipping services in these types of arrangements are a distinct service (and therefore a separate performance obligation) to which a portion of the transaction price should be allocated and recognised over time as the shipping services are provided. The Group also provides third party freight services which are recognised as the shipping service is provided.

The Group does not disclose sales revenue from freight services separately as it does not consider this necessary in order to understand the impact of economic factors on the Group.

4. Segment information (continued)

(b) Segment results (continued)

Half year ended 31 December 2018 US$M	Worsley Alumina	Brazil Alumina	Hillside Aluminium	Mozal Aluminium	South Africa Energy Coal	Illawarra Metallurgical Coal	Eagle Downs Metallurgical Coal	Australia Manganese[1]	South Africa Manganese[1]	Cerro Matoso	Cannington	Hermosa	Group and unallocated items/ elimination	Statutory adjustment[1]	Group
Revenue from customers[2]	864	312	774	282	517	571	-	574	275	260	233	-	32	(856)	3,838
Other	-	-	(2)	(2)	-	3	-	7	-	(16)	(10)	-	-	(7)	(27)
Total revenue[2]	**864**	**312**	**772**	**280**	**517**	**574**	**-**	**581**	**275**	**244**	**223**	**-**	**32**	**(863)**	**3,811**
Group production	409	312	772	280	517	574	-	581	266	244	223	-	-	(847)	3,331
Third party products and services[3]	-	-	-	-	-	-	-	-	-	-	-	-	487	(7)	480
Inter-segment revenue	455	-	-	-	-	-	-	-	9	-	-	-	(455)	(9)	-
Total revenue[2]	**864**	**312**	**772**	**280**	**517**	**574**	**-**	**581**	**275**	**244**	**223**	**-**	**32**	**(863)**	**3,811**
Underlying EBITDA	**425**	**125**	**(6)**	**30**	**58**	**292**	**-**	**382**	**114**	**54**	**74**	**-**	**(10)**	**(233)**	**1,305**
Depreciation and amortisation	(81)	(28)	(33)	(17)	(44)	(97)	-	(30)	(14)	(44)	(27)	-	(9)	44	(380)
Underlying EBIT	**344**	**97**	**(39)**	**13**	**14**	**195**	**-**	**352**	**100**	**10**	**47**	**-**	**(19)**	**(189)**	**925**
Comprising:															
Group production excluding exploration expensed	345	97	(39)	13	13	197	-	352	100	13	49	-	(40)	(452)	648
Exploration expensed	(1)	-	-	-	-	(3)	-	-	-	(3)	(2)	-	(7)	-	(16)
Third party products and services[3]	-	-	-	-	-	-	-	-	-	-	-	-	28	-	28
Share of profit/(loss) of equity accounted investments[4]	-	-	-	-	1	1	-	-	-	-	-	-	-	263	265
Underlying EBIT	**344**	**97**	**(39)**	**13**	**14**	**195**	**-**	**352**	**100**	**10**	**47**	**-**	**(19)**	**(189)**	**925**
Net finance cost															(59)
Income tax (expense)/benefit															(224)
Underlying earnings															**642**
Earnings adjustments[5]															(7)
Profit/(loss) after tax															**635**
Exploration expenditure	**1**	**-**	**-**	**-**	**-**	**4**	**-**	**1**	**-**	**4**	**3**	**7**	**7**	**(1)**	**26**
Capital expenditure[6]	**25**	**16**	**12**	**8**	**103**	**56**	**2**	**36**	**17**	**13**	**28**	**33**	**-**	**(53)**	**296**
Equity accounted investments	**-**	**-**	**-**	**-**	**14**	**2**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**670**	**686**
Total assets[7]	**3,406**	**783**	**1,396**	**635**	**1,067**	**1,630**	**162**	**628**	**501**	**715**	**456**	**1,688**	**2,619**	**(566)**	**15,120**
Total liabilities[7]	**535**	**121**	**249**	**109**	**992**	**248**	**1**	**320**	**191**	**210**	**222**	**22**	**1,612**	**(535)**	**4,297**

(1) The segment information reflects the Group's interest in the manganese operations and is presented on a proportional consolidation basis, which is the measure used by the Group's management to assess their performance. The manganese operations are equity accounted in the half year consolidated financial statements. The statutory adjustment column reconciles the proportional consolidation to the equity accounting position.
(2) Revenue from customers is presented net of treatment and refining charges (previously recognised on a gross basis with treatment and refining charges included as a separate expense). Refer to note 3 New standards and interpretations.
(3) Third party products and services sold comprise US$33 million for aluminium, US$16 million for alumina, US$241 million for coal, US$129 million for freight services and US$61 million for aluminium raw materials. Underlying EBIT on third party products and services comprise nil for aluminium, US$3 million for alumina, US$27 million for coal, (US$3) million for freight services and US$1 million for aluminium raw materials.
(4) Share of profit/(loss) of equity accounted investments includes the impact of earnings adjustments to Underlying EBIT.
(5) Refer to note 4(b)(i) Earnings adjustments.
(6) Capital expenditure excludes the purchase of intangibles and capitalised exploration expenditure.
(7) Total assets and liabilities for each operating segment represent operating assets and liabilities which predominantly exclude the carrying amount of equity accounted investments, cash, interest bearing liabilities and tax balances.

4. Segment information (continued)

(b) Segment results (continued)

Half year ended 31 December 2017 US$M	Worsley Alumina	Brazil Alumina	Hillside Aluminium	Mozal Aluminium	South Africa Energy Coal	Illawarra Metallurgical Coal	Australia Manganese[1]	South Africa Manganese[1]	Cerro Matoso	Cannington	Group and unallocated items/ elimination	Statutory adjustment[1]	Group
Revenue[2]													
Group production	326	240	734	326	622	243	516	221	244	296	-	(737)	3,031
Third party products and services[3]	-	-	-	-	-	-	-	-	-	-	463	-	463
Inter-segment revenue	342	-	-	-	-	-	-	7	-	-	(342)	(7)	-
Total revenue	**668**	**240**	**734**	**326**	**622**	**243**	**516**	**228**	**244**	**296**	**121**	**(744)**	**3,494**
Underlying EBITDA	**246**	**76**	**156**	**77**	**149**	**(5)**	**328**	**100**	**84**	**97**	**(25)**	**(196)**	**1,087**
Depreciation and amortisation	(82)	(29)	(36)	(17)	(34)	(79)	(29)	(14)	(43)	(25)	(18)	43	(363)
Underlying EBIT	**164**	**47**	**120**	**60**	**115**	**(84)**	**299**	**86**	**41**	**72**	**(43)**	**(153)**	**724**
Comprising:													
Group production excluding exploration expensed	164	47	120	60	115	(80)	300	86	45	74	(36)	(386)	509
Exploration expensed	-	-	-	-	-	(4)	(1)	-	(4)	(2)	(12)	1	(22)
Third party products and services[3]	-	-	-	-	-	-	-	-	-	-	5	-	5
Share of profit/(loss) of equity accounted investments[4]	-	-	-	-	-	-	-	-	-	-	-	232	232
Underlying EBIT	**164**	**47**	**120**	**60**	**115**	**(84)**	**299**	**86**	**41**	**72**	**(43)**	**(153)**	**724**
Net finance cost													(59)
Income tax (expense)/benefit													(121)
Underlying earnings													**544**
Earnings adjustments[5]													(1)
Profit/(loss) after tax													**543**
Exploration expenditure	**-**	**-**	**-**	**-**	**-**	**4**	**1**	**-**	**5**	**2**	**12**	**(1)**	**23**
Capital expenditure[6]	**22**	**10**	**13**	**8**	**72**	**40**	**21**	**8**	**11**	**23**	**-**	**(29)**	**199**
Equity accounted investments[7]	**-**	**-**	**-**	**-**	**12**	**1**	**-**	**-**	**-**	**-**	**-**	**684**	**697**
Total assets[7]	**3,516**	**756**	**1,507**	**685**	**1,036**	**1,655**	**596**	**496**	**764**	**450**	**4,239**	**(567)**	**15,133**
Total liabilities[7]	**488**	**112**	**305**	**132**	**1,059**	**247**	**307**	**199**	**213**	**240**	**1,669**	**(547)**	**4,424**

(1) The segment information reflects the Group's interest in the manganese operations and is presented on a proportional consolidation basis, which is the measure used by the Group's management to assess their performance. The manganese operations are equity accounted in the half year consolidated financial statements. The statutory adjustment column reconciles the proportional consolidation to the equity accounting position.
(2) A portion of Group production may be provisionally priced at the date revenue is recognised. For the half year ended 31 December 2017 there was no requirement under AASB 118 to separate out and disclose provisional price movements. Presentation of revenue is gross of treatment and refining charges.
(3) Third party products and services sold comprise US$148 million for aluminium, US$48 million for alumina, US$128 million for coal, US$85 million for freight services and US$54 million for aluminium raw materials. Underlying EBIT on third party products and services comprise US$6 million for aluminium, nil for alumina, nil for coal, (US$1) million for freight services and nil for aluminium raw materials.
(4) Share of profit/(loss) of equity accounted investments includes the impact of earnings adjustments to Underlying EBIT.
(5) Refer to note 4(b)(i) Earnings adjustments.
(6) Capital expenditure excludes the purchase of intangibles and capitalised exploration expenditure.
(7) Equity accounted investments and total assets and liabilities for each operating segment are as at 30 June 2018. Total assets and liabilities represent operating assets and liabilities which predominantly exclude the carrying amount of equity accounted investments, cash, interest bearing liabilities and tax balances.

NOTES TO FINANCIAL STATEMENTS – RESULTS FOR THE PERIOD

4. Segment information (continued)

(b) Segment results (continued)

(i) Earnings adjustments

The following table shows earnings adjustments in determining Underlying earnings:

US$M	H1 FY19	H1 FY18
Adjustments to Underlying EBIT		
Significant items[1]	**-**	(31)
Exchange rate (gains)/losses on restatement of monetary items[2]	**-**	17
Fair value (gains)/losses on non-trading derivative instruments and other investments[2][3][4]	**28**	65
Earnings adjustments included in profit/(loss) of equity accounted investments[5][6]	**(11)**	-
Total adjustments to Underlying EBIT	**17**	51
Adjustments to net finance cost		
Exchange rate variations on net debt	**(21)**	11
Total adjustments to net finance cost	**(21)**	11
Adjustments to income tax expense		
Tax effect of earnings adjustments to Underlying EBIT	**(5)**	(23)
Tax effect of earnings adjustments to net finance cost	**7**	(4)
Exchange rate variations on tax balances	**9**	(34)
Total adjustments to income tax expense	**11**	(61)
Total earnings adjustments	**7**	1

(1) Refer to note 4(b)(ii) Significant items.
(2) Recognised in expenses excluding net finance cost in the Consolidated Income Statement.
(3) Primarily relates to US$14 million (H1 FY18: US$58 million) included in the Hillside Aluminium segment and US$12 million (H1 FY18: nil) included in the South Africa Energy Coal segment.
(4) The investment in unit trusts held by the South32 South Africa Energy Coal Rehabilitation Trust Fund does not meet the definition of an equity instrument under AASB 9. These investments are therefore classified as investments held at FVTPL (FY18: Available for sale).
(5) Recognised in share of profit/(loss) of equity accounted investments in the Consolidated Income Statement.
(6) Relates to (US$9) million (H1 FY18: (US$3) million) included in the Australia Manganese segment and (US$2) million (H1 FY18: US$3 million) included in the South Africa Manganese segment.

(ii) Significant items

There were no such items included within the Group's (income)/expense for the half year ended 31 December 2018.

H1 FY18 US$M	Gross	Tax	Net
Unwind of the investment in Dreamvision[1][2]	(31)	-	(31)
Total significant items	(31)	-	(31)

(1) Recognised in other income in the Consolidated Income Statement.
(2) Attributable to Group and unallocated items.

NOTES TO FINANCIAL STATEMENTS – RESULTS FOR THE PERIOD

5. Dividends

US$M	H1 FY19	H1 FY18
Prior year final dividend(1)	**316**	333
Total dividends declared and paid during the period	**316**	333

(1) On 23 August 2018, the Directors resolved to pay a fully franked final dividend of US 6.2 cents per share (US$317 million) in respect of the 2018 financial year. The dividend was paid on 11 October 2018. The South32 Employee Incentive Plans Trust received dividends from South32 Limited of US$1 million, therefore reducing the dividends paid externally to US$316 million.

6. Earnings per share

Basic earnings per share (EPS) amounts are calculated based on profit attributable to equity holders of South32 Limited and the weighted average number of shares outstanding during the period.

Dilutive EPS amounts are calculated based on profit attributable to equity holders of South32 Limited and the weighted average number of shares outstanding after adjustment for the effects of all dilutive potential shares.

The following reflects the profit/(loss) and share data used in the basic and diluted EPS computations:

Profit/(loss) attributable to equity holders		
US$M	**H1 FY19**	**H1 FY18**
Profit/(loss) attributable to equity holders of South32 Limited (basic)	**635**	543
Profit/(loss) attributable to equity holders of South32 Limited (diluted)	**635**	543

Weighted average number of shares		
Million	**H1 FY19**	**H1 FY18**
Basic earnings per share denominator(1)	**5,079**	5,191
Shares contingently issuable under employee share ownership plans(2)(3)	**61**	71
Diluted earnings per share denominator	**5,140**	5,262

(1) The basic EPS denominator is the aggregate of the weighted average number of shares after deduction of the weighted average number of Treasury shares outstanding during the period and shares permanently cancelled through the on-market share buy-back.

(2) Included in the calculation of diluted EPS are shares contingently issuable under employee share ownership plans.

(3) Diluted EPS calculation excludes 10,078,148 (31 December 2017: 6,932,916) rights which are considered anti-dilutive and are subject to service and performance conditions.

Earnings per share		
US cents	**H1 FY19**	**H1 FY18**
Basic earnings per share	**12.5**	10.5
Diluted earnings per share	**12.4**	10.3

NOTES TO FINANCIAL STATEMENTS – CAPITAL STRUCTURE AND FINANCING

7. Net finance cost

US$M	H1 FY19	H1 FY18
Finance expenses		
Interest on borrowings	**12**	6
Finance lease interest	**25**	27
Discounting on provisions and other liabilities	**52**	52
Net interest expense on post-retirement employee benefits	**4**	3
Fair value change on financial asset	**-**	1
Exchange rate variations on net debt	**(21)**	11
	72	100
Finance income		
Interest income	**34**	30
Net finance cost	**38**	70

8. Financial assets and financial liabilities

The following table presents the Group's financial assets and liabilities by class at their carrying amounts which approximates their fair value.

31 December 2018 US$M	Held at FVTPL	Designated as FVOCI	Amortised cost	Total
Financial assets				
Cash and cash equivalents	-	-	1,565	**1,565**
Trade and other receivables(1)	96	-	534	**630**
Loans to equity accounted investments	-	-	39	**39**
Other financial assets				
Derivative contracts	93	-	-	**93**
Total current financial assets	189	-	2,138	**2,327**
Trade and other receivables(1)(2)	-	-	5	**5**
Loans to equity accounted investments	-	-	86	**86**
Interest bearing loans receivable	-	-	34	**34**
Other financial assets				
Derivative contracts	42	-	-	**42**
Investments in equity instruments – designated as FVOCI	-	124	-	**124**
Other investments – held at FVTPL	131	-	-	**131**
Total non-current financial assets	173	124	125	**422**
Total	**362**	**124**	**2,263**	**2,749**
Financial liabilities				
Trade and other payables(3)	1	-	845	**846**
Finance leases	-	-	12	**12**
Unsecured other	-	-	272	**272**
Total current financial liabilities	1	-	1,129	**1,130**
Trade and other payables	-	-	2	**2**
Finance leases	-	-	542	**542**
Unsecured other	-	-	61	**61**
Total non-current financial liabilities	-	-	605	**605**
Total	**1**	**-**	**1,734**	**1,735**

(1) Excludes current input taxes of US$68 million and non-current input taxes of US$97 million included in other receivables.
(2) Excludes a reimbursable right asset in relation to the closure and rehabilitation provision at South Africa Energy Coal of US$79 million included in other receivables.
(3) Excludes input taxes of US$17 million included in other payables.

8. Financial assets and financial liabilities (continued)

As shown in note 3 New standards and interpretations the comparative designations are presented under AASB 139.

30 June 2018 US$M	Loans and receivables	Available for sale securities	Held at fair value through profit or loss	Other financial assets and liabilities at amortised cost	Cash flow hedges	Total
Financial assets						
Cash and cash equivalents	2,970	-	-	-	-	2,970
Trade and other receivables[(1)]	572	-	87	-	-	659
Loans to equity accounted investments	27	-	-	-	-	27
Other financial assets						
Derivative contracts	-	-	72	-	5	77
Shares	-	3	-	-	-	3
Total current financial assets	3,569	3	159	-	5	3,736
Trade and other receivables[(1)(2)]	4	-	-	-	-	4
Loans to equity accounted investments	67	-	-	-	-	67
Interest bearing loans receivable	38	-	-	-	-	38
Other financial assets						
Derivative contracts	-	-	74	-	-	74
Shares	-	403	-	-	-	403
Other investments	-	136	-	-	-	136
Total non-current financial assets	109	539	74	-	-	722
Total	**3,678**	**542**	**233**	-	**5**	**4,458**
Financial liabilities						
Trade and other payables[(3)]	-	-	2	815	-	817
Finance leases	-	-	-	12	-	12
Unsecured other	-	-	-	321	-	321
Other financial liabilities						
Derivative contracts	-	-	2	-	-	2
Total current financial liabilities	-	-	4	1,148	-	1,152
Trade and other payables	-	-	-	5	-	5
Finance leases	-	-	-	558	-	558
Unsecured other	-	-	-	38	-	38
Total non-current financial liabilities	-	-	-	601	-	601
Total	**-**	**-**	**4**	**1,749**	**-**	**1,753**

(1) Excludes current input taxes of US$140 million and non-current input taxes of US$56 million included in other receivables.
(2) Excludes a reimbursable right asset in relation to the closure and rehabilitation provision at South Africa Energy Coal of US$83 million included in other receivables.
(3) Excludes input taxes of US$13 million included in other payables.

Investments in equity instruments – designated as FVOCI

At 1 July 2018, on an instrument by instrument basis, the Group has elected under AASB 9 to designate investments in equity instruments as FVOCI as they represent investments that the Group intends to hold for long-term strategic purposes. In FY18 these investments were classified as available for sale (refer to note 3 New standards and interpretations).

Other investments – held at FVTPL

The investment in unit trusts held by the South32 South Africa Energy Coal Rehabilitation Trust Fund does not meet the definition of an equity instrument under AASB 9. These investments are therefore classified as investments held at FVTPL (FY18: Available for sale). On transition to AASB 9 (1 July 2018), a net gain of US$12 million was transferred from the financial asset reserve to retained earnings.

NOTES TO FINANCIAL STATEMENTS – CAPITAL STRUCTURE AND FINANCING

8. Financial assets and financial liabilities (continued)

Measurement of fair value

The following table shows the 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 includes inputs that are not based on observable market data.

31 December 2018 US$M	Level 1	Level 2	Level 3	Total
Financial assets and liabilities				
Trade and other receivables	-	96	-	**96**
Trade and other payables	-	(1)	-	**(1)**
Derivative contracts	-	6	129	**135**
Investments in equity instruments – designated as FVOCI	28	-	96	**124**
Other investments – held at FVTPL	-	131	-	**131**
Total	**28**	**232**	**225**	**485**

30 June 2018 US$M	Level 1	Level 2	Level 3	Total
Financial assets and liabilities				
Trade and other receivables	-	87	-	87
Trade and other payables	-	(2)	-	(2)
Derivative contracts	-	6	143	149
Shares – available for sale	277	-	129	406
Other investments – available for sale	-	136	-	136
Total	**277**	**227**	**272**	**776**

Level 3 financial assets and liabilities

The following table shows the movements in the Group's Level 3 financial assets and liabilities.

US$M	H1 FY19	H1 FY18
At the beginning of the period	**272**	334
Disposals	**(2)**	(31)
Realised gains/(losses) recognised in the Consolidated Income Statement(1)	**(31)**	(47)
Unrealised gains/(losses) recognised in the Consolidated Income Statement(2)	**17**	(11)
Unrealised gains/(losses) recognised in the Consolidated Statement of Comprehensive Income(3)	**(31)**	5
At the end of the period	**225**	250

(1) Realised gains and losses recognised in the Consolidated Income Statement are recorded in expenses excluding net finance cost.
(2) Unrealised gains and losses recognised in the Consolidated Income Statement are recorded in expenses excluding net finance cost.
(3) Unrealised gains and losses recognised in the Consolidated Statement of Comprehensive Income are recorded in the financial assets reserve.

8. Financial assets and financial liabilities (continued)

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 changes in the most significant inputs by 10 per cent while holding all other variables constant, is shown in the following table.

31 December 2018			Profit after tax		Other Comprehensive Income, net of tax	
US$M	**Carrying amount**	**Significant inputs**	**10% increase in input**	**10% decrease in input**	**10% increase in input**	**10% decrease in input**
Financial assets and liabilities						
Derivative contracts[1]	129	Aluminium price[2] Foreign exchange rate[2] Electricity price[3]	(63)	60	-	-
Investments in equity instruments – designated as FVOCI[1]	96	Alumina price[4] Aluminium price[4] Foreign exchange rate[4]	-	-	43	(53)
Total	**225**		**(63)**	**60**	**43**	**(53)**

(1) Sensitivity analysis is performed assuming all inputs are directionally moving unfavourably and favourably.
(2) Aluminium prices are comparable to market consensus forecasts and foreign exchange rates are aligned with forward market rates.
(3) Electricity prices are determined as a market equivalent price based on inputs from published data.
(4) Alumina and aluminium prices are comparable to market consensus forecasts and foreign exchange rates are aligned with forward market rates.

30 June 2018			Profit after tax		Other Comprehensive Income, net of tax	
US$M	**Carrying amount**	**Significant inputs**	**10% increase in input**	**10% decrease in input**	**10% increase in input**	**10% decrease in input**
Financial assets and liabilities						
Derivative contracts[1]	143	Aluminium price[2] Foreign exchange rate[2] Electricity price[3]	(89)	84	-	-
Investments – available for sale[1]	129	Alumina price[4] Aluminium price[4] Foreign exchange rate[4]	-	-	41	(52)
Total	272		(89)	84	41	(52)

(1) Sensitivity analysis is performed assuming all inputs are directionally moving unfavourably and favourably.
(2) Aluminium prices are comparable to market consensus forecasts and foreign exchange rates are aligned with forward market rates.
(3) Electricity prices are determined as a market equivalent price based on inputs from published data.
(4) Alumina and aluminium prices are comparable to market consensus forecasts and foreign exchange rates are aligned with forward market rates.

NOTES TO FINANCIAL STATEMENTS – OTHER NOTES

9. Acquisition of subsidiaries and jointly controlled operations

(a) Acquisition of Arizona Mining Inc.

On 10 August 2018, the Group completed its acquisition of the remaining 83 per cent of issued and outstanding shares of Arizona Mining Inc. that it did not already own via a plan of arrangement. The transaction was completed for a total consideration of US$1,351 million via a fully funded, all cash offer. The Group's existing 17 per cent interest was derecognised as an investment in equity instruments designated as FVOCI and US$253 million was transferred to form part of the consolidated investment in Arizona Mining Inc. The acquisition was treated as an acquisition of assets including mineral rights, exploration licences and exploration surface facilities.

US$M	
Cash outflow on acquisition	
Net cash acquired	10
Direct costs relating to the acquisition(1)	(1,392)
Net consolidated cash outflow	**(1,382)**
Net assets	
Cash and cash equivalents	10
Other assets	1
Property, plant and equipment(2)	1,661
Other liabilities	(27)
Net assets	**1,645**

(1) Inclusive of acquisition related transaction costs and other directly attributable costs.

(2) Includes mineral rights of US$1,629 million.

(b) Acquisition of the Eagle Downs Metallurgical Coal project

On 14 September 2018, the Group completed its acquisition of a 50 per cent interest in the Eagle Downs Metallurgical Coal project in Queensland's Bowen Basin. The remaining 50 per cent interest continues to be held by Aquila Resources Pty Ltd, a subsidiary of China BaoWu Steel Group. The transaction was completed for a total upfront payment of US$106 million, a deferred payment of US$27 million and a coal price-linked production royalty capped at US$80 million. The acquisition was treated as an acquisition of assets including mineral rights, site infrastructure and dual drifts which are approximately 40 per cent complete. The joint arrangement is an unincorporated entity and is classified as a joint operation as activities are primarily designed for the provision of output to the parties of the arrangement.

US$M	
Cash outflow on acquisition	
Direct costs relating to the acquisition(1)	(112)
Net consolidated cash outflow	**(112)**
Net assets	
Property, plant and equipment(2)	160
Interest bearing liabilities(3)	(35)
Other liabilities	(13)
Net assets	**112**

(1) Inclusive of acquisition related transaction costs.

(2) Includes mineral rights of US$107 million.

(3) Includes the deferred payment obligation of US$27 million. The coal price-linked production royalty capped at US$80 million will be expensed as incurred.

10. Subsequent events

On 14 February 2019, the Directors resolved to pay a fully franked interim dividend of US 5.1 cents per share (US$258 million) in respect of the 2019 half year and a fully franked special dividend of US 1.7 cents per share (US$86 million). The dividends will be paid on 4 April 2019. The dividends have not been provided for in the half year consolidated financial statements and will be recognised in the 2019 financial year.

No other matters or circumstances have arisen since the end of the half year that have significantly affected, or may significantly affect, the operations, results of operations or state of affairs of the Group in subsequent accounting periods.

DIRECTORS' DECLARATION

In accordance with a resolution of the Directors of the Group, we state that:

In the opinion of the Directors:

(a) The consolidated financial statements and notes that are set out on pages 28 to 49 for the half year ended 31 December 2018 are in accordance with the Corporations Act, including:

  (i) Giving a true and fair view of the Group's financial position as at 31 December 2018 and of its performance for the half year ended on that date; and

  (ii) Complying with Australian Accounting Standard AASB 134 Interim Financial Reporting and Corporations Regulations 2001.

(b) There are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Board of Directors.

David Crawford AO

Chairman

Graham Kerr

Chief Executive Officer and Managing Director

Date: 14 February 2019

DIRECTORS' REPORT

The Directors of the Group present the Consolidated Financial Report for the half year ended 31 December 2018 and the auditor's review report thereon.

Directors

The Directors of the Company during or since the end of the half year are:

David Crawford AO

Frank Cooper AO

Graham Kerr

Xiaoling Liu

Xolani Mkhwanazi

Ntombifuthi (Futhi) Mtoba

Wayne Osborn

Keith Rumble

Karen Wood

The company secretaries of the Company during or since the end of the half year are:

Nicole Duncan

Melanie Williams

Review and results of operations

A review of the operations of the consolidated entity during the period and of the results of those operations is contained on pages 3 to 27.

Principal risks and uncertainties

Due to the international scope of the Group's operations and the industries in which it is engaged, there are a number of risk factors and uncertainties which could have an effect on the Group's results and operations over the next six months.

The following information outlines the most significant strategic, external and operational risks identified across the Group. The list is not exhaustive, nor listed in any particular order:

- Fluctuations in commodity prices, exchange rates, interest rates and global economy
- Actions by governments, political events or tax authorities
- Cost inflation and labour dispute impact on operating margins and expansion
- Access to water and energy
- Failure to maintain, realise or enhance value due to inadequate knowledge of our resources and reserves
- Deterioration in liquidity and cash flow
- Climate change impacts
- Health and safety risks in respect of our operational activities
- Water, waste and environmental risks
- Unexpected operational or natural catastrophes
- Commercial counterparties that we transact with may not meet their obligations
- Fraud and corruption
- Breaches of information technology security
- Failure to retain and attract key people
- Support of our local communities

Further information on these risks and how they are managed can be found on pages 19 to 23 of the Annual Report for the year ended 30 June 2018, a copy of which is available on the Group's website at www.south32.net.

DIRECTORS' REPORT

Events subsequent to the balance date

On 14 February 2019, the Directors resolved to pay a fully franked interim dividend of US 5.1 cents per share (US$258 million) in respect of the 2019 half year and a fully franked special dividend of US 1.7 cents per share (US$86 million). The dividends will be paid on 4 April 2019. The dividends have not been provided for in the half year consolidated financial statements and will be recognised in the 2019 financial year.

No other matters or circumstances have arisen since the end of the half year that have significantly affected, or may significantly affect, the operations, results of operations or state of affairs of the Group in subsequent accounting periods.

UK responsibility statements

The Directors state that to the best of their knowledge:

- The Financial Results and Outlook on pages 3 to 27, includes a fair review of important events during the first six months of the current financial year and their impact on the half year consolidated financial statements, and a description of the principal risks and uncertainties for the remaining six months of the year; and
- That disclosure has been made for related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the Group during that period, and any changes in the related party transactions described in the last annual report that could have such a material effect.

Lead auditor's independence declaration

A copy of the lead auditor's independence declaration as required under Section 307C of the Corporations Act is set out on page 53.

Rounding of amounts

The Australian Securities and Investments Commission (ASIC) Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 applies to the Group and amounts in the half year consolidated financial statements and this Directors' Report have been rounded in accordance with this instrument to the nearest million US dollars, unless stated otherwise.

This Directors' Report is made in accordance with a resolution of the Board.

David Crawford AO

Chairman

Graham Kerr

Chief Executive Officer and Managing Direct

Date: 14 February 2019

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 review of South32 Limited for the half-year ended 31 December 2018 there have been:

(i) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review; and

(ii) no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

KPMG

Denise McComish
Partner

Perth
14 February 2019

Independent Auditor's Review Report

To the shareholders of South32 Limited

Conclusion

We have reviewed the accompanying ***Half-year Financial Statements*** of South32 Limited.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the Half-year Financial Statements of South32 Limited are not in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Group's*** financial position as at 31 December 2018 and of its performance for the half-year ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

The ***Half-year Financial Statements*** comprise:

- Consolidated Balance Sheet as at 31 December 2018
- Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Cash Flow Statement for the half-year ended on that date
- Notes 1 to 10 comprising a summary of significant accounting policies and other explanatory information
- The Directors' Declaration.

The ***Group*** comprises South32 Limited (the Company) and the entities it controlled at the half-year's end or from time to time during the half-year.

Responsibilities of the Directors for the Half-year Financial Statements

The Directors of the Company are responsible for:

- the preparation of the Half-year Financial Statements that give a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- such internal control as the Directors determine is necessary to enable the preparation of the Half-year Financial Statements that is free from material misstatement, whether due to fraud or error.

Auditor’s responsibility for the review of the Half-year Financial Statements

Our responsibility is to express a conclusion on the Half-year Financial Statements based on our review. We conducted our review in accordance with *Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the Half-year Financial Statements are not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group’s financial position as at 31 December 2018 and its performance for the half-year ended on that date; and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of South32 Limited, *ASRE 2410* requires that we comply with the ethical requirements relevant to the audit of the annual Financial Report.

A review of Half-year Financial Statements consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with *Australian Auditing Standards* and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

KPMG

KPMG

DMcComish

Denise McComish
Partner

Perth

14 February 2019

Disclaimer

FORWARD-LOOKING STATEMENTS

This release contains forward-looking statements, including statements about trends in commodity prices and currency exchange rates; demand for commodities; production forecasts; plans, strategies and objectives of management; capital costs and scheduling; operating costs; anticipated productive lives of projects, mines and facilities; and provisions and contingent liabilities. These forward-looking statements reflect expectations at the date of this release, however they are not guarantees or predictions of future performance. They involve known and unknown risks, uncertainties and other factors, many of which are beyond our control, and which may cause actual results to differ materially from those expressed in the statements contained in this release. Readers are cautioned not to put undue reliance on forward-looking statements. Except as required by applicable laws or regulations, the South32 Group does not undertake to publicly update or review any forward-looking statements, whether as a result of new information or future events. Past performance cannot be relied on as a guide to future performance.

NON-IFRS FINANCIAL INFORMATION

This release includes certain non-IFRS financial measures, including Underlying earnings, Underlying EBIT and Underlying EBITDA, Basic Underlying earnings per share, Underlying effective tax rate, Underlying EBIT margin, Underlying EBITDA margin, Underlying return on capital, Free cash flow, net debt, net operating assets and ROIC. These measures are used internally by management to assess the performance of our business, make decisions on the allocation of our resources and assess operational management. Non-IFRS measures have not been subject to audit or review and should not be considered as an indication of or alternative to an IFRS measure of profitability, financial performance or liquidity.

NO OFFER OF SECURITIES

Nothing in this release should be read or understood as an offer or recommendation to buy or sell South32 securities, or be treated or relied upon as a recommendation or advice by South32.

NO FINANCIAL OR INVESTMENT ADVICE – SOUTH AFRICA

South32 does not provide any financial or investment 'advice' as that term is defined in the South African Financial Advisory and Intermediary Services Act, 37 of 2002, and we strongly recommend that you seek professional advice.

Further information

Investor Relations
Alex Volante
T +61 8 9324 9029
M +61 403 328 408
E Alex.Volante@south32.net

Media Relations
James Clothier
T +61 8 9324 9697
M +61 413 391 031
E James.Clothier@south32.net

Media Relations
Jenny White
T +44 20 7798 1773
M +44 7900 046 758
E Jenny.White@south32.net

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

South32 Limited (ABN 84 093 732 597)
Registered in Australia
(Incorporated in Australia under the Corporations Act 2001)
Registered Office: Level 35, 108 St Georges Terrace
Perth Western Australia 6000 Australia
ISIN: AU000000S320

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14 February 2019