SOUTH32

ANNUAL REPORT

2016

WHO WE ARE

OUR PURPOSE

Our purpose is to make a difference by developing natural resources, improving people's lives now and for generations to come. We are trusted by our owners and partners to realise the potential of their resources.

OUR STRATEGY

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

OUR VALUES

CARE

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

TRUST

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

TOGETHERNESS

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

EXCELLENCE

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

This Annual Report is a summary of the operations, activities and performance of South32 Limited (ABN 84 093 732 597) for the period ended 30 June 2016 and its financial position as at 30 June 2016.

South32 Limited is the parent company of the South32 Group of companies. In this report, unless otherwise stated, references to South32 and the South32 Group, the Company, we, us and our, refer to South32 Limited and its controlled entities, as a whole. South32 shares trade on the ASX, JSE and LSE under the listing code of S32.

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

Prior to the demerger in FY2015, the South32 Group and the BHP Billiton Group were required to undertake a number of internal share and asset transfers in connection with the corporate restructure (Internal Restructure). As a result of the Internal Restructure, the statutory financial information for FY2015 does not reflect the performance of the South32 Group as it is currently structured. To assist shareholders in their understanding of the South32 Group, pro forma financial information for FY2015 has been prepared to reflect the business as it is now structured and as though it was in effect for the period 1 July 2014 to 30 June 2015. The pro forma financial information is not prepared in accordance with IFRS. Refer to page 53 for the basis of preparation of the pro forma financial information.

Metrics describing health, safety, environment and community (HSEC) performance apply to "operated assets" that have been wholly operated by South32, or that have been operated by South32 in a joint venture operation, from 1 July 2015 to 30 June 2016 (FY2016). We align to the International Council on Mining and Metals (ICMM) Sustainable Development Framework and we report our sustainability information in accordance with the Global Reporting Initiative (GRI) G4 'Core', including the GRI Mining and Metals Sector Disclosures. The GRI Navigator and Sustainability data tables are available on the South32 website at *www.south32.net*

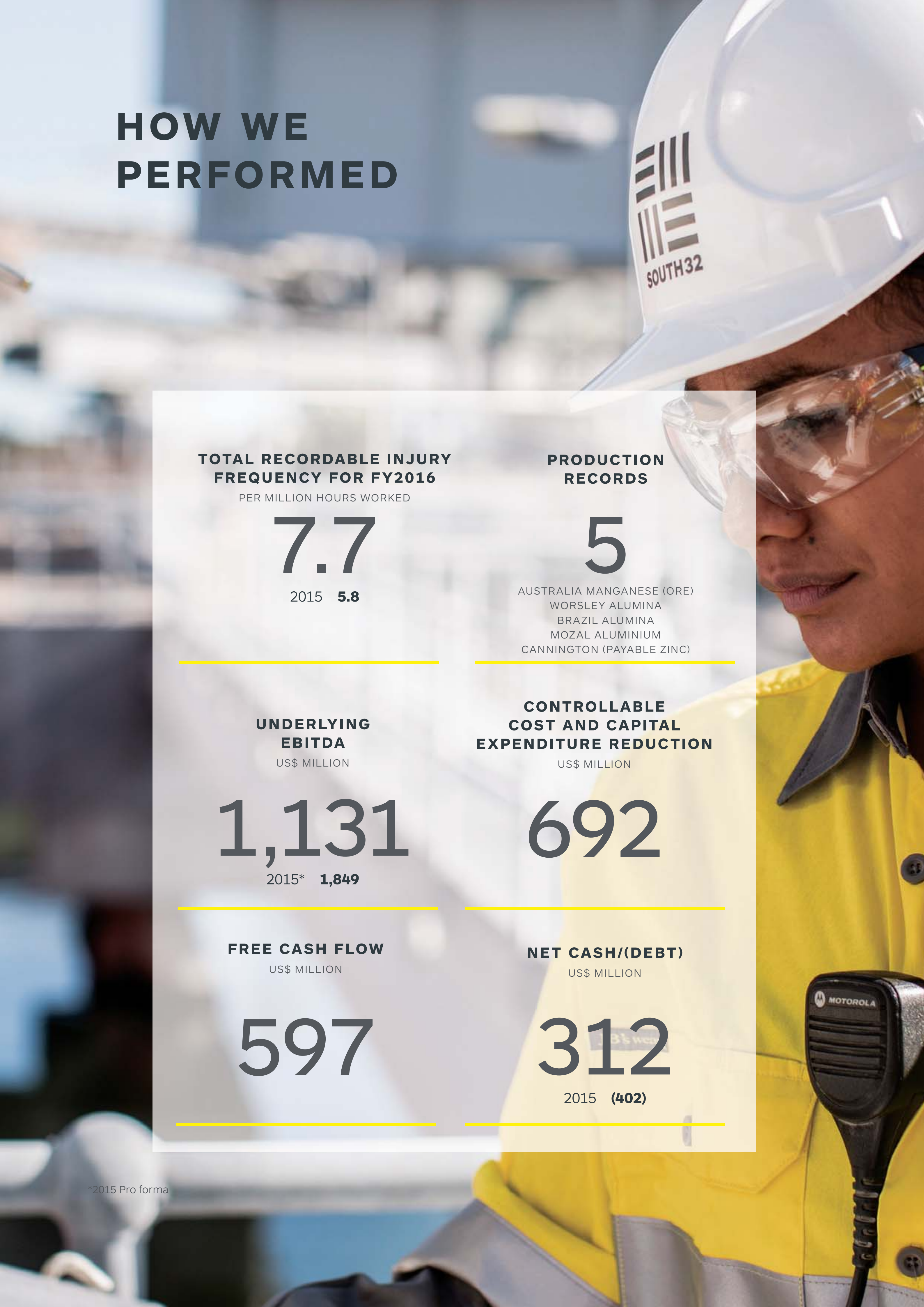
KPMG has provided independent assurance on our sustainability information, as presented in this Annual Report and on our website. A copy of the assurance opinion is on page 187.

South32 is conscious of its environmental footprint associated with the production of this Annual Report.

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

Forward-looking statements This Annual Report 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 report, 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 Annual Report. 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.

For information or to contact South32, visit *www.south32.net*



HOW WE PERFORMED

TOTAL RECORDABLE INJURY FREQUENCY FOR FY2016

PER MILLION HOURS WORKED

7.7

2015 **5.8**

PRODUCTION RECORDS

5

AUSTRALIA MANGANESE (ORE)
WORSLEY ALUMINA
BRAZIL ALUMINA
MOZAL ALUMINIUM
CANNINGTON (PAYABLE ZINC)

UNDERLYING EBITDA

US$ MILLION

1,131

2015* **1,849**

CONTROLLABLE COST AND CAPITAL EXPENDITURE REDUCTION

US$ MILLION

692

FREE CASH FLOW

US$ MILLION

597

NET CASH/(DEBT)

US$ MILLION

312

2015 **(402)**

*2015 Pro forma

OUR OPERATIONS

(1) Non-operated joint venture

AUSTRALIA REGION

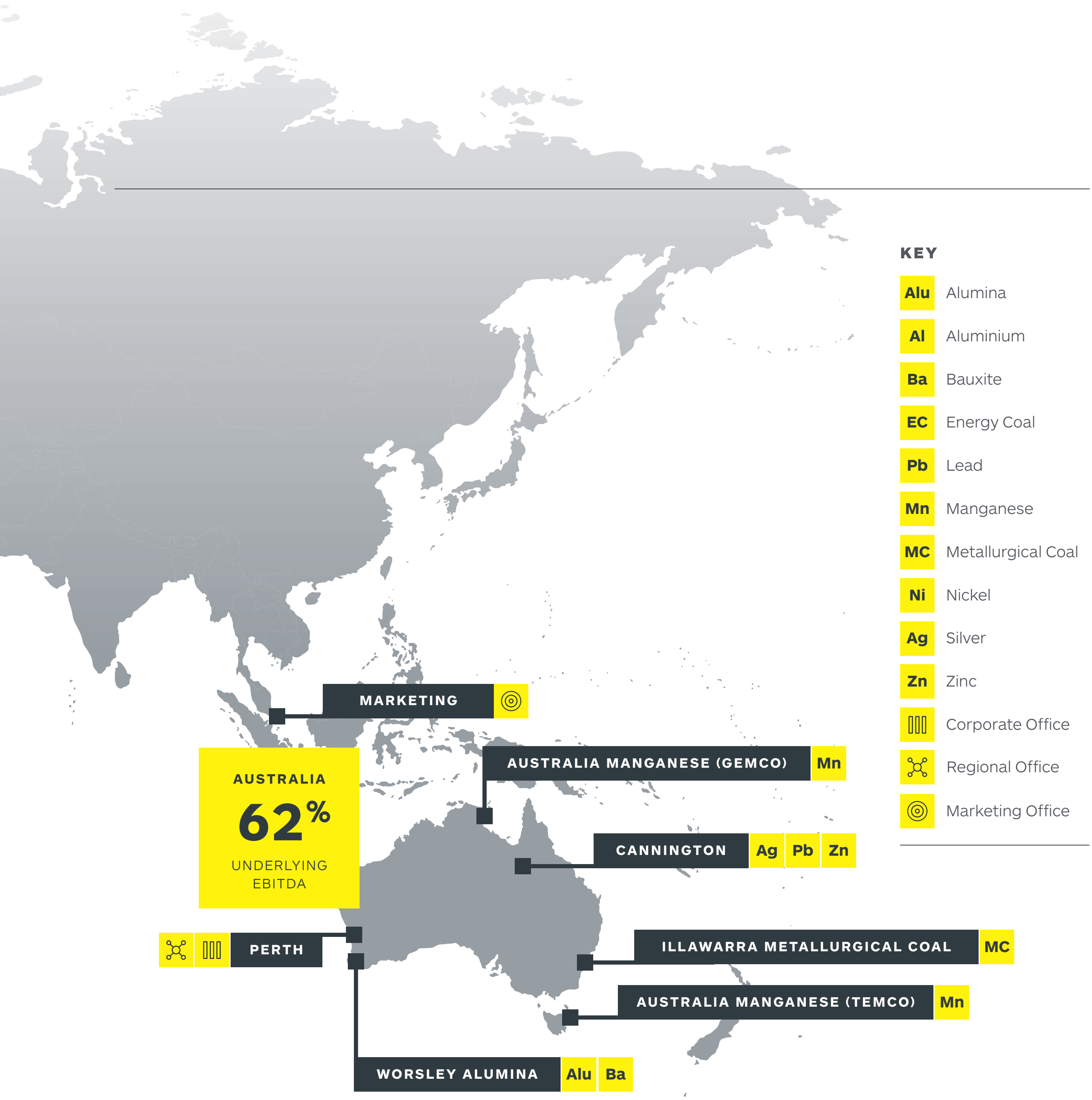
The Australia Region comprises operations within Australia and South America. These operations mine or produce alumina, bauxite, metallurgical and energy coal, manganese, silver, lead, zinc and nickel. The Australia Region office is located in Perth, Western Australia.

AFRICA REGION

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

GLOBAL OFFICES

The South32 corporate office is located in Perth, Western Australia. Our global shared services centre is based in Johannesberg with our marketing activities managed through Singapore and London. Brazil Alumina is managed from a small office in Rio de Janeiro, Brazil.



COMMODITIES

Bauxite and Alumina/Aluminium

Large integrated alumina refineries with high quality bauxite resources, and an aluminium producer with large, low cost aluminium smelters.

Manganese

World's largest producer of manganese ore and a top producer of alloy.

Energy Coal

One of the largest coal exporters and domestic suppliers in South Africa.

Metallurgical Coal

A major exporter of high quality metallurgical coal.

Nickel

One of the world's largest and lowest-cost ferronickel producers.

Silver, Lead, Zinc

One of the world's largest producers of silver and lead.

BUILDING A STRONGER COMPANY

On behalf of the Board, I am pleased to present to you our 2016 Annual Report following the first full year of operations.

A strong operational performance in FY2016 generated revenue of US$5,812 million and Underlying earnings before interest, tax and depreciation of US$1,131 million. The Group's statutory loss of US$1,615 million was significantly impacted by non-cash, post-tax, impairment-related charges. We also made good progress on our cost reduction program, reducing controllable costs by US$386 million and cutting US$306 million of capital expenditure during the financial year. Importantly, we maintained a strong balance sheet, reducing net debt by US$714 million to establish a net cash position of US$312 million at the year's end.

As we committed to shareholders, we have run our operations well against a backdrop that many in the resources industry describe as the toughest ever.

Our focus has been on embedding systems and processes, to develop and instil a positive culture reflecting our values of Care, Trust, Togetherness and Excellence. Between Board and Executive we are developing a culture that is characterised by transparency and alignment around organisational priorities. Our success is due to the people that make up South32, many of whom have been working together for the first time. They have committed significant effort to realise our achievements.

Diversity continues to be a focus for many companies. For South32, diversity is considered in the broadest sense. Across South32 we employ a diverse mix of people from different backgrounds; we have implemented plans with specific targets and are starting to see positive changes, but we have a lot more to achieve.

This diversity is reflected in the composition of our Board. Our Directors are based in Africa, Australia and the United Kingdom and represent a range of nationalities and backgrounds with decades of experience. Reflecting on that diversity, I am pleased to advise that our boardroom has quickly become a place where ideas and perspectives are freely shared.

While it is appropriate to reflect on our achievements, one area that we must improve is safety. The Board, Executive and Management are determined to see measurable change. The implementation of the Care Strategy across the Company is intended to create a step-change in ensuring all our work is well-designed. There is nothing more important than everyone going home safe and well every day.

During the year the Board confirmed the Company strategy. We have a clear sense of commitment and purpose to maximise value from our operations for our shareholders. Our strategy is simple, but right for the times, and establishes a solid foundation for South32.

By maintaining our financial discipline and continuing to optimise our portfolio, we have retained our positive credit rating. This is a key component of our simple capital management framework.

This overall achievement has allowed us to declare a US 1 cent dividend, consistent with our policy to distribute a minimum 40 per cent of Underlying earnings as dividends following each six month reporting period.

Acknowledging the importance of being trusted by our owners and partners to realise the potential of their resources, your Board endorsed our Climate Change Strategy. We have a high greenhouse gas emissions profile so being proactive on climate change is essential. We will focus on three key areas to address the challenge of climate change – emission reduction, climate resilience and climate change opportunity.

We remain mindful that we are operating in a challenging business environment and face pressures from numerous external factors. The global economy continues to be weak with significant uncertainty. Commodity prices are volatile and the outlook is not clear, but we remain optimistic knowing we have built a solid and sustainable foundation.

Your Chief Executive Officer, Graham Kerr and his broader management team have successfully implemented the strategy, supported by our hardworking employees. We thank them on behalf of all shareholders.

On behalf of the Board I would like to thank all those who have made this a successful first year. I also thank our shareholders, and look forward to your continued support.

David Crawford AO
Chairman

DELIVERING ON OUR COMMITMENTS

I am pleased to report that in our first year as a company our operating performance and underlying financial performance was strong, despite the low price environment.

I am particularly proud of the way our people have come together to help create our values-based culture that will make a difference for all of our stakeholders, including our shareholders, our host governments and our communities.

Tragically, we lost four of our colleagues in South Africa during the year. This had an immense impact, not only on their families and loved ones, but on all of us at South32.

We know our safety performance needs to improve and we are committed to eliminating significant incidents in our business.

We are working hard to build an inclusive workplace with a strong culture of care and accountability, where work is well-designed and we continuously improve and learn. Nothing is more important than our people going home safe and well every day.

Our strategy to deliver sector-leading shareholder returns is intentionally simple – optimise our operations, unlock their potential by converting our high quality resources into reserves, and identify and pursue investment opportunities beyond our portfolio.

During the year, most of our time was spent optimising our operations by transitioning to our regional model. We completed restructuring initiatives and conducted functional reviews to improve efficiencies and overall organisational effectiveness.

As a result, our operations are right-sized and our corporate functions are lean. In FY2016, our corporate costs were around half that envisaged at listing.

Our production performance was strong, setting annual production records at Australia Manganese (ore), Worsley Alumina, Brazil Alumina, Mozal Aluminium and Cannington (payable zinc). Performance was robust elsewhere and we achieved guidance for the majority of our operations.

For the first time our Worsley operation fully benefitted from the Efficiency and Growth Project, producing at expansion capacity of 4.6Mtpa (100 per cent basis) across a full year.

Reducing controllable costs and sustainably de-capitalising the business continued to be focus areas. In FY2016 we generated controllable cost savings of US$386 million, surpassing our target of US$300 million, and reduced capital expenditure by US$306 million.

By optimising our operations and maintaining a focus on value over volume, we generated US$597 million of free cash flow and finished the year with net cash of US$312 million.

Consistent with our strategy we also sought to unlock the resource potential of our operations.

In June we signed an agreement with the Groote Eylandt traditional owners and the Anindilyakwa Land Council to access the Eastern Leases and the Southern Areas at GEMCO (Australia Manganese). Access to these areas gives us the potential to substantially extend the life of one of the world's largest and lowest cost manganese mines.

We completed the Appin Area 9 (Illawarra Metallurgical Coal) and Premium Concentrate Ore (Australia Manganese) projects, along with progressing studies to support development of the La Esmeralda Mineral Resource at Cerro Matoso and the Klipspruit Life Extension project at South Africa Energy Coal. Both are focussed on lower capital cost development options.

During the year we made our first investment activity outside our portfolio, entering into an option agreement with Northern Shield Resources to become a partner in the Huckleberry property in Northern Quebec, Canada.

Looking ahead, we will continue to unlock the potential of our portfolio, identify opportunities and pursue investment opportunities where we see value, but will not compromise our strong balance sheet and investment grade credit rating.

A year on, South32 is a much stronger company, with significantly lower costs, fit-for-purpose structures and processes, and a balance sheet that provides flexibility.

I look forward to the journey ahead with all our stakeholders.

Graham Kerr
Chief Executive Officer

KNOW US IN 32 SECONDS

TALENTED AND COMMITTED PEOPLE

VALUES-BASED BUSINESS FOCUS

DESIGNING WORK TO DELIVER SAFE OUTCOMES

HIGH-QUALITY OPERATIONS IN FIVE COUNTRIES

REGIONAL OFFICES – AUSTRALIA AND AFRICA

PRODUCES 10 COMMODITIES

GEOGRAPHIC DIVERSITY OF CUSTOMERS AND END MARKETS

STRONG BALANCE SHEET AND INVESTMENT GRADE CREDIT RATING

SIMPLE STRATEGY TO MAXIMISE RETURNS

OUR APPROACH

South32 is a globally diversified metals and mining company with operations in Australia, Southern Africa and South America. We mine and produce bauxite, alumina, aluminium, energy and metallurgical coal, manganese, nickel, silver, lead and zinc.

Our Structure

We operate a regional model, with our headquarters in Perth, Australia. Our African operations are supported by a regional office in Johannesburg, South Africa and our Australian and South American operations by an office in Perth. Our marketing activities are managed from Singapore and London. Securities for South32 trade on three exchanges, the Australian Securities Exchange (ASX), Johannesburg Stock Exchange (JSE) and London Stock Exchange (LSE) under the listing code S32.

Our Purpose and Values

Our purpose is to make a difference by developing natural resources, improving people's lives now and for generations to come. We are trusted by our owners and partners to realise the potential of their resources.

Our Values guide the decisions that we, at South32, make every day.

- Care – We care about people, the communities we are part of and the world we depend on
- Trust – We deliver on our commitments and rely on each other to do the right thing
- Togetherness – We value difference, listen and share, knowing that together we are better
- Excellence – We are courageous and challenge ourselves to be the best in what matters

Our Strategy

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

We are delivering this strategy by:

- Optimising the performance of our existing operations
- Unlocking their potential – by converting high value resource into reserve
- Identifying new opportunities to compete for capital – within our capital management framework

Our Operating Model

Our Operating Model provides us with the foundation to deliver on our Strategy and Purpose, by clearly defining:

- How We Are Organised – Our operations are combined into regions. This reduces layers of management, combines regional functional support and facilitates greater alignment with our stakeholders. We have a lean corporate centre, global shared services and a centralised marketing model
- The Values That Guide Us – Our Values of Care, Trust, Togetherness and Excellence govern how we act, how we speak to each other and how we evaluate our own behaviour. They guide us and are part of every decision we make
- The Way We Work – Together we want to create an inclusive workplace with a strong culture of care and accountability. We ensure all work is well designed and reliably delivers safe outcomes, with a focus on continuously improving and learning

Safety and Health

Nothing is more important than everyone going home safe and well every day. We introduced our Care Strategy in FY2016, intent on creating a safe, inclusive workplace with a strong culture of care and accountability, where work is well-designed and we continuously improve and learn. Our Care Strategy is a core element of The Way We Work. We have also continued our efforts to ensure that the health of our employees and contractors is not adversely impacted at work and have maintained our focus on controlling occupational exposures.

People

Our people are central to our success and demonstrate our determination to be a best-in-class operator. We aspire to be an inclusive organisation, where our workforce reflects the broader demographics of the countries and communities where we operate. Our Code of Business Conduct remains central to all our activities, outlining the behaviours expected from our employees, Directors, officers, contractors and suppliers. In FY2016, our measurable diversity objectives focussed on balanced gender representation and ethnically diverse teams, both in leadership roles and across the workforce.

Sustainability

Our Sustainability Policy defines our social, environmental, governance and economic principles and affirms our commitment to sustainable development. A copy of our Sustainability Policy is available on our website at *www.south32.net*

We are a member of the International Council on Metals and Mining (ICMM) and align to their Sustainable Development Framework. We are also aligned to the objectives in the United Nations (UN) Global Compact and are working to integrate the UN Sustainable Development Goals.

In order to provide sustainability information in an integrated manner, we are reporting against our material sustainability topics within this report and on our website, in accordance with the Global Reporting Initiative (GRI) G4 'Core'. The GRI Navigator, which provides all of the reported topics and their locations, and our in-depth Sustainability data tables, are available on our website *www.south32.net*

Environment

We strive to be a responsible steward of the environment. We minimise the impacts of our operations on the environment and proactively initiate conservation and rehabilitation activities to create value for future generations. In FY2016, we commenced work on our new Intelligent Land Management (ILM) initiative, established our emissions reduction target for FY2021 and focussed on managing our material water-related risks.

Society

We want to be trusted by the communities in which we operate. We seek to achieve this by transparently interacting with, and contributing to, our communities. We respect Human Rights and recognise the traditional rights and values of Indigenous Peoples, providing opportunities for inclusion and advancement. In FY2016, we maintained our commitment to the National Transformation Agenda in South Africa, as enacted in the Broad-Based Black Economic Empowerment (B-BBEE) Act and the Mining Charter.

CASE STUDY

THE SEAGRASS EARLY LEARNING CENTRE, GROOTE EYLANDT

The Seagrass Early Learning Centre on Groote Eylandt in Australia's Northern Territory was officially opened in June 2016. The modern centre provides improved child care services for families residing on the island. South32 contributed A$3.2 million to construct the centre, which supports workplace diversity at our GEMCO operation by providing child care choices for working families.

Our Strategy in Action

While macro-economic conditions posed a significant challenge to the industry, the strict application of our Strategy and an overarching focus on cash flow, value and investment returns, delivered strong results in the areas that we control.

Consistent with our Strategy, we focussed on optimising our operations. We successfully transitioned to our regional model and implemented a series of restructuring initiatives to improve overall operating performance. In FY2016 we set five production records at Worsley Alumina, Australia Manganese (ore), Brazil Alumina, Mozal Aluminium and Cannington (payable zinc) and achieved guidance for the majority of our operations. We made procurement improvements across a number of supply activities including establishing business improvement partnerships, centralising purchasing services and enhancing warehouse and inventory management, resulting in significant savings.

Our efforts to reduce controllable costs resulted in savings of US$386 million, exceeding our target by US$86 million. By optimising our operations and maintaining a focus on value, we generated free cash flow of US$597 million and finished the year with net cash of US$312 million.

We also continued to unlock the potential of our operations. At GEMCO in the Northern Territory, Australia, we reached a landmark agreement with the Anindilyakwa Land Council to mine the Eastern Leases and explore the highly prospective Southern Areas, which have the potential to substantially extend the life of one of the world's largest and lowest cost manganese mines.

The Appin Area 9 Project at Illawarra Metallurgical Coal and the Premium Concentrate Ore Project (PCO2) at GEMCO were delivered during the year. The US$565 million Appin Area 9 development sustains production capacity at Illawarra Metallurgical Coal. Production from the US$139 million PCO2 project has added flexible, low-cost capacity of up to 500,000 tonnes per annum (tpa) to GEMCO's large, high-grade operation on Groote Eylandt.

In FY2016, we made our first investment in an opportunity beyond our current portfolio signing an option agreement with Northern Shield Resources at the Huckleberry property in Canada. This agreement represents a low-cost entry into the Labrador Trough, a province identified as being highly prospective for copper, nickel and platinum group elements.

We continue to look at opportunities in the market and should the right opportunity arise, we are well positioned. For now, we will continue to optimise our existing operations and unlock their potential.

Our Year Ahead

South32 achieved a lot in its first 12 months and performed well in a challenging environment. Our operational performance was strong and production guidance for our operations in FY2017 remains largely unchanged.

We also made real progress against our cost targets and remain on track to achieve further meaningful reduction in FY2017 to ensure all of our operations are cash flow positive and resilient to any further price shocks.

We will continue to optimise and unlock the potential of our operations, the majority of which have significant reserve lives that underpin a stable production outlook. There is also significant potential to extend the life of those operations for many years to come, in most cases with minimal capital investment.

Our strong balance sheet provides flexibility for internal and external opportunities to compete for capital, but we will not compromise our strong balance sheet and investment grade credit rating.

CASE STUDY

SHARED SERVICES CENTRE SUPPORTS EFFICIENCY

The Shared Services Centre in Johannesburg, South Africa has continued to deliver improvements in the efficiency of high-volume, transactional processes.

Established as part of the Regional Model, duplicated functional activities have been centralised from across the Company, as the Shared Services Centre has continued to expand its scope of services.

The standardisation of activities, including Finance, Supply and Master Data Services, analysis support and selected professional services, are supported by continuous improvement objectives to further refine the systems and processes that create well-designed work across South32.

BOARD OF DIRECTORS

The Board of Directors is committed to representing shareholders and protecting the interests of South32.

Underpinned by strong corporate governance practices, the Board believes South32 has the right people and the right strategy to prosper.

Eight Directors currently serve on the South32 Board, seven of whom are Non-Executive Directors and six are Independent Directors. The names, qualifications, experience and special responsibilities of each person holding the position of Director at the date of this Annual Report are set out below.

1. DAVID CRAWFORD

AO, BCOMM, LLB, FCA, FCPA, FAICD, 72

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

Location: Australia

Director since 2 February 2015

Skills and experience:

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

Other directorships and offices (current and recent):

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

2. GRAHAM KERR

BBUS, FCPA, 45

- Chief Executive Officer and Managing Director

Location: Australia

Director since 21 January 2015

Skills and experience:

Mr Kerr has been Chief Executive Officer (CEO) of South32 since October 2014.

Responsible for running all facets of the business, Mr Kerr successfully led the establishment of the company and its public listing in three countries in May 2015.

Mr Kerr has a strong track record in global resource development and is passionate about health, safety and sustainability. Before joining South32, Mr Kerr worked in a wide range of roles across the BHP Billiton Group, including as Chief Financial Officer (CFO) from 2011 to 2014. He also spent two years at Iluka Resources as General Manager Commercial.

Mr Kerr has a Business degree from Edith Cowan University and studied at Deakin University to become a Certified Practicing Accountant.

3. FRANK COOPER

AO, BCOM, FCA, FAICD, 60

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

Location: Australia

Director since 7 May 2015

Skills and experience:

Mr Cooper has more than 35 years' experience in the accounting profession, specialising in the mining, energy and utilities sector before taking on a number of Non-Executive Director roles from 2012.

Other directorships and offices (current and recent):

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

4. PETER KUKIELSKI

BSC, MS (CIVIL ENGINEERING), GAICD, 59

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

Location: United Kingdom

Director since 7 May 2015

Skills and experience:

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

5. XOLANI MKHWANAZI

BSC, MSC, PHD (APPLIED PHYSICS), 61

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

Location: South Africa

Director since 2 July 2015

Skills and experience:

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

Other directorships and offices (current and recent):

- Director, Murray and Roberts Ltd (since August 2015)
- Chairman, CEF (SOC) Ltd
- Chairman, Gibela Rail Transport Consortium RF (Pty) Ltd
- Chairman, Odgers Berndtson SA (Pty) Ltd
- Chairman, Private Label Promotion (Pty) Ltd

6. NTOMBIFUTHI (FUTHI) MTOBA

DCOM (HONORIS CAUSA) CB.COMPT, BA, 61

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

Location: South Africa

Director since 7 May 2015

Skills and experience:

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

Other directorships and offices (current and recent):

- Chairman, WBD Trust
- Chairman of Council, University of Pretoria
- Council Member/Director, African Union Foundation
- Advisory Board Member, LeapFrog Investments Limited
- Member, IMF Advisory Group for Sub-Saharan Africa (AGSA)
- Founding Trustee, ZM Foundation
- Trustee, Allan Gray Orbis Endowment
- Trustee, Nelson Mandela Foundation

7. WAYNE OSBORN

MBA, FAICD, 64

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

Location: Australia

Director since 7 May 2015

Skills and experience:

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

Other directorships and offices (current and recent):

- Director, Wesfarmers Limited (since March 2010)
- Director, Alinta Holdings Pty Ltd
- Former Director, Iluka Resources Limited (March 2010 to May 2016)
- Former Director, CIMIC Group Limited (formerly Leighton Holdings Limited November 2008 to March 2013)

8. KEITH RUMBLE

BSC, MSC (GEOLOGY), 62

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

Location: South Africa

Director since 27 February 2015

Skills and experience:

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

Other directorships and offices (current and recent):

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

EXECUTIVE COMMITTEE

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

Graham Kerr BBus, FCPA, 45

- Chief Executive Officer and Managing Director

See page 14 for Mr Kerr's qualifications and experience.

Brendan Harris BSc, 44

- Chief Financial Officer

Mr Harris commenced as CFO of South32 in November 2014 and had an integral role in the set-up, demerger and listing of South32.

Mr Harris is accountable for Corporate Reporting, Corporate Affairs and Investor Relations, Risk and Assurance, Tax, Treasury and Planning.

Prior to South32, Mr Harris was Head of Investor Relations at BHP Billiton between 2011 and 2014, having been Vice President Investor Relations Australasia from July 2010. He previously held various roles in investment banking over almost a decade, including Executive Director Metals and Mining Research at Macquarie Equities.

Mr Harris holds a Bachelor of Science in geology and geophysics from Flinders University, South Australia.

Ricus Grimbeek BEng, 46

- President and Chief Operating Officer, Australia

Mr Grimbeek was appointed President and COO, Australia in November 2014 and oversaw the set-up of the Australia region for South32.

Mr Grimbeek's career has spanned numerous technical and operating roles.

In November 2011, he was appointed Asset President, Worsley Alumina having been Head of Group HSEC at BHP Billiton from April 2009 to October 2011.

He also spent time as the Executive Vice President Mining for Lonmin Platinum.

Mike Fraser BCom, MBL, 51

- President and Chief Operating Officer, Africa

Mr Fraser was appointed President and COO, Africa in January 2015 and oversaw the set-up of the Africa region for South32.

Mr Fraser was President, Human Resources and a member of BHP Billiton's Group Management Committee from 2013, having first joined the company in 2000. During his career, Mr Fraser was Asset President of the Mozal operation in Mozambique from 2009 to 2012, having also worked in various roles in BHP Billiton's coal, manganese and aluminium businesses in a number of geographies. He also held a variety of leadership roles in a large internationally diversified industrial business.

Mr Fraser holds a Master of Business Leadership and a Bachelor of Commerce from the University of South Africa.

Nicole Duncan BA (Hons), LLB, MAICD, FGIA, FCIS, 44

- Chief Legal Officer and Company Secretary

Ms Duncan commenced in the role of Chief Legal Officer in December 2014 and was appointed Company Secretary in January 2015. Ms Duncan is accountable for the Company Secretariat and Legal function (including Compliance).

Ms Duncan was previously BHP Billiton's Vice President, Supply, Group Information Management from 2011 to 2013 prior to being Vice President, Company Secretariat. Prior to this she held various legal roles within BHP Billiton in Australia, Houston and The Hague, and she was a lawyer at Ashurst.

Ms Duncan graduated from the Australian National University with a degree in Law and an Honours degree in History.

Paul Harvey BEng (MINING), 53

- Chief Transformation Officer

Mr Harvey joined South32 as Chief Transformation Officer in March 2015.

Mr Harvey oversees the Information Technology, Sustainability and Reporting functions, the area of Corporate People and the South32 Shared Services Centre.

Before joining South32, Mr Harvey was the Asset President at Nickel West from 2012, having been Asset President at BHP Billiton's Ekati operation in Canada from 2009 to 2012. He held operations management, major capital project directorships, business planning, and strategy and growth leadership roles in the uranium, base metals and diamonds and specialty product sectors.

Mr Harvey holds a Bachelor of Engineering (Mining) from the Western Australian School of Mines.

SAFETY

Our vision is to create a safe working environment where everyone goes home safe and well every day. Nothing is more important.

We are building an inclusive workplace with a strong culture of care and accountability, where work is well-designed and we continuously improve and learn. Despite our efforts, we have not eliminated significant incidents and require a step change in performance. Tragically we lost four of our colleagues during the year and our Total Recordable Injury Frequency (TRIF)(1)(2) increased from 5.8 to 7.7(3) per million hours worked. In July 2015, a contractor was fatally injured during a rigging operation at our Hillside Aluminium Smelter in Richards Bay, South Africa; in November 2015, an employee was fatally injured during rail operations at our Mamatwan Manganese Mine, in the Northern Cape, South Africa; in June 2016, an employee was fatally injured in a mobile equipment accident at our Wessels Manganese Mine also in the Northern Cape; and in June 2016, an employee was fatally injured in a fall of ground incident at Klipspruit Mine, Mpumalanga, South Africa.

These fatalities had an immense impact not only on their families and loved ones, but on all of us at South32. Following these tragic incidents, our first priority was to provide support to affected families and co-workers. We suspended operations where these fatalities occurred and held stop-for-safety sessions across the organisation to reflect on what had happened and to have open and honest conversations about what we need to do to ensure we are working safely. Led by a member of our Executive Committee, we conducted detailed investigations to identify what went wrong and make recommendations on potential remedial actions. The Sustainability Committee of the Board, together with the management team, reviews the findings of all significant incidents to ensure we learn from these incidents and continue to improve.

Our approach to safety incorporates our Care Strategy, which has three elements:

- An Inclusive Workplace - where everyone feels comfortable to bring their whole self to work. We clearly understand our roles and accountabilities with jointly created and owned outcomes
- A culture of improvement – where we continuously improve our work environment to make it safer and more productive for our people
- Well-designed work – where we engage, develop and align our people to ensure we have disciplined execution of well-designed work

Our leadership team is committed to our Care Strategy and to investing the necessary time, energy and leadership to make a sustainable and lasting change in our safety performance.

Safety Management

We have a comprehensive safety management system that sets out minimum mandatory controls for eight key material risk areas at our operations: confined space events; dropped and falling objects; fall/movement of ground; lifting events; light vehicle events; loss of containment of materials; mobile equipment events; and personnel falling from height. Minimum mandatory controls are also specified for two control systems, permit to work and isolation, which all of our operations are required to meet.

An extensive risk assessment process is used to understand, manage and, where reasonably practicable, eliminate risks to our people. This supports our Care Strategy elements of well-designed work and a culture of improvement. We conduct corporate and regional assurance and engage in peer to peer level checks to ensure safety standards are implemented.

Our significant safety event data and broader industry data is analysed to continually improve our operating standards, and ensure that our key material risk areas appropriately reflect our risk profile. The minimum mandatory controls are continually assessed for effectiveness in keeping our people safe.

As a global company, our people travel to various parts of the world. Airlines are assessed to internationally recognised practices. We also monitor destination risks and travellers' flights through International SOS and Control Risks.

(1) Total Recordable Injury Frequency (TRIF): (The sum of (fatalities + lost-time cases + restricted work cases + medical treatment cases) x 1,000,000) ÷ actual hours worked. Stated in units of per million hours worked.

(2) 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.

(3) There were regional differences in the TRIF performance.

Emergency Preparedness

While we have a comprehensive safety management system in place, it is important to prepare our operations to respond to a significant event, should it ever occur.

This system requires the development and implementation of Crisis Emergency Management Plans for significant risks and we are currently updating these plans to reflect our organisational changes. These plans include the appointment of an emergency management team which oversees the frontline response and, in the event the situation is upgraded to a crisis, elevates the strategic response to an incident management team.

The plans ensure that, in the event of an emergency or crisis, leadership and decision-making has been well-developed and tested. They also provide for people to be protected against injury or loss of life, for environmental impacts to be minimised and for a well-coordinated emergency response. The mitigation of significant operational loss, the continuity of business and any recovery elements are also assured through the plans.

Each operation has implemented systems to identify and effectively manage foreseeable crises and emergencies. To ensure all teams are competent, training and real-life scenarios are exercised.

We liaise with our communities where a coordinated response may be required. For instance, at our Worsley Alumina operations in the south west of Western Australia, we work with the District Emergency Management Committee to assess our response to an emergency.

We may also assist in emergencies in the community where the response required is greater than available local resources. In the Africa Region, due to limited regional emergency infrastructure, our assistance can support local response to emergencies. For example, the Mozal Aluminium response team assisted the local emergency services and the Maputo Port operations respond to a fire at a berth in December 2015.

CASE STUDY

RESPONDING TO BUSHFIRES

At our Worsley Alumina operations in Australia, we work closely with government organisations to provide support during bushfire emergencies. We have teams of well-trained asset protection officers and emergency response teams.

In January 2016, a large bushfire claimed two lives, destroyed a large portion of the small town of Yarloop and threatened a number of other townships. Tens of thousands of hectares of bushland were destroyed, as were homes and infrastructure. The main transport networks were closed for a number of days.

While the fire did not directly impact Worsley, we responded in a number of ways.

We provided a number of emergency services personnel to support volunteer organisations, as well as ensuring flexibility and support to employees that were impacted.

After the threat of fire had passed, we also provided financial support to help rebuild local communities.

PEOPLE

Our people are fundamental to our success. We want to create an environment where everyone is able to perform to their full potential every day. We are focussed on creating an inclusive workplace, with the right people in the right roles, who are engaged, empowered and appropriately rewarded.

Creating an Inclusive Workplace

Our Operating Model underpins everything we do and is the foundation to deliver our strategy and purpose. The model describes how we are organised, the values that guide us and the way we work.

For us, an inclusive workplace is one that is diverse and an environment where everyone brings their true self to work. As part of our efforts to create a culture focussed on care and accountability we have:

- Implemented flexible work arrangements
- Set ambitious diversity targets that have been endorsed by the Board. More information on our diversity plans can be found in the Corporate Governance Statement of this report
- Developed a set of behaviours that will help our people understand what an inclusive workplace will look like
- Maintained our Employee Assistance Programme to support our employees and their families' well-being
- Maintained our EthicsPoint system to allow employees or anyone who has a relationship with us to anonymously raise questions or concerns either by phone, email or through an independently hosted website

The Right People

The capability of our people is essential to the delivery of our strategy and continual improvement of our business. We need to have the right people in the right roles, a genuine commitment to their development and a strong talent pipeline. In FY2016, we invested more than US$7 million in training and education, commenced talent and succession planning and designed a new approach to performance and development.

This new approach involves frequent two-way conversations between employees and their line managers, where employees receive feedback on their performance and provide feedback to their managers. These discussions also enable the employee and their manager to identify and action development opportunities on an ongoing basis.

Employee Engagement

In our first year, decision-making and change management across the Company has included extensive engagement with employees to provide information during a period of change. During FY2016:

- We completed our first employee engagement survey. We received over 9,800 responses from our employees which has supported the development of a number of action plans and improvements at our operations
- Our Board met with employees at five operations, their respective regional offices, as well as Marketing in Singapore. At least one member of our Executive Committee also met with our workforce at every one of our operations
- We improved company-wide communication to ensure it considers the cultural diversity and different types of education amongst our workforce
- We established an internal social network to support ideas sharing and problem solving between different geographic locations

Reward and Recognition

Our reward and recognition programme is designed to ensure we can attract and retain the best people to run a business of the size, scope and geographical spread of South32. To focus our people on delivering both the short-term and long-term strategy of the business, we have included incentive schemes that align to both timeframes. Our reward and recognition programme includes competitive market-informed arrangements which differ by location, role and employment type, and comprise:

- Bonus or Short-Term Incentive – paid as a cash bonus based on a combination of company and individual performance
- Long-Term Incentive[1] – all employees participate in one of the Company's share plans that provides them with rights to South32 shares
- Other market-related benefits including superannuation/pension and where applicable, health insurance
- Competitive parental leave and study assistance programmes
- Flexible working arrangements (subject to operational requirements)

(1) Note that in some countries in which we operate we are not able to issue shares and in these cases, cash of an equivalent amount is paid to employees.

Where Our People Work

Our people work in diverse roles and geographies, and all have a part to play in contributing to the success of our company as individuals, teams and as whole operations and functions.

During FY2016, we employed 14,049 people in seven locations around the world (see Table 2.3.1 for further detail).

Table 2.3.1 Employee Head Count by Employment Type, Location and Gender

	Permanent	Fixed term or temporary	Total	Female	Male	Part-time	Full-time
South Africa	7,006	335	7,341	1,406	5,935	-	7,341
Mozambique	1,121	44	1,165	110	1,055	-	1,165
Australia	4,403	94	4,497	536	3,961	46	4,451
Brazil	15	-	15	6	9	-	15
Colombia	872	5	877	56	821	-	877
Europe	22	-	22	14	8	1	21
Singapore	132	-	132	73	59	2	130
All Regions (Grand Total)	**13,571**	**478**	**14,049**	**2,201**	**11,848**	**49**	**14,000**

In addition to our directly employed workforce, approximately 9,008 Full-Time Equivalent contractors (supervised workers) contributed to the success of our business as at 30 June 2016.

We have continued to simplify our business to focus on what matters most, including refining our Regional Model to ensure our structure supports our strategy. In doing so, we have reduced layers of management and combined functional support, facilitating greater alignment with our stakeholders. This way of working aims to ensure we are as streamlined as possible and creates opportunities globally for our people to work together across our operations, in line with our Values. It allows us to share our best practices, develop our people and contribute to ongoing business improvement.

Reducing employee numbers is never an easy decision, however it has been necessary to ensure we remain competitive and sustainable in the long-term. Our employee head count at the end of June 2016 was 14,049 compared to 15,545 at the end of FY2015. These reductions contribute to the turnover metrics reported in Table 2.3.3. Our restructuring activities also impacted recruitment activity during the year, as indicated in Table 2.3.4.

Table 2.3.2 Employee Head Count by Age, Gender and Location

	<30 Years Old		30-50 Years Old		>50 Years Old		Total
	Female	**Male**	**Female**	**Male**	**Female**	**Male**	
South Africa	390	793	928	3,864	88	1,278	**7,341**
Mozambique	17	137	87	821	6	97	**1,165**
Australia	129	461	356	2,582	51	918	**4,497**
Brazil	2	2	3	7	1	-	**15**
Colombia	8	38	45	586	3	197	**877**
Europe	-	1	14	6	-	1	**22**
Singapore	6	4	62	50	5	5	**132**
All Regions (Grand Total)	**552**	**1,436**	**1,495**	**7,916**	**154**	**2,496**	**14,049**

Table 2.3.3 Employee Turnover Rate

	<30 Years Old				30-50 Years Old				>50 Years Old			
Turnover Rate in italics	**Female**		**Male**		**Female**		**Male**		**Female**		**Male**	
South Africa	30	*0.2%*	109	*0.8%*	103	*0.7%*	547	*3.9%*	42	*0.3%*	585	*4.2%*
Mozambique	2	*0.0%*	6	*0.0%*	3	*0.0%*	24	*0.2%*	1	*0.0%*	12	*0.1%*
Australia	27	*0.2%*	66	*0.5%*	99	*0.7%*	286	*2.0%*	20	*0.1%*	257	*1.8%*
Brazil	-	*0.0%*	1	*0.0%*	1	*0.0%*	2	*0.0%*	-	*0.0%*	1	*0.0%*
Colombia	-	*0.0%*	11	*0.1%*	19	*0.1%*	76	*0.5%*	1	*0.0%*	63	*0.4%*
Europe	-	*0.0%*	-	*0.0%*	1	*0.0%*	2	*0.0%*	-	*0.0%*	-	*0.0%*
Singapore	1	*0.0%*	1	*0.0%*	3	*0.0%*	3	*0.0%*	-	*0.0%*	1	*0.0%*
All Regions (Grand Total)	**60**	*0.4%*	**194**	*1.4%*	**229**	*1.5%*	**940**	*6.6%*	**64**	*0.4%*	**919**	*6.5%*

Table 2.3.4 New Employee Hire Rate

	<30 Years Old				30-50 Years Old				>50 Years Old			
Hire Rate in italics	**Female**		**Male**		**Female**		**Male**		**Female**		**Male**	
South Africa	70	*0.5%*	97	*0.7%*	84	*0.6%*	141	*1.0%*	5	*0.0%*	15	*0.1%*
Mozambique	2	*0.0%*	20	*0.1%*	-	*0.0%*	20	*0.1%*	1	*0.0%*	-	*0.0%*
Australia	25	*0.2%*	57	*0.4%*	72	*0.5%*	133	*0.9%*	8	*0.1%*	18	*0.1%*
Brazil	1	*0.0%*	1	*0.0%*	-	*0.0%*	2	*0.0%*	-	*0.0%*	-	*0.0%*
Colombia	3	*0.0%*	-	*0.0%*	1	*0.0%*	3	*0.0%*	-	*0.0%*	2	*0.0%*
Europe	-	*0.0%*	-	*0.0%*	-	*0.0%*	2	*0.0%*	-	*0.0%*	1	*0.0%*
Singapore	1	*0.0%*	1	*0.0%*	2	*0.0%*	4	*0.0%*	1	*0.0%*	-	*0.0%*
All Regions (Grand Total)	**102**	*0.7%*	**176**	*1.2%*	**159**	*1.1%*	**305**	*2.0%*	**15**	*0.1%*	**36**	*0.2%*

Footnotes: Employee numbers exclude Non-Executive Directors and are the total at 30 June 2016.

Turnover and new hire rates are calculated using the total number of employees for FY2016 (i.e. 14,049) as the denominator and the total count for FY2016 as the numerator.

Employee Relations

A key component of building our inclusive workforce is to maintain and proactively manage trusting relationships with our people, allowing everybody to contribute to our success. Our people have the right to representation of their choice and to participate in collective bargaining. Our approach is guided by our Values, our Diversity and Inclusion Policy and our Code of Business Conduct. We dedicate Human Resources personnel to help our leaders manage employee relations matters, including collective bargaining activities. Our performance is assessed internally by the measure of lost-time, through productivity gains enabled by improved business flexibility and the responses to our employee engagement survey.

All of the countries in which South32 operates are members of the International Labour Organisation and are governed by country-specific, labour-related legislation to which we comply. South32 complies with local legislation for notice to employees in cases where significant operational change may affect them or where collective agreements specify further consultation obligations. South32's standard supply contracts also require our suppliers to comply with all applicable legislation, including that related to labour. Our risk and assurance processes provide oversight to ensure the correct application of these contracts for all supply arrangements.

Thirty-three per cent of our employees are engaged under collective bargaining agreements across South Africa (1,387), Mozambique (807), Australia (1,794) and Colombia (649). During FY2016, collective agreement renewals were negotiated at our Cerro Matoso operations in Colombia, at the GEMCO and TEMCO operations in Australia and at the Dendrobium Mine within our Illawarra Metallurgical Coal operation, also in Australia. We experienced one stoppage for seven working days at the Dendrobium Mine as part of agreement renewal discussions. The Africa Region did not experience any industrial action during FY2016.

OUR PEOPLE ARE MAKING A DIFFERENCE

SINGAPORE

Our Marketing team is helping to develop Singapore's future business leaders through participation in the Singapore Industry Scholarship Programme.

In 2016 we welcomed three students who are receiving practical work experience and financial support during their four years of studies. After graduating, the three students will continue with South32 in graduate roles for a further four years.

AUSTRALIA

The 2016 GEMCO Women in Resources Northern Territory Awards featured a keynote address by our Worsley Alumina Vice President Operations Mine and Materials, Alysia Tringrove.

"Diversity is not about reaching a quota, diversity is about appointing and promoting people with the right skills and potential, regardless of factors such as gender, race, colour, religion or sexual orientation. The future for us in the resources industry is to go beyond diversity. The resources companies of the future must be not just diverse, but flexible and inclusive."

SOUTH AFRICA

In FY2016 South Africa Energy Coal supported breast cancer awareness and education by painting bright pink on a mine truck and undertaking cancer awareness education.

HEALTH

We aim to ensure that the health of our employees and contractors is not adversely impacted at work. We do this by implementing comprehensive fit-for-work programmes and focussing on controlling occupational exposures at source.

To minimise the likelihood of incidents, injury and illness, our operations are required to implement comprehensive medical assessments, fatigue management plans and risk-based drug and alcohol programmes.

All of our operations have controls at the project design and equipment selection stage to eliminate health risks where it is reasonably practicable in line with our Care Strategy. In situations where we cannot eliminate exposure, we regulate with reference to occupational exposure limits (OEL). Where airborne levels exceed an OEL, respiratory protective equipment is mandated for affected workers. In many cases, we operate to a more stringent OEL than what is legislated, in line with contemporary health science. This year, we set a target to reduce the number of workers exposed above an OEL.

The potentially harmful agents and health risks at our workplaces include carcinogenic substances (silica, diesel particulate matter, lead, nickel, and coal tar pitch volatiles), exposure to noise, musculoskeletal disease and other airborne contaminants such as coal dust.

Health Performance

We report illnesses using the OSHA guidelines. Our employee occupational illness and occupational exposure performance is set out in the following tables.

Occupational illness

Employee Occupational Illness Frequency(1)	% change(2)
Employee occupational illness	76% decrease
Musculoskeletal disease	54% decrease
Noise-induced hearing loss	89% decrease

(1) Employee illness per million hours worked.
(2) % change between FY2015 and FY2016.

There was a 76 per cent reduction in employee occupational illnesses per million hours worked for FY2016 compared to FY2015. In part, this was a result of a number of legacy cases of noise-induced hearing loss that were captured in FY2015. Excluding these legacy cases in FY2015, there was a 51 per cent reduction in the occupational illness frequency across South32. This reduction was largely influenced by fewer cases of musculoskeletal illness, from 54 cases in FY2015 to 23 in FY2016, while other occupational illness cases reduced from seven to three.

Occupational exposures

Employee Occupational Exposures	% change
Exposures to carcinogens	48% decrease
Exposures to airborne contaminants	5% decrease
Exposures to noise	No change

In FY2016, we implemented a number of improvement projects, which contributed to a 48 per cent decrease in employee potential exposures to carcinogens and a five per cent decrease in employee potential exposures to airborne contaminants, compared with FY2015.

CASE STUDY

MANAGING HEALTH EXPOSURES IN WESSELS MINE, SOUTH AFRICA

Our Wessels Mine in South Africa is an underground manganese operation, which is 360 metres deep. Since opening in 1973, production rates and associated mobile and diesel operated equipment have increased substantially. This has led to an increase in the potential for employee exposure to carcinogens and airborne contaminants above the legislated OEL. Our aim is to reduce the number of workers exposed over an OEL, however when a worker is exposed at a greater level, respiratory protection and health status checks are mandatory.

A multi-disciplinary team identified critical controls to mitigate the risk of exposures over the OEL. As a result, the number of potential exposures requiring the use of personal protective equipment reduced significantly.

These projects included improved ventilation, switching from high sulphur fuel to low sulphur fuel, and the fitting of filters to the underground mobile equipment to catch airborne contaminants.

CASE STUDY

MANAGING RESPIRABLE COAL DUST AT ILLAWARRA METALLURGICAL COAL

There has been a re-emergence of coal workers pneumoconiosis identified in Queensland, Australia. South32's Illawarra Metallurgical Coal is located in New South Wales (NSW) and operates under a different regulation, evaluation and monitoring framework.

Under the NSW Coal Industry Act 2001, an independent body (Coal Services) implements a comprehensive governance model for the management of airborne contaminant exposure risks.

We voluntarily apply a more stringent OEL (2mg/m^3) for respirable coal dust than that legislated by either the NSW (2.5mg/m^3) or Queensland (3mg/m^3) regulations.

Mental Wellbeing

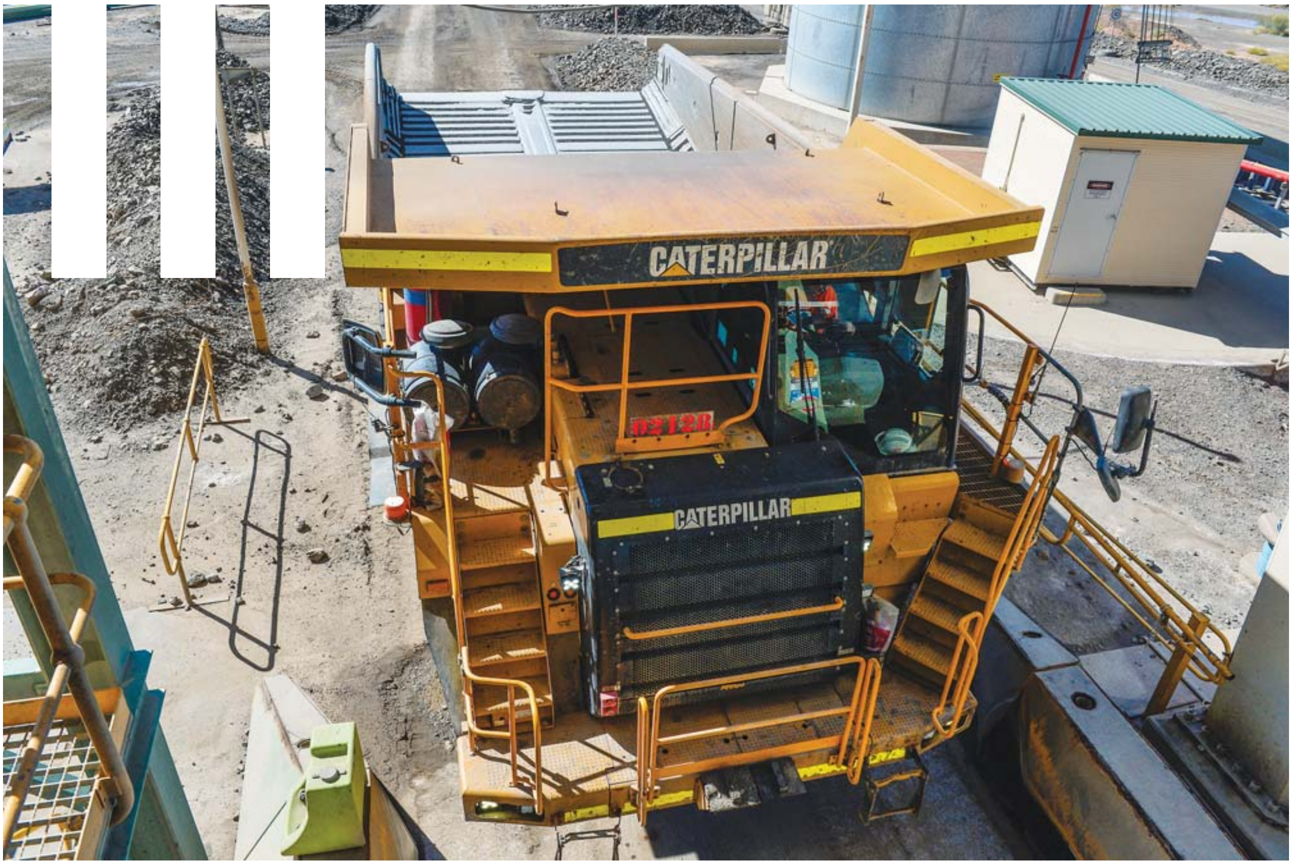
We support mental wellbeing through a number of human resources standards. These standards are designed to ensure employees are supported and engaged, that the work environment is fair and inclusive, and that a healthy work-life balance is maintained. The effectiveness of this is assessed through a number of methods, including employee perception surveys. We provide employee assistance programmes (EAP) to all employees and their families, even if the issue being addressed does not relate to work at South32.

CASE STUDY

ACTION FOR WELLNESS

In our Perth office in Australia, we conducted our first Wellness Week to help promote a healthy lifestyle and support mental wellbeing. The event included nutrition advice, skin cancer checks and mental wellbeing information sessions.

Employees participated in R U OK? Day at our Australian operations, including at Cannington. This initiative encourages friends, family members and workmates to check-in with each other, as well as providing tools to be able to respond if someone says 'No'.



ENVIRONMENT

We strive to be a responsible steward of the environment. We proactively initiate conservation and rehabilitation activities to preserve value for future generations.

Biodiversity

We continued to work towards a company-wide, fully integrated business planning process during FY2016. Inclusive of land management activities from pre-clearance surveys to rehabilitation, this integrated approach endeavours to minimise biodiversity impacts. Through effective rehabilitation programmes, we aim to restore similar ecosystem services in the regions in which we operate.

Our operations extend across large areas of land and have the potential to impact biodiversity and ecosystems through disturbance, due to the extraction of minerals, processing and the management of waste. To manage this potential impact, our environment standard requires the collection of biodiversity baseline activity and mandates the use of controls consistent with the biodiversity mitigation hierarchy. Our hierarchy seeks to avoid first, minimise second, rehabilitate third and lastly to offset environmental impacts.

Supporting this approach is our commitment to respect legally-designated protected areas and to not mine or explore in World Heritage Areas in accordance with our International Council of Mining and Metals (ICMM) membership.

CASE STUDY

WETLAND OFFSETTING IN SOUTH AFRICA

Wetland offsetting has become a key focus in mining projects in the Africa Region. This is based on the understanding that without conservation action, South Africa will be unable to meet targets necessary to secure wetland biodiversity and the functions that wetlands provide. Wetland offsetting efforts are additional to any planned conservation actions and ensure that there is no net reduction of wetland habitat. Baseline assessments cover the extent, type and condition of wetlands on the mine site. Where mining of a wetland cannot be avoided, a wetland offset strategy is developed to rehabilitate wetlands to equal functionality, ideally onsite where possible, or offsite within the same catchment. As part of South Africa Energy Coal's mining applications for the Klipspruit Weltevreden and Klipspruit South Extension Projects, a wetland offset strategy has been developed to ensure no net loss in wetland function as a result of mining activities.

CASE STUDY

PROTECTING COCKATOOS AT WORSLEY ALUMINA, WESTERN AUSTRALIA

Worsley Alumina has extensive experience integrating baseline biodiversity information activities and managing successful ecosystem restoration. We recently surveyed 269 hectares of land and identified significant habitat for Black Cockatoos. The survey focussed on trees with suitable hollows that offer breeding, night roosting and high quality foraging habitats for these birds. Where significant habitat is identified, the area is avoided or disturbance minimised in order to prevent our activities resulting in significant impacts to the species. We continue to collaborate with local research organisations and provide funding for the conservation and protection of these endangered species on a regional scale.

Rehabilitation

We undertake rehabilitation concurrent with mining activities helping to limit our operational impacts and footprint. This is achieved through integrating rehabilitation into the planning process with works scheduled as a 'mining' activity. This enables us to use equipment not fully utilised for mining to undertake rehabilitation, leading to a significant reduction in costs and better environmental outcomes.

CASE STUDY

INTEGRATION OF REHABILITATION WORK AT WORSLEY ALUMINA'S BODDINGTON BAUXITE MINE, WESTERN AUSTRALIA

At Worsley Alumina, we have implemented a comprehensive programme to rehabilitate disturbed land. This programme has produced excellent results over more than 2,500 hectares of land since 1986. Progressive earthworks optimise the use of topsoil and recreate a soil profile capable of sustaining a diverse range of native vegetation, helping to provide similar ecosystem services and build resilience against severe weather events. Species research has supported strategic seeding and planting resulting in the restoration of the ecosystem structure and function.

Intelligent Land Management

During 2016, we commenced work on ILM, an exciting new initiative. Part of our Climate Change Strategy, ILM looks to transform our land holdings, which are otherwise unused or currently considered a liability, into holdings that increase climate resilience and generate financial, social and environmental value. To date, several ILM projects have been identified (see case study on page 27) which will be progressed during FY2017.

Energy

Reliable and cost effective sources of energy are very important for our business. Energy costs represent a significant component of operational expenditures and a disruption in energy supply could have a direct impact on our production capacity. We regularly review our energy supply options to identify sustainable supplies and to reduce our greenhouse gas (GHG) emissions wherever possible.

We continue to work closely with our suppliers to manage energy supply challenges. In South Africa, we have participated in industry-wide energy efficiency initiatives such as the National Energy Efficiency Accord. This Accord aims to improve industrial energy efficiency and voluntarily reduce load demand in peak periods.

Eskom is the state-owned power provider in South Africa supplying electricity to our Hillside operation. We are currently engaging with Eskom with a view to ensuring the ongoing supply to Hillside, on commercially acceptable terms, on the expiry of our current supply agreement.

We have invested significantly in energy efficiency internally and are keen to support viable renewable energy schemes. We purchase hydro-generated electricity for TEMCO in Tasmania, Australia and for Mozal in Mozambique. At Metalloys in South Africa, we also have a co-generation facility that sources its primary energy from furnace off-gas, increasing energy efficiency.

In FY2016, 34.5 petajoules of energy was generated from renewable sources, which equates to 20 per cent of our total energy use. Our total energy use in FY2016 was five per cent less than in FY2015. The hydro-generated energy we purchase through a third party supplier at TEMCO was impacted due to low water levels in the hydro dams and a prolonged interruption to the State's back up power supply. We temporarily suspended two of four furnaces in collaboration with the supplier and other industries, resulting in reduced energy consumption for the operation. The first of the furnaces was suspended in December 2015 and the second suspension followed in March 2016. The two remaining furnaces operated at a reduced electricity load and all four furnaces returned to full production in June 2016.

At Illawarra Metallurgical Coal in Australia, we continue to supply a large volume of high purity methane that has been extracted from our underground operations via an extensive gas drainage system. This is provided to a third party energy utility provider and used for power generation purposes. While delivering improved safety and production outcomes for the business, this has also delivered a significant amount of GHG emission abatement with approximately 2.35 million tonnes of CO_2-e abated during FY2016.

CASE STUDY

ADDING VALUE AFTER MINING IN OUR AFRICA REGION

Trees are being planted to support our water management and mine closure strategy in our Africa Region, as part of our Intelligent Land Management initiative. With large quantities of potentially mine-affected water held in previously mined areas, the programme results in a reduction in the volume of water to be treated, enhances regional biodiversity, helps preserve clean water and supports the mine closure process.

The selected tree species have a higher water and salts uptake than the grass species that are traditionally planted during land rehabilitation. This passive water management option provides an alternative to the more expensive 'active reverse osmosis' water treatment. As part of our water management and closure strategy, this process also aims to provide local communities with a sustainable water treatment system and enhanced ecosystem upon closure of the mine.

Emissions

The energy intensive smelting and refining processes associated with our products mean we are a significant emitter of GHG. We are working to reduce our GHG emissions and in FY2016, we reduced these by four per cent or 897 kilotonnes (kt) of CO_2-e, compared to FY2015.

Climate Change Strategy

The South32 Climate Change Strategy was approved by our Board in FY2016. This established an emissions reduction target, where FY2021 Scope 1 emissions will not be above our FY2015 Scope 1 emission baseline of 11,212kt CO_2-e. This translates into abating approximately 800kt of GHG emissions within the next five years, based on current forecasts. The emissions reduction target baseline will be revised in the event of any mergers, divestments and/or acquisitions.

Emission reduction projects that are affordable and permanent will be prioritised over 'once off' abatement efforts. Our progress will be reported annually, recognising that some years will see emissions increase above the FY2015 baseline, as we balance production with emission reduction projects. We are committed to reviewing our emission reduction approach every five years from FY2021 to ensure we make a pragmatic and affordable transition to the goal of 'net zero' emissions by 2050, as agreed in Paris at the 21st Conference of the Parties in 2015. We recognise that not all of our emissions can be avoided, so we seek to protect carbon sinks, which are habitats that absorb more carbon than they produce. We may also obtain carbon offsets as part of the strategy.

During the year, we registered an abatement project associated with Illawarra Metallurgical Coal under the Australian Federal Government's Emission Reduction Fund. The project involves the installation of new flaring equipment at our Appin Mine to combust coal mine waste gas, reducing its global warming potential. The flaring units will be commissioned in FY2017 and, it is estimated, will abate two million tonnes of CO_2-e during the seven year Emissions Reduction Fund agreement with the Clean Energy Council.

Our South African operations supply energy coal to the domestic energy supplier and we do not envisage the energy mix in South Africa substantially moving away from coal powered generation in the short to medium-term. We are aware that commitments made in international forums, such as the Paris Agreement, could have a long-term impact on the market for energy coal. We constantly monitor the global market for national policy changes and technological advances, as well as changed consumer demand. Subsequently, we have chosen not to develop any new energy coal basins.

Greenhouse Gas Emissions Performance

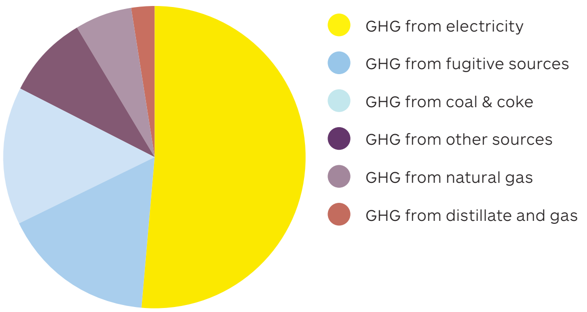
Our emissions are from within our boundaries (Scope 1), indirectly from energy purchased (Scope 2) and also indirectly from our value chain (Scope 3). We monitor and report on our Scope 1 and 2 emissions according to our reporting standard, as well as country-specific regulatory requirements, for example the National Atmospheric Emissions Inventory System (NAEIS) in South Africa and the National Greenhouse and Energy Reporting Act 2007 (NGER) in Australia. To date, engagement with our value chain on Scope 3 emissions has been limited and we will work to further understand our carbon footprint, particularly from a Scope 3 perspective.

In FY2016, we reduced our greenhouse gas emissions by four per cent or 897kt of CO_2-e, compared to FY2015. This was primarily driven by a decrease in production at our South Africa Manganese operations.

Table 2.5.1: Greenhouse Gas Emissions[(1)]

GHG emissions (kt CO_2-e)	FY2015	FY2016	% change
Scope 1	11,212	11,200	0%
Scope 2	13,177	12,293	7% decrease
Total	**24,390**	**23,493**	**4% decrease**

Diagram 2.5.1: GHG emissions by source



(1) Measured according to the World Resources Institute/World Business Council for Sustainable Development Greenhouse Gas Protocol (WRI/WBCSD). Scope 2 emissions are market-based.

CASE STUDY

CARBON TAX INTRODUCTION IN SOUTH AFRICA

The South African Government has made significant progress towards the development of policy and legal instruments that enable the measuring, reporting and verification of GHG emissions. This work has resulted in the draft Carbon Tax Regulations, and the National Pollution Prevention Plan Regulations, developed under the National Environmental Management: Air Quality Act, 2004. Greenhouse gases have also been declared as priority pollutants.

South32 was involved in the consultation related to the draft legislation through the Industry Task Team on Climate Change. The South African Government is also planning on introducing voluntary carbon budgets and we are actively participating in this process.

Air Quality

We have continued to monitor and implement controls to minimise the impacts of dust and noise across our operations, remain within regulatory limits and address community concerns. We frequently conduct internal audits and verifications to ensure legal compliance on air emissions and develop action plans to address potential non-compliances. We did not receive any fines in relation to noise and dust emissions during FY2016.

We emitted 37kt of oxides of sulphur and 10kt of oxides of nitrogen as emissions to air in FY2016.

CASE STUDY

IMPROVING AIR QUALITY AT RICHARDS BAY, SOUTH AFRICA

South32 is an industry representative on the Richards Bay Clean Air Association (RBCAA), a non-government organisation.

Richards Bay is located within the City of uMhlathuze, on the east coast of KwaZulu-Natal in South Africa. Home to Africa's largest port, a number of industries are located within the Industrial Development Zone including our Hillside aluminium smelter.

The RBCAA collects data, monitors and predicts air quality in the City of uMhlathuze, against national and international air quality standards. It also measures and reports complaints, develops emissions inventories and models dispersion.

The RBCAA has a formal procedure which allows any concerned party to lodge an air quality complaint through various mediums, with a concern log of the complaints published in the local newspaper and on the RBCAA website. Member industries in the area are expected to respond within 24 hours of being notified by the RBCAA. The number of complaints has more than halved, from 400 in 2004 to under 200 in 2013. This has continued, with complaints no higher than 200 in 2014 and 2015.

Water

Water is a shared and valuable resource that needs to be managed responsibly at the catchment level. Changing weather patterns linked to climate change, growing populations and development have the potential to affect water availability for all users in susceptible catchment areas. In turn, other catchments may experience water variability and oversupply. We are working to achieve water security for our operations and assist with water issues within the catchments where we operate.

The assessment of impacts and management of water-related risks and opportunities are managed through our risk management framework. Our planning and development teams are also working to reduce any water risks through planning and capital allocation processes.

Managing material water-related risks

South32's planning process screens our operations for potential exposure to water supply and variability risks using the World Resources Institute (WRI) Aqueduct Tool. Those operations identified as being within stressed or variable regions are scenario tested to better understand the risk at the catchment and operational levels and to determine the long-term implications for the business and the wider catchment.

During FY2016, we continued to work to better understand and manage material water-related risks at our operations. Worsley Alumina is currently experiencing a water shortage due to significant changes in precipitation patterns in recent years. In response, the business is investigating and identifying solutions to safeguard the operation against both short and long-term water availability risks. This work will continue through FY2017.

At the Hillside operations in South Africa, there is a risk of water shortage due to drought. To counter this, we are constructing a desalination plant that has the support of the public and municipality, as well as the local water authority. The plant is expected to be operational by the end of 2016.

We continue to work with stakeholders at Illawarra Metallurgical Coal in Australia to better understand and manage potential impacts on the local water catchment area from our underground mining activities. We recognise the value of the catchment area and its role in the region's water supply network, and have undertaken comprehensive environmental assessments and made predictions of impact based on scientific data collected over many years. We will continue to operate in accordance with the approved management plans that are designed to address all potential impacts.

Water Performance

South32 reports its water use according to the Minerals Council of Australia's Water Accounting Framework (WAF). The WAF is the accepted industry water accounting standard which aims to improve data integrity and comparability across the sector to ensure the continuous improvement of water reporting.

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

There has been a 44 per cent increase in Type 1 water input for FY2016 compared with FY2015. Improved application of the WAF at Cerro Matoso, as well as the purchase of third party water required at Worsley Alumina, were the significant contributors to this increase.

Waste

We manage waste materials from our operations including waste rock, waste water and tailings. The appropriate management of these materials is important due to their potentially hazardous chemical or physical properties.

We manage and report our performance on waste in accordance with applicable legislation.

Tailings

Tailings facilities at our operations are managed and assessed in accordance with our risk management framework and legislative requirements. In FY2016, any tailings facilities which are classified as a potential material risk were subject to internal or external reviews or audits. These were subsequently classified as well controlled.

We have a commitment to furthering the industry's knowledge on tailings management. South32 is part of an ICMM working group, tasked with reviewing member companies' tailings management standards and critical control strategies related to a potential tailings storage facility (TSF) loss of integrity.

The purpose of the review is to better understand the range of management standards, detect gaps within current policies and identify common elements required in a TSF critical control management plan. ICMM are expected to release the outcome of the review in FY2017.

Closure

We integrate closure considerations into our annual business planning process, as this is fundamental to creating lasting value for the communities in which we operate.

We aim to have consistent and transparent closure practices across our operations by having a single point of accountability for its planning in each region. Closure plans are maintained for each operation and address specific closure criteria and future land use. The closure plans also cover health, safety, social aspects, environmental impacts and opportunities, as well as post-closure monitoring and management. These plans provide the basis for cost estimates and associated financial provisioning.

Further information on the financial provisions associated with closure can be found in note 15 to the financial statements.

CASE STUDY

REMEDIATING WASTE STOCKPILES IN SOUTH AFRICA

In our Africa Region we are implementing a number of recovery and recycling processes for legacy waste stockpiles, made up of ferro manganese slag. These stockpiles are defined as waste under South African legislation. However, there are environmentally responsible uses that could potentially be realised to reduce liability at closure and draw value from alternative redundant materials.

SOCIETY

We are committed to creating shared value. We want to continue delivering natural resources that improve people's lives now and for generations to come.

We want to be trusted by society and the communities in which we operate. We will achieve this by transparently interacting with societies and investing in our communities, while respecting human rights. Being a successful contributor to transformation in South Africa is a key element of our operations in the region.

We support practices that enable people to make choices that give them control over the development of their lives, beliefs, institutions and well-being. Our Values, Sustainability Policy, Code of Business Conduct and the company-wide community standard detail our approach to working with our host communities.

Our engagement with society is extensive and includes a wide range of internal and external stakeholders. Details of our stakeholder engagement can be found on our website at *www.south32.net*

Our Community Contribution

Our mining and processing produces commodities that are required for development, technology and innovation. Through our operations, we also provide local employment and procurement opportunities, as well as community investment.

Designed to meet the needs of our stakeholders at different stages of our operations' lifecycles, our community investment activities seek to:

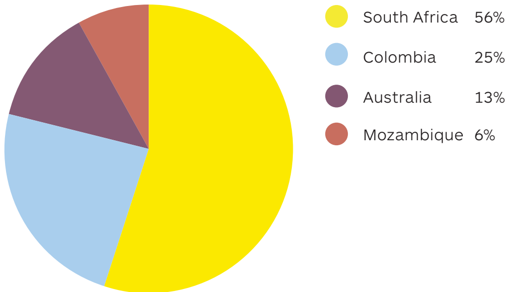
- Empower employees to contribute to their community and society
- Support local communities in areas of need
- Develop long-term projects focussed on delivering positive outcomes for future generations

Our investments in local communities work towards building shared value.

Community Investment

During FY2016, we contributed US$16.53[1] million consisting of cash, in-kind support and administrative costs, which is a decrease of US$2.1 million compared to FY2015. This reflects our revised approach to community investment as we focus on programmes that create shared value.

Diagram 2.6.1 Community investment[1] by Country



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

CASE STUDY

SUPPORTING COMMUNITY HEALTH

We are proud to support the Paediatric High Care ICU Ward at Sebokeng Hospital, south of Johannesburg. South32 donated US$410,000 for the construction of the state-of-the-art facility through the Carte Blanche Making a Difference Trust.

The ward will help to reduce the load on other hospitals by offering emergency and critical care to children under six years of age. The hospital is in the Sebokeng township where the majority of our Metalloys Smelter employees live.

CASE STUDY

COMMUNITY CONTRIBUTIONS AT GROOTE EYLANDT

Machado Joseph Disease (MJD) is a genetic, neurodegenerative disease that slowly affects a person's muscle function until they are wheelchair dependant and rely on care for all aspects of daily life. The projected figures for people on Groote Eylandt living with the disease are amongst the highest anywhere in the world.

Since 2008, GEMCO has supported the MJD Foundation to improve the quality of life for Indigenous Australians and their families living with the disease. GEMCO's cash and in-kind contributions have enabled the MJD Foundation to address significant gaps in the provision of equipment and services, and to identify unique treatment methods. This includes a physiotherapy programme that focusses on increased physical activity (pictured below) and therapy in medical facilities and 'On Country'. These methods have been credited with slowing the progression of MJD and enabling patients to maintain their independence longer.

Through GEMCO's support and in collaboration with international scientists, the MJD Foundation is seeking to develop a treatment to slow the progression of the disease. Specialised education programmes and genetic counselling support is provided for those at risk of having the disease so they can build an understanding of how it is passed to the next generation.

It is through initiatives like this that GEMCO aims to leave a positive and lasting impact on current and future generations on Groote Eylandt.

Transparency

We support transparency of payments made by resources companies to the country in which they operate. We will comply with all transparency requirements relating to our operations and this currently includes the Extractive Industries Transparency Initiative (EITI), the EU Accounting Directive, the Australian Voluntary Tax Transparency Code and the Global Reporting Initiative (GRI) requirements. We are transparent in our reports on payments to governments and these can be found on our website at *www.south32.net*. We have also included a full list of South32 subsidiaries including their country of tax residency, in note 28 to the financial statements on page 178.

CASE STUDY

MATCHED GIVING

South32 launched the Australian Matched Giving Programme in January 2016. Australian employees nominated and made contributions to 30 local, state and national charities. In recognition of employee contributions, South32 matches all employee donations to the selected charities dollar-for-dollar.

Understanding Local Communities

Building relationships with our communities through regular, open and honest dialogue is important to us. We engage with our local communities and ensure their views are incorporated into our decision-making.

We sponsor and attend events in local towns, have family days at our operations and our Board visit our local communities.

Our business can impact local communities both positively and negatively. Impacts such as dust and noise, changed land uses and property values are some of the potential negative effects. Possible benefits include local jobs, local supply contracts and increased regional infrastructure and services.

We seek feedback from local communities in a variety of ways including the completion of social baseline studies, social impact and opportunity assessments, and community perception surveys.

The impact of our operations on the community is monitored through community perception surveys, with the sentiment and feedback gained, used to help us adapt our approach and respond to any grievances, complaints or community issues.

We recognise the traditional rights and values of Indigenous Peoples, respect their cultural heritage and provide opportunities for inclusion and advancement. Some operations are located on or near Indigenous lands and we provide cultural awareness and competency training for relevant employees. We have implemented engagement programmes consistent with the ICMM Position Statement on Indigenous Peoples and Mining.

CASE STUDY

COMMUNITY CONTRIBUTIONS IN COLOMBIA

Cerro Matoso has contributed more than US$1.3 million over the last two years to Pueblo Flecha, an Indigenous community located close to its operations. These funds have supported education, housing and infrastructure improvements. To address health concerns related to the use of traditional stoves, we have equipped 66 new houses with smokeless stoves and air vents. These stoves and vents reduce particulate matter in the air, which can cause respiratory illness. The homes were given to vulnerable families during the course of the last two years and are one of the most important projects of the Social Alliance for the Alto San Jorge.

Grievances and Complaints

We have implemented local level community complaints and grievance processes to acknowledge, investigate and document community concerns and complaints. This provides a consistent, fair and confidential complaints handling and resolution procedure for our stakeholders, and ensures responses occur in a timely manner.

Community complaints and grievances

There was one grievance and 122 complaints filed in FY2016. The grievance was lodged with a third party in relation to electricity payments.

Community complaints

Complaint type	Number received
Dust	8
Noise	82
Odour	2
Employment	3
Community Investment	3
Other	24
Total	**122**

Community complaints by Region

	Number received	
Region	**FY2015**	**FY2016**
Africa Region	15	8
Australia Region	172	114
Total	**187**	**122**

The number of complaints at the sites remained consistent with FY2015. Illawarra Metallurgical Coal was an exception to this with a decrease in complaints by 47 per cent. A significant part of this decrease was due to the third party provider for haulage now managing their own complaints processes.

Illawarra Metallurgical Coal remains the largest contributor to noise complaints, with 49 lodged in FY2016 (compared to 84 in FY2015). Train movements are the main source of these complaints. A project is underway with our partners to further investigate causes and possible actions to address the rail noise.

Following concerns raised by the local community near the Cerro Matoso mine, South32 is seeking to understand whether or not there is any causal link between illnesses alleged by some local community members and the Cerro Matoso operation. Cerro Matoso continues to actively engage with the local community to better understand and alleviate their concerns.

Transformation in South Africa

Transformation is central to our efforts to make a meaningful contribution to the social and economic development of South Africa. We are committed to the National Transformation Agenda as enacted in the B-BBEE Act and the Mining Charter. We have accelerated the implementation of key transformation initiatives and aim to move beyond compliance by 2020.

Mining companies operating in South Africa are required to submit Social and Labour Plans to the Department of Minerals and Resources prior to the granting of a mining right.

Through our plans, we aim to ensure that empowerment and sustainable growth in South Africa is enhanced by:

- Facilitating economic empowerment with broad-based equity ownership structures
- Working towards equitable representation and the upskilling of our historically disadvantaged workforce at all levels
- Developing black small and medium enterprises and the creation of opportunities for growth for existing black enterprises
- Increasing our local engagement through focussed and sustainable community development
- Improving the housing and living conditions of our employees and ensuring our plans are aligned with our values and the requirements of the South African Mining Charter
- Recruiting from within our local communities

CASE STUDY

COMMUNITY CONTRIBUTIONS IN OUR AFRICA REGION

Local economic development through social and labour plans in South Africa must be aligned with the relevant local and district municipality Integrated Development Plan (IDP). The IDP is intended to provide a platform for investment opportunity, economic growth, poverty reduction and infrastructure development.

Kanana is a small village of 700 people, situated near Hotazel Manganese Mines, part of our South Africa Manganese operations. This community has faced water shortages for the last 30 years. In June 2015, we collaborated with the Joe Morolong Local Municipality to develop water infrastructure that complies with the Rural Development Plan Standards. A water source has since been established, boreholes equipped, and storage facilities and a basic water reticulation network have been erected. This US$625,000 investment has not only provided water in Kanana, but has managed to create 29 local jobs, and provided technical and life skills training to the people in Kanana, mostly youth.

Respecting Human Rights

We acknowledge our activities have the potential to impact on human rights and we seek to address this by setting the appropriate labour conditions, managing the activities of security teams and supporting local community programmes.

Our Sustainability Policy details our commitment to respecting internationally recognised human rights. This policy is aligned to the ICMM Sustainable Development Framework, UN Global Compact Principles and the UN Universal Declaration of Human Rights. Our security procedures are consistent with our commitment to the Voluntary Principles on Security and Human Rights.

Security Practices

The nature of our operations means we work closely with a variety of people from local communities. In some of the places we operate, we have experienced security incidents. These include the theft of copper cables at our South Africa Energy Coal operations, and the theft of Wesselite from our Wessels underground mine.

To protect our people and assets, we engage dedicated security teams. All our private security providers must meet the requirements of the International Code of Conduct for Private Security Providers and operate consistently with the Voluntary Principles on Security and Human Rights. This includes specific training in these Principles where required.

Impact Assessment

In line with the UN Guiding Principles on Business and Human Rights, we identify, prevent, and in the instance of an infringement, mitigate and account for how we address human rights impacts.

This includes adverse human rights impacts that we may cause or contribute to through our activities, or which may be directly linked to our operations, products or services through its business relationships.

We have set performance requirements to ensure we appropriately identify, prevent and mitigate adverse human rights impacts, as defined in the UN Declaration of Human Rights, the UN Global Compact Principles and other internationally recognised rights. Our operations have a grievance process designed to facilitate the resolution of any complaints.

An assessment of human rights impacts is completed at each operation relevant to the local context. This includes internal and external stakeholders' perceptions of our human rights practices and the extent to which the company policies, procedures and practices respond to International Human Rights governance standards. Where impacts are identified, we develop and implement a management plan to mitigate or eliminate them.

Supplier Assessment

When engaging with South32, suppliers agree to work under our stipulated standards, terms and conditions.

We have introduced 'zero tolerance requirements' for adverse human rights impacts by suppliers of goods and services through pre-qualification of our new vendors. This includes statements excluding child labour, the inhumane treatment of employees and prohibiting forced or compulsory labour. Our contracting terms also stipulate the provision of workplace health and safety.

We recognise that there is a risk of adverse human rights impacts within our supply chains. In FY2017, we will commence audits on selected vendors to ensure compliance with our standards.

Product Stewardship

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

As our main activities are resource extraction and primary processing, the majority of the life cycles of our products occur after they have left our control. As an ICMM member, we have committed to implementing the ICMM Sustainable Development Framework, which encourages responsible design, use, reuse, recycling and disposal of our products along the supply chain. Through our management systems and internal audit processes, we assess, prevent or mitigate potential environmental, health and safety risks to our people and communities to ensure the resources we produce are properly managed.

Safety Data Sheets (SDS) and labels are the main tools we use to communicate current, complete and accurate information to all stakeholders in our supply chain. The SDS outline the products' health, safety and environmental aspects to allow their safe and responsible use. For products where chemical safety assessments are required by law, we also supply exposure scenario information to our customers, which cover risk management measures for the identified uses of our products.

In FY2016, we undertook a number of product stewardship initiatives, including with the International Manganese Institute, International Aluminium Institute and the Nickel Institute. We have also conducted a full compliance review for the products we sell into the European Union under the Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH) regulation.

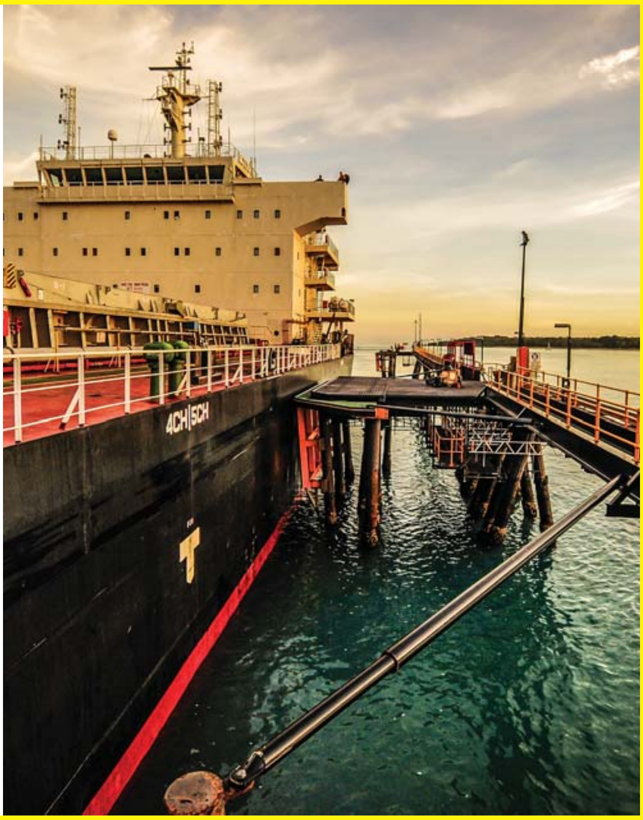
We provide ongoing technical assistance to our customers to better understand the properties of our products, including how they can be used more efficiently.

CASE STUDY

IMPROVING COMMODITY SHIPPING

We regularly participate in the International Maritime Organisation sub-committee meetings on carriage of cargoes and containers. We have led the way for a new Manganese Ore Fines Schedule to be included in the International Maritime Solid Bulk Cargoes (IMSBC) code. This schedule was necessary to allow the safe shipment and stowage of manganese, which has the potential to liquefy when on board a vessel. We are part of a global industry initiative aiming to develop a new transportable moisture limit test method for bauxite. This will take into account the physical and chemical properties of the product, ensuring safer transportation.

We have also assessed our moisture management procedures to implement controls and provide the assurance that our products will not liquefy when on board a vessel, maintaining the vessel's stability. Working with industry, we proactively manage product stewardship issues, including the requirements to test and classify our solid bulk products for compliance against the 'chemical hazard and harmful to the marine environment' criteria, as specified in the IMSBC code.



RISK MANAGEMENT

The identification, assessment and management of risk is fundamental to our business. Our risk management and internal control framework is used to identify and assess risk events, and to establish robust controls and mitigation strategies.

Risk management is embedded in our business activities, functions and processes with materiality and tolerance for risk being key considerations in our decision making processes. Material risks that could impact the delivery of our strategy are analysed and assessed consistently across the business. The potential consequence of each risk is determined in accordance with the methodology outlined in our Risk Management Standard.

Controls are implemented and verified on an ongoing basis to ensure the level of risk is monitored and managed. Action plans to correct deficiencies in the application of the Risk Management Standard or specific deficiencies in risks and controls are tracked to ensure all actions are completed.

Our business, operating and financial performance are subject to various risks and uncertainties, many of which are beyond the Group's reasonable control. The following identified risks are not listed in order of significance and are not intended to be exhaustive. They reflect the most significant risks currently identified for our Group.

STRATEGIC AND EXTERNAL RISKS

Fluctuations in commodity prices, exchange rates, interest rates and global economy

Nature: Our earnings, balance sheet and cash flows are affected by the volatility of commodity prices, interest rates and currencies. The prices realised for our products are linked to global commodity markets, which reflect the balance of supply and demand for each commodity. Operating costs are influenced by the currencies of those countries where our operations are located and by currencies in which the costs of imported equipment and services are determined.

Mitigation: The combination of our high-quality operations and strong balance sheet is a key differentiator in the current challenging economic environment. Our diverse portfolio and geographical spread also provide some downside protection from variability. To further mitigate risk, we typically seek to manage financing costs, currency impacts, input costs and commodity prices on a floating index basis. We actively monitor the markets in which we operate and continuously review our operating and capital expenditure plans.

Actions by governments, political events or tax authorities

Nature: Our business could be adversely affected by new government regulations, such as changes to taxation policy and controls on imports, exports and prices. Our operations are based on material long-term investments that are dependent on long-term fiscal stability. Audits and reviews by administrative bodies may result in us incurring additional tax or royalty payments. In addition, our entities could be exposed to the risk of nationalisation, renegotiation or nullification of existing contracts, leases, permits or other agreements.

Mitigation: We proactively manage relationships with local, domestic and international governments and regulators. We engage directly with governments and key stakeholders to ensure risk associated with regulatory change is identified, understood and, where possible, mitigated.

Cost inflation and labour disputes could impact operating margins and expansion plans	
Nature: Our business are exposed to the price variability of our production inputs and this could negatively impact operating margins. Labour is a significant input to our operating costs. Labour costs may vary depending on underlying demand and the requirements of each operation. An increase in the capital cost of development projects or scheduling delays could adversely impact anticipated financial returns. Industrial action, acts of terror and civil unrest could impact on operations.	**Mitigation:** Our strategy seeks to optimise our operations, sustainably lowering operating costs and capital expenditure. We aspire to have constructive relationships and dialogue with trade unions and employees across our business. Investment decisions are framed by our simple capital management framework and all discretionary investments compete, based on the risk and return equation.

Access to water and power	
Nature: Water and power are critical to all our operations. Continued access to water and power, on current terms, to support existing activities cannot be guaranteed in the future. Underlying factors can change, such as the climate, our operations, counterparties, contractual arrangements or government policy.	**Mitigation:** We work closely with suppliers of water and power, engaging on a long-term, mutually beneficial basis. We also work to secure water and energy resources within our control. In areas where the long-term availability of water has become less certain as a result of climate change and drought, we are investigating, and where appropriate investing in, initiatives such as the desalination facility at our Hillside operation. As we seek to diversify our energy supply sources where possible, we will continue to pursue opportunities such as the co-generation and multiple fuel options in place at Worsley Alumina.

We may be subject to regulations in relation to dividend payments and capital returns	
Nature: Our ability to pay dividends and utilise excess capital will depend on government regulations, the level of distributions received from operating subsidiaries and associates, and the level of cash balances and access to those cash balances.	**Mitigation:** We have robust procedures in place that govern the efficient allocation of capital across the Company, including returning surplus capital to South32 Limited. These procedures are continuously reviewed in line with government regulations and business requirements to ensure our risk is managed. We also have a highly integrated cash management structure that underpins our access to cash.

Regulatory risks of climate change	
Nature: Carbon pricing including carbon taxes, trading or any other regulatory carbon pricing mechanism, has the potential to affect the economic viability of our operations. We monitor climate and energy policy developments including the large increase in the range and depth of carbon pricing legislation globally. This includes the outcomes of the Paris Agreement signed in December 2015 and the accompanying 'Nationally Determined Contributions', plus policy changes relating to carbon pricing legislation in Australia and South Africa (in draft).	**Mitigation:** When considering the long-term viability of our operations and future capital investments, we apply a range of scenarios for carbon pricing. We support carbon pricing that is globally competitive and broad-based, covering all industry sectors and possible emission sources. Recognising that carbon pricing will likely become more stringent over time, we are committed to de-carbonising our operations. An emissions reduction target is included in all employee remuneration packages, including executives.

Risks to commodity portfolio from climate change

Nature: We are monitoring and responding to increasing commitments to divest or reduce investments in fossil fuel companies. While our energy coal operations represented 20.4 per cent of total revenue from Group production in FY2016, this trend could have a detrimental impact on investor appetite for our shares. Furthermore, any reduction in the anticipated level of demand for energy coal could have a negative impact on the pricing of our energy coal products.

Mitigation: We have chosen not to develop any new energy coal basins. Our South African energy coal operations are positioned at the low end of the industry cost curve. We supply the domestic South African market under long-term contracts to Eskom, the national power provider which accounts for 90 per cent of coal powered generation, and international markets. Our seaborne energy coal is predominantly sold to emerging markets where electricity supply is dominated by coal powered generation. We conduct scenario analyses annually to stress test our portfolio. A number of our commodities are critical in supporting a transition to a two degree limited future. This includes metallurgical coal and manganese to create high quality steel for climate resilient infrastructure: aluminium for light weighting and creating more efficient transport options; and manganese and nickel, both used in some battery technologies that support renewable energy.

Access to infrastructure

Nature: Our products are transported to customers by a range of methods, including road, rail and sea. A number of factors could disrupt the availability of transport services, including weather-related problems, rail or port capacity and allocation constraints, key equipment and infrastructure failures, and industrial action. These risks may limit our ability to deliver product to our customers. Further, the cost of accessing required infrastructure may increase and we may not be able to pass on the full extent of the increase to our customers.

Mitigation: Our business manages the infrastructure needs of our operations. We seek to understand our access requirements and then implement infrastructure plans to address them. Many of our operations have long-term agreements in place to secure necessary access. Business continuity plans are developed to manage the risk of disruption to critical infrastructure. Our centralised, fully integrated marketing function allows us to optimise our supply chain and effectively manage logistics and handling of commodities from load point to customer.

Failure to maintain, realise or enhance existing reserves

Nature: Mineral Resource and Ore Reserve estimates are expressions of judgement based on knowledge, experience and industry practice. Our value is limited to the known resources and reserves position. Failure to take the right opportunities to optimise and enhance our resources and reserves position could detrimentally impact long-term shareholder returns.

Mitigation: We have a number of initiatives in place to optimise our operations, unlock their potential and identify new options that may compete for capital. Our simple capital management framework and capital prioritisation process is designed to maximise total shareholder returns.

Support of the local communities in which businesses are located

Nature: Notwithstanding our contribution to the communities in which we are located, local communities may become dissatisfied with the impact of our operations or oppose new development projects. Community action could include litigation, which may affect the costs, production and, in extreme cases, viability of our operations. There are also security risks that may impact our people and operations.

Mitigation: We enable our operations to effectively manage relationships with communities and we actively seek to engage and support them. Our Regional Model means our operations are managed by people who understand their communities and the environment in which they operate.

OPERATIONAL RISKS

Health and safety risks in respect of our activities

Nature: Longer-term health impacts may arise due to the exposure of the workforce to hazardous substances. As we operate internationally, we may be affected by potential pandemic outbreaks. Potential safety events that may have an adverse impact on our operations include fire, explosion or rock fall incidents both in above ground and underground mining operations, personnel conveyance equipment failures or human errors in underground operations, aircraft incidents, incidents involving light vehicles and mining mobile equipment, ground control failures or gas leaks, equipment isolation during repair and maintenance, working from heights or lifting operations.

Mitigation: The well-being of our employees is paramount and our values of Togetherness and Care underpin everything we do. As a result, our operations have, and have had for a number of years, comprehensive health and safety policies in place with associated performance requirements that are intended to help prevent and mitigate the impact of such exposures. The company-wide Care Strategy will further our efforts to provide a safe working environment and prevent all injuries. The creation of an inclusive workplace with a strong culture of care and accountability will be supported by well-designed work that delivers safe outcomes and a focus on continuously improving and learning.

Environmental risks in respect of activities including water and waste water management

Nature: Our operations, by their nature, have the potential to impact biodiversity, land, water and related ecosystems, including from the discharge of contaminants. Changes in scientific understanding of these impacts, regulatory requirements or stakeholder expectations may prevent or delay project approvals and result in increased costs for mitigation, offsets or compensatory actions. They may also impact the sustainability of operations.

Mitigation: We have defined policies and standards that seek to prevent, monitor and limit the impact of our operations on the environment. Certain sites are subject to remediation plans that seek to address known contamination as a result of past activities. As part of this process, we are focussed on water and waste water management, as the sustainability of our operations relies on our ability to obtain an appropriate quality and quantity of water. We use water responsibly and manage it appropriately, taking into account natural supply variations.

Deterioration in liquidity and cash flow

Nature: Fluctuations in commodity prices and the global economy may adversely impact future cash flows. If we compromise our balance sheet, liquidity and cash reserves, interest rate costs on borrowed debt and future access to financial capital markets could be adversely affected.

Mitigation: As part of our capital management framework, we have committed to maintain an investment grade credit rating and strong liquidity through the economic cycle. Our Treasury team is responsible for managing the balance sheet and cash flow within strict financial criteria.

Unexpected operational or natural catastrophes

Nature: We have extractive, processing and logistical operations in a number of geographic locations. Our operations can be exposed to incidents such as fire and explosion, loss of power supply and critical mechanical equipment failures. Our operations, including the associated transport networks, are exposed to the physical impacts of climate change. This includes changes to water availability and access (both scarcity and potential for flooding), variability in temperatures and rising sea levels. We may also be exposed to other incidents that affect operations, including fire, flooding, underground rock failures, pit wall failures at open-cut mines and unexpected natural catastrophes, the frequency and severity of which may be exacerbated as a result of climate change.

Mitigation: We undertake planning designed to protect the safety of our employees, contractors and stakeholders, and the long-term value of our operations. Our operations use our risk management tools to analyse risks, such as unexpected catastrophes, and implement actions to prevent or limit the effects. We are also working on projects to increase the long-term resilience of our operations to the physical impacts of climate change. This includes incorporating the most up-to-date climate parameters into our planning, risk and investment model. By recognising that we share critical and valuable natural resources with others, we are also taking action to protect and maintain access to shared ecosystem services such as water and biodiversity for the long-term. Contingency, business continuity and disaster recovery plans are developed to respond to significant events to ensure the safe restoration of normal business activity. We purchase insurance to protect ourselves against the financial consequences of an event, subject to availability and cost.

Commercial counterparties that we transact with may not meet their obligations

Nature: We contract with a number of commercial, government and financial counterparties, including customers, suppliers and financial institutions. Counterparties may fail to perform against existing contracts and obligations or long-term take-or-pay agreements may adversely impact on cost or price performance. Non-supply or changes to the quality of key inputs may impact costs and production at operations.

Mitigation: We seek to proactively engage with our contracting counterparties to collaboratively manage instances of non-supply or quality control prior to it occurring. Our operations manage exposures by defining counterparty limits based on counterparty credit ratings and the level of exposure. We purchase insurance to protect ourselves against the financial consequences of supply disruption, subject to availability and cost.

Risks of fraud and corruption

Nature: We are exposed to the risks of fraud and corruption, both within and external to our organisation. Fraud and corruption may lead to regulatory fines, financial loss, litigation, loss of operating licences or reputational damage.

Mitigation: We adhere to the applicable legislative and regulatory requirements in respect of fraud and corruption in the jurisdictions in which we operate. Our Code of Business Conduct, policies and procedures describe the controls in place to manage this risk and our expectations of our people when faced with fraud and corruption. We also provide our people with the tools to safely report any suspected fraudulent or corrupt activities.

Breaches of information technology security processes

Nature: Our global information technology systems, consisting of infrastructure, applications and communication networks, could be subject to security breaches resulting in theft, disclosure or corruption of information. Security breaches could also result in misappropriation of funds or disruption to operations.

Mitigation: Network and physical control frameworks, together with anti-virus software, provide a level of protection. Monitoring of networks, ethical hacking and data analysis is undertaken to identify suspicious activity and potential exposures, allowing appropriate action to be taken.

Failure to retain and attract key employees

Nature: The loss of key personnel or the failure to attract, train and recruit sufficiently qualified employees could affect our operations, financial position and growth.

Mitigation: We have a number of initiatives in place to provide an inclusive workplace and establish an effective, engaged and empowered workforce. Our skills development activities focus on having the right people in the right roles, building a strong pipeline of future leaders and maintaining a competent workforce with deep functional expertise. Engaging with employees at all levels allows everyone to connect, supporting decision making and continual improvement.

OPERATING AND FINANCIAL REVIEW

INTRODUCTION

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

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

- Our Strategy on page 10 of the Annual Report and
- Risk Management on pages 37 to 42 of the Annual Report, which includes the most significant risk factors

To assist shareholders in their understanding of the South32 Group, comparative pro forma financial information has been prepared for FY2015 to reflect the business as it is now structured and as though it was in effect for the period 1 July 2014 to 30 June 2015. Accordingly, the statutory financial information for the year ended 30 June 2015 does not reflect the performance of the South32 Group as it is currently structured.

A reconciliation between the comparative pro forma financial information and the comparative statutory financial information is included in this report on page 53 and must be read in conjunction with the notes on pages 53 and 54. Unless otherwise stated, all comparative period amounts are pro forma.

The pro forma financial information is not prepared in accordance with IFRS. The basis of preparation for the pro forma financial information is set out on page 53.

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

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

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

We believe that these non-IFRS measures, listed below, are important when assessing the underlying financial and operating performance of the South32 Group and the South32 Group's operations.

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

In discussing the operating results of the South32 Group, the focus is on Underlying earnings. Underlying earnings is the key measure that is used to assess the performance of the South32 Group, make decisions on the allocation of resources and assess senior management's performance. In addition, the performance of each of the South32 Group operations and operational management are assessed based on Underlying EBIT. Management uses this measure because financing structures and tax regimes differ across the South32 Group's operations and substantial components of tax and interest charges are levied at a group level rather than an operation level.

In order to calculate Underlying earnings, Underlying EBIT and Underlying EBITDA, the following items are adjusted as applicable each period, irrespective of materiality:

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

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

Additional non-IFRS measures definitions:

Non-IFRS measure	Definition
Underlying effective tax rate	Comprises Underlying income tax expense excluding royalty related taxation divided by Underlying profit before tax; both the numerator and denominator exclude equity accounted investments.
Underlying EBIT margin	Comprises Underlying EBIT excluding third party product EBIT, divided by revenue excluding third party product revenue.
Underlying EBITDA margin	Comprises Underlying EBITDA excluding third party product EBITDA, divided by revenue excluding third party product revenue.
Margin on third party products	Comprises EBIT on third party products, divided by third party product revenue.

Non-IFRS measure	Definition
Net debt	Comprises interest bearing liabilities, including finance leases, less cash and cash equivalents.
Net operating assets	Represents operating assets net of operating liabilities, which predominantly exclude the carrying value of equity accounted investments, cash, interest bearing liabilities and tax balances.
Return on invested capital (ROIC)	Calculated as 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 impairments) and inventories. Manganese is included in the calculation on a proportional consolidation basis.

FINANCIAL KEY PERFORMANCE INDICATORS FOR FY2016

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

Financial highlights

US$M	FY2016	Pro forma FY2015	Change %	Statutory[(1)(2)] FY2015
Revenue[(3)]	**5,812**	7,743	(25%)	3,843
Profit/(loss) from continuing operations	**(1,441)**	519	(378%)	(331)
Profit/(loss) after taxation	**(1,615)**	28	N/A	(926)
Basic earnings per share (US cents)[(4)]	**(30.3)**	0.5	N/A	(26.9)
Other financial measures				
Underlying EBITDA	**1,131**	1,849	(39%)	820
Underlying EBITDA margin	**21.5%**	26.2%	(4.7%)	23.4%
Underlying EBIT	**356**	1,001	(64%)	345
Underlying EBIT margin	**6.7%**	14.0%	(7.3%)	9.7%
Underlying earnings	**138**	575	(76%)	79
Basic Underlying earnings per share (US cents)	**2.6**	10.8	(76%)	2.3
Return on invested capital (ROIC)	**1.7%**	6.2%	(4.5%)	N/A

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

(2) Percentage change has not been disclosed for statutory results on the basis that the variances between FY2016 and FY2015 are substantially different due to the impact of the Internal Restructure prior to demerger.

(3) Revenue includes revenue from third party products.

(4) FY2016 basic earnings per share is calculated as Profit/(loss) after taxation divided by the weighted average number of shares for FY2016 (5,324 million). FY2016 basic Underlying earnings per share is calculated as Underlying earnings divided by the weighted average number of shares for FY2016. Pro forma FY2015 basic earnings per share is calculated as pro forma Profit/(loss) after taxation divided by the number of shares on issue at 30 June 2015 (5,324 million). Pro forma FY2015 basic Underlying earnings per share is calculated as pro forma Underlying earnings divided by the number of shares on issue at 30 June 2015.

EXTERNAL FACTORS AND TRENDS AFFECTING THE SOUTH32 GROUP'S RESULTS

The following describes the main external factors and trends that have had a material impact on the South32 Group's financial position and results of operations. Details of the South32 Group's most significant risk factors can be found in Risk Management on page 37 to 42 of the Annual Report.

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

Commodity prices and changes in product demand and supply

South32 produces metals and ores, prices of which are largely driven by global demand and supply for each of these commodities. Commodity markets were lower in FY2016 as most physical markets remained oversupplied due to weaker demand and high global supply chain inventory levels for most of our products. The prices the South32 Group obtains for its products are a key driver of its business, and fluctuations in these commodity prices affect its results, including cash flows and asset values.

The estimated impact on Underlying EBIT for FY2016 of changes to commodity prices is set out below:

Commodity prices

Estimated impact on Underlying EBIT of a +/-10% change in commodity price

US$M	FY2016
Aluminium	151
Alumina	133
Energy coal	75
Metallurgical coal	55
Manganese ore[1]	48
Manganese alloy[1]	19
Nickel	29
Silver	32
Lead	29
Zinc	14

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

The following table shows prices of the South32 Group's most significant commodities for FY2016 and FY2015. These prices represent quoted prices from the relevant sources as indicated. These prices differ from the realised prices on the sale of production due to contracts to which the South32 Group is a party, differences in quotational periods, quality of products, delivery terms and the range of quoted prices that are used for contracting sales in different markets.

Quoted Commodity Prices

	Average Value			Closing Value		
Year ended 30 June	**FY2016**	**FY2015**	**Change**	**FY2016**	**FY2015**	**Change**
Aluminium (LME Cash)[1] (US$/t)	1,544	1,880	(18%)	1,635	1,647	(1%)
Alumina[2] (US$/t)	250	339	(26%)	240	323	(26%)
Energy coal[3] (US$/t)	53.2	64.7	(18%)	59.1	59.8	(1%)
Metallurgical coal[4] (US$/t)	81.8	102.9	(21%)	91.5	88.0	4%
Manganese ore[5] (US$/dmtu)	2.87	3.89	(26%)	3.11	2.98	4%
Manganese alloy[6] (US$/t)	755	879	(14%)	770	821	(6%)
Nickel (LME Cash)[1] (US$/t)	9,328	15,447	(40%)	9,415	11,680	(19%)
Silver[7] (US$/oz)	15.3	17.3	(12%)	18.4	15.7	17%
Lead (LME Cash)[1] (US$/t)	1,715	1,983	(14%)	1,780	1,754	1%
Zinc (LME Cash)[1] (US$/t)	1,764	2,205	(20%)	2,103	1,994	5%

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

The following summarises the pricing trends of our most significant commodities for FY2016. The price change reflects the average of FY2016 over FY2015.

Aluminium: The average LME cash settlement price for the year was 18 per cent lower than that of FY2015. The price decrease was driven by an oversupplied market in the first half of the financial year. However, market balances improved in the second half of the year with increased demand from China and reduced smelting production.

Alumina: The average FOB Australia price for the year was 26 per cent lower than that of FY2015. Reduced prices were driven by poorer aluminium market conditions and lower seaborne bauxite prices to China.

Energy coal: The Richards Bay FOB average price decreased by 18 per cent during FY2016. The price decrease was driven by weaker import demand from China and India, with reduced exports mainly from Indonesia. Both Russia and Australia maintained their exports at a healthy level.

Metallurgical coal: The average Platts Low Vol Hard Coking Coal price decreased by 21 per cent during FY2016. The price decrease was driven by lower imports by China, India and Japan. Seaborne exporters including Australia, United States and Canada reduced exports in response to lower import demand and decline in the seaborne hard coking coal prices.

Manganese: The average Manganese Ore Metal Bulletin 44 per cent CIF China price decreased by 26 per cent in FY2016. Oversupply and subdued demand led to falling prices in the first half of FY2016, whilst the market improved in the second half with supply cut-backs and higher Chinese demand. The Western Europe spot high carbon ferromanganese average price decreased 14 per cent during FY2016 due to persistent oversupply.

Nickel: The average LME nickel Settlement Daily Official price decreased 40 per cent in FY2016 compared with FY2015. Despite record high exchange stocks and the market surplus, producers continued to maintain supply leading to lower prices.

Silver: The FY2016 average LBMA silver price decreased by 12 per cent compared to FY2015. Prices were suppressed in the first half of the financial year in anticipation of a United States interest rate hike, but recovered in the second half as weakness in the global economy pushed up investor interest in silver.

Lead: The FY2016 average LME cash settlement price decreased by 14 per cent compared to FY2015. Throughout the year, price swings were driven by a slowdown in Chinese demand and US dollar volatility, but remained range bound in the finely balanced market.

Zinc: The FY2016 average LME cash settlement price decreased by 20 per cent compared to FY2015. Prices were depressed in the first half of FY2016 due to weak demand mainly from China. However, prices increased in the second half as the market tightened due to mine exhaustions and price-induced supply cut-backs.

Exchange rates

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

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

The following table indicates the estimated impact on FY2016 Underlying EBIT of a change in the principal currencies to which the South32 Group is exposed against the US dollar. The sensitivities give the estimated impact on Underlying EBIT based on the exchange rate movement in isolation. The sensitivities assume all variables except for exchange rate remain constant. There is an inter-relationship between currencies and commodity prices where movements in exchange rates can cause movements in commodity prices and vice versa. This is not reflected in the sensitivities below. These sensitivities should therefore be used with care.

Estimated impact on Underlying EBIT of a +/-10 per cent change in currency relative to the US dollar

US$M	FY2016
Australian dollar	**146**
South African rand	**94**
Colombian peso	**24**
Brazilian real	**11**

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

Exchange rates

	Average Rate			Closing Rate		
	FY2016	FY2015	Change	FY2016	FY2015	Change
Australian dollar[1]	**0.73**	0.84	(13%)	**0.74**	0.77	(3%)
Brazilian real	**3.70**	2.68	(38%)	**3.24**	3.14	(3%)
Colombian peso	**3,065**	2,257	(35%)	**2,916**	2,585	(12%)
South African rand	**14.51**	11.45	(27%)	**14.85**	12.28	(21%)

(1) Displayed as US$ to A$1 based on common convention; all other currencies are local currency to US$.

Local economic conditions combined with expectations of monetary policy normalisation in the United States influenced the direction of our producer currencies in FY2016. As a result, the Australian dollar, South African rand, Brazilian real and Colombian peso all depreciated year on year, and in average over the year, against the US dollar in FY2016.

Operating costs

As the prices for South32 Group products are determined by the global commodity markets in which the Group operates, controlling operating costs is key. FY2016 and FY2015 pro forma comparative underlying operating costs are set out below, excluding earnings adjustment items impacting operating costs. Earning adjustment items are detailed in note 5(b)(i) to the financial statements.

Operating costs

US$M	FY2016	FY2015
Operating cash costs	**4,404**	5,388
Third party commodity purchases	**579**	767
Depreciation and amortisation expense	**775**	848
Total expenses included in Underlying EBIT	**5,758**	7,003

Capital expenditure

Capital expenditure continues to be scrutinised in every location as we seek to sustainably de-capitalise the business and grow ROIC. Capital expenditure for FY2016 and FY2015 pro forma comparative are set out below:

Capital expenditure

US$M	FY2016	FY2015
Major projects	**32**	51
Stay-in-business, Minor discretionary and Deferred stripping (including underground development)	**351**	578
South32 Group share of equity accounted investments	**79**	139
Total	**462**	768

2016 FINANCIAL YEAR RESULTS

US$M	FY2016	FY2015
Revenue	**5,812**	7,743
Other income	**324**	261
Expenses excluding net finance cost	**(7,247)**	(7,479)
Share of profit/(loss) of equity accounted investments	**(330)**	(6)
Profit/(loss) from continuing operations	**(1,441)**	519
Net finance cost	**(104)**	(60)
Taxation expense	**(70)**	(431)
Profit/(loss) after taxation	**(1,615)**	28
Basic earnings per share (US cents)	**(30.3)**	0.5
Other financial information		
Profit/(loss) from continuing operations	**(1,441)**	519
Earnings adjustments to derive Underlying EBIT	**1,797**	482
Underlying EBIT	**356**	1,001
Depreciation and amortisation	**775**	848
Underlying EBITDA	**1,131**	1,849
Profit/(loss) after taxation	**(1,615)**	28
Earnings adjustments after taxation	**1,753**	547
Underlying earnings	**138**	575
Basic Underlying earnings per share (US cents)	**2.6**	10.8

EARNINGS ADJUSTMENTS

The following table notes the various earnings adjustments and comparative pro forma earnings adjustments that are excluded from the the South32 Group's Underlying measures.

Earnings adjustments

US$M	FY2016	FY2015
Adjustments to Underlying EBIT		
Exchange rate (gains)/losses on restatement of monetary items	**(43)**	(93)
Impairment losses	**1,386**	594
Fair value (gains)/losses on derivative instruments	**60**	(25)
Major corporate restructures	**63**	–
Impairment losses included in operating profit/(loss) of equity accounted investments	**291**	–
Earnings adjustments included in operating profit/(loss) of equity accounted investments	**16**	6
Significant items		
- Set-up costs	**60**	–
- Brazil Aluminium Smelter impairment	**32**	–
- Closure and rehabilitation provisions	**(68)**	–
Total adjustments to Underlying EBIT	**1,797**	482
Adjustments to net finance cost		
Exchange rate variations on net debt	**(30)**	(134)
Significant items		
- Change in discount rate	**9**	–
Total adjustments to net finance cost	**(21)**	(134)
Adjustments to income tax expense		
Significant items	**31**	96
Tax effect of earnings adjustments to Underlying EBIT	**(187)**	(134)
Tax effect of earnings adjustments to net finance cost	**9**	40
Exchange rate variations on tax balances	**124**	197
Total adjustments to income tax expense	**(23)**	199
Total earnings adjustments after taxation	**1,753**	547

Exchange rate gains/losses on restatement of monetary items

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

Impairment losses

As a result of significant and continued weakening of commodity markets, the South32 Group recognised the following impairments and associated tax effect in the year ended 30 June 2016. The forecast weakening of commodity prices has also impacted the probability of generating longer term taxable income for certain operations and therefore resulted in the derecognition of specific deferred tax asset balances in the year ended 30 June 2016. An impairment at the Brazil Aluminium Smelter was as a result of the continued and indefinite suspension of smelting operations. The following table shows the categorisation of the amounts within earnings adjustments:

Impairment losses

	Adjustments to Underlying EBIT				Adjustments to income tax expense	
30 June 2016 US$M	**Impairments**	**Significant items**	**Earnings adjustments included in share of (profit)/loss of equity accounted investments**	**Total**	**Significant items**	**Tax effect of earnings adjustments to Underlying EBIT**
Australia Manganese equity accounted investment	726	–	190	**916**	–	–
South Africa Manganese equity accounted investment	–	–	97	**97**	–	–
Manganese Marketing equity accounted investment	64	–	–	**64**	–	–
South Africa Energy Coal - Wolvekrans Middelburg Complex	322	–	–	**322**	–	(89)
South Africa Energy Coal - Klipspruit	120	–	–	**120**	–	(33)
Available for sale investments	76	–	–	**76**	–	(18)
Brazil Aluminium Smelter	65	32	–	**97**	(11)	(22)
Other	13	–	4	**17**	–	(2)
Total	**1,386**	**32**	**291**	**1,709**	**(11)**	**(164)**

Impairments for FY2015 include an adjustment to the carrying value of the Wolvekrans Middelburg Complex at South Africa Energy Coal of US$551 million (pre-tax) and the write-off of the Metallic Nickel Recovery project at Cerro Matoso of US$41 million (pre-tax).

Fair value gains/losses on derivative instruments

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

Set-up costs

Set-up costs related to the ongoing establishment of South32's corporate and regional offices following the demerger. The costs primarily related to transitionary contractor and consultant support, information technology infrastructure and system support.

Closure and rehabilitation provisions and Change in discount rate

Following a review of cash flow assumptions and discount rates, South32 recognised a net decrease in closure and rehabilitation provisions of US$59 million. Where this related to closed sites, US$68 million was recognised as a benefit in expenses and US$9 million as a charge in net finance cost in the consolidated income statement. The benefit recognised in expenses included US$18 million related to South Africa Energy Coal and US$50 million related to the closed Bayside operation, formerly part of South Africa Aluminium.

Earnings adjustment to net finance cost

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

Earnings adjustments to income tax expense

The earnings adjustments to income tax expense include the tax effect of the adjustments to Underlying EBIT and net finance cost. Exchange rate variations on tax balances relate to the impact on income tax expense for companies in the South32 Group where the functional currency for taxation purposes is not the US dollar. As a result, exchange gains and losses are calculated differently for accounting and tax purposes. Significant items include the tax basis of South32 wholly owned Australian operations being reset on demerger from BHP Billiton, resulting in a US$85 million benefit to income tax expense. In addition, as a result of the significant and continued weakening of commodity markets, certain deferred tax assets associated with provisions for closure and rehabilitation of US$126 million were de-recognised as a charge to income tax expense, as utilisation is no longer probable. The prior year significant item related to the impact on income tax expense following the repeal of the Minerals Resource Rent Tax legislation.

FY2016 SEGMENT INFORMATION

US$M	Worsley Alumina	South Africa Aluminium	Mozal Aluminium	Brazil Alumina	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													
Group production	542	1,161	431	323	1,009	642	476	230	333	786	–	(706)	5,227
Third party products[2]	–	–	–	–	–	–	–	–	–	–	587	(2)	585
Inter-segment revenue	469	–	–	23	–	–	–	4	–	–	(492)	(4)	–
Total revenue	**1,011**	**1,161**	**431**	**346**	**1,009**	**642**	**476**	**234**	**333**	**786**	**95**	**(712)**	**5,812**
Underlying EBITDA	**199**	**147**	**35**	**140**	**182**	**132**	**154**	**(11)**	**2**	**330**	**(13)**	**(166)**	**1,131**
Depreciation and amortisation	(157)	(65)	(35)	(62)	(87)	(193)	(89)	(36)	(90)	(56)	(30)	125	(775)
Underlying EBIT	**42**	**82**	**–**	**78**	**95**	**(61)**	**65**	**(47)**	**(88)**	**274**	**(43)**	**(41)**	**356**
Comprising:													
Group production	42	82	–	78	94	(60)	65	(47)	(88)	274	(49)	(18)	373
Third party products[2]	–	–	–	–	–	–	–	–	–	–	6	–	6
Share of profit/(loss) of equity accounted investments[3]	–	–	–	–	1	(1)	–	–	–	–	–	(23)	(23)
Underlying EBIT from continuing operations	**42**	**82**	**–**	**78**	**95**	**(61)**	**65**	**(47)**	**(88)**	**274**	**(43)**	**(41)**	**356**
Net finance cost													(125)
Income tax (expense)/ benefit													(93)
Underlying earnings													**138**
Earnings adjustments[4]													(1,753)
Profit/(loss) after taxation from continuing operations													**(1,615)**
Capital expenditure[5]	44	19	7	12	63	185	68	11	18	27	8	(79)	383
Equity accounted investments	–	–	–	–	13	–	–	–	–	–	–	557	570
Total assets[6]	**3,647**	**1,334**	**656**	**874**	**728**	**1,745**	**577**	**517**	**889**	**401**	**2,654**	**(648)**	**13,374**
Total liabilities[6]	**439**	**275**	**91**	**167**	**827**	**229**	**236**	**175**	**206**	**159**	**1,796**	**(648)**	**3,952**

(1) The segment information reflects South32's interest in the manganese operations and is presented on a proportional consolidation basis, which is the measure used by South32's management to assess their performance. The manganese operations are equity accounted in the consolidated financial statements. The statutory adjustment column reconciles the proportional consolidation to equity accounting position.

(2) Third party product sold comprises US$264 million for aluminium, US$59 million for alumina, US$72 million for coal, US$90 million for freight services and US$100 million for aluminium raw materials. Underlying EBIT on third party products comprise US$3 million for aluminium, (US$3) million for alumina, US$5 million for coal, US$1 million for freight services and US$ nil for aluminium raw materials.

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

(4) Refer to note 5(b)(i) to the financial statements.

(5) Capital expenditure excludes the purchase of intangibles and capitalised exploration expenditure.

(6) Total assets and liabilities for each operating segment represent operating assets and liabilities which predominately exclude the carrying amount of equity accounted investments, cash, interest bearing liabilities and tax balances.

FY2015 PRO FORMA SEGMENT INFORMATION

US$M	Worsley Alumina	South Africa Aluminium	Mozal Aluminium	Brazil Alumina	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													
Group production	656	1,541	630	497	1,315	814	595	410	593	902	–	(1,005)	6,948
Third party products[2]	–	–	–	–	–	–	–	–	–	–	795	–	795
Inter-segment revenue	635	–	–	–	–	–	–	10	–	–	(635)	(10)	–
Total revenue	**1,291**	**1,541**	**630**	**497**	**1,315**	**814**	**595**	**420**	**593**	**902**	**160**	**(1,015)**	**7,743**
Underlying EBITDA	**325**	**317**	**149**	**259**	**276**	**167**	**243**	**32**	**133**	**342**	**(117)**	**(277)**	**1,849**
Depreciation and amortisation	(151)	(67)	(37)	(78)	(182)	(197)	(120)	(52)	(75)	(55)	(6)	172	(848)
Underlying EBIT	**174**	**250**	**112**	**181**	**94**	**(30)**	**123**	**(20)**	**58**	**287**	**(123)**	**(105)**	**1,001**
Comprising:													
Group production	174	250	112	181	93	(31)	123	(20)	58	287	(151)	(103)	973
Third party products[2]	–	–	–	–	–	–	–	–	–	–	28	–	28
Share of profit/(loss) of equity accounted investments[3]	–	–	–	–	1	1	–	–	–	–	–	(2)	–
Underlying EBIT from continuing operations	**174**	**250**	**112**	**181**	**94**	**(30)**	**123**	**(20)**	**58**	**287**	**(123)**	**(105)**	**1,001**
Net finance cost[4]													(194)
Income tax (expense)/ benefit													(232)
Underlying earnings													**575**
Earnings adjustments[5]													(547)
Profit/(loss) after taxation from continuing operations													**28**
Capital expenditure[6]	62	35	14	8	98	308	98	41	36	39	29	(139)	629
Equity accounted investments	–	–	–	–	12	–	–	–	–	–	–	1,695	1,707
Total assets[7]	**3,720**	**1,475**	**730**	**1,039**	**1,414**	**1,782**	**1,649**	**748**	**997**	**453**	**2,271**	**(789)**	**15,489**
Total liabilities[7]	**359**	**324**	**104**	**111**	**1,019**	**264**	**265**	**218**	**234**	**173**	**2,202**	**(819)**	**4,454**

(1) The segment information reflects South32's interest in the manganese operations and is presented on a proportional consolidation basis, which is the measure used by South32's management to assess their performance. The manganese operations are equity accounted in the consolidated financial statements. The statutory adjustment column reconciles the proportional consolidation to equity accounting position.

(2) Third party product sold comprises US$394 million for aluminium, US$147 million for alumina, US$88 million for coal, US$40 million for freight services and US$126 million for aluminium raw materials. Underlying EBIT on third party products comprise US$1 million for aluminium, US$22 million for alumina, US$1 million for coal, US$ nil for freight services and US$4 million for aluminium raw materials.

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

(4) Excludes interest income and interest expense on borrowings with BHP Billiton.

(5) Refer to note 5(b)(i) to the financial statements.

(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 predominately exclude the carrying amount of equity accounted investments, cash, interest bearing liabilities and tax balances.

RECONCILIATION OF FY2015 PRO FORMA CONSOLIDATED INCOME STATEMENT

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

RECONCILIATION OF FY2015 PRO FORMA CONSOLIDATED CASH FLOW STATEMENT

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

FY2015 Pro forma financial information - Basis of preparation

General information

To assist shareholders in their understanding of the South32 Group, comparative pro forma financial information (non-IFRS financial information) for the year ended 30 June 2015 has been prepared to illustrate financial information of the South 32 Group as it is structured at 30 June 2016, and as though the Internal Restructure (refer note 4 to the financial statements) had occurred as at 1 July 2014 and was in effect for the period 1 July 2014 to 30 June 2015.

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

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

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

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

Pro forma adjustments

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

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

Pro forma adjustments do not include the effect of non-demerger related events since 1 July 2014.

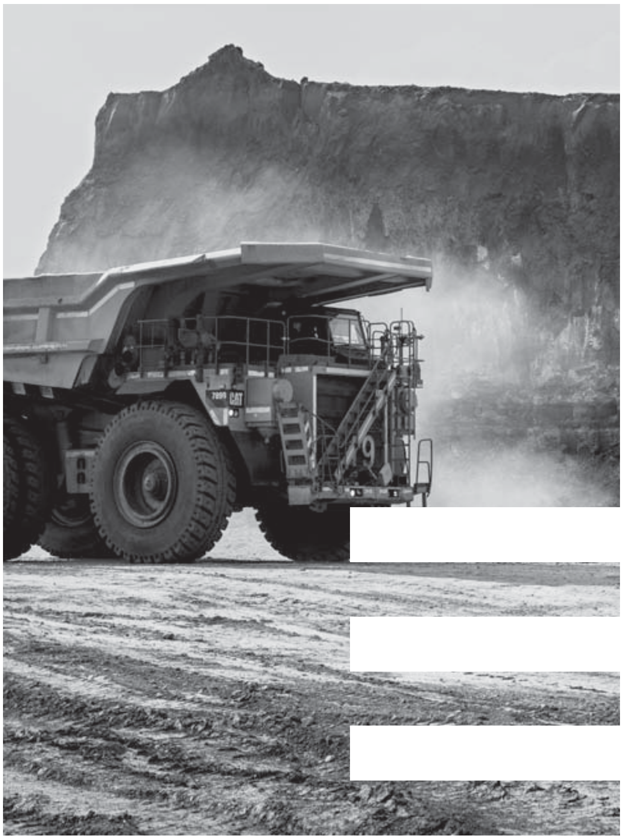
The statutory financial information contained in the reconciliations of pro forma consolidated income statement and pro forma consolidated cash flow statement was audited by the Group's external auditor. The reconciliations and pro forma financial information were subject to an unmodified review report to the Directors of South32 Limited by the Group's external auditor.

APPLICATION OF CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

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

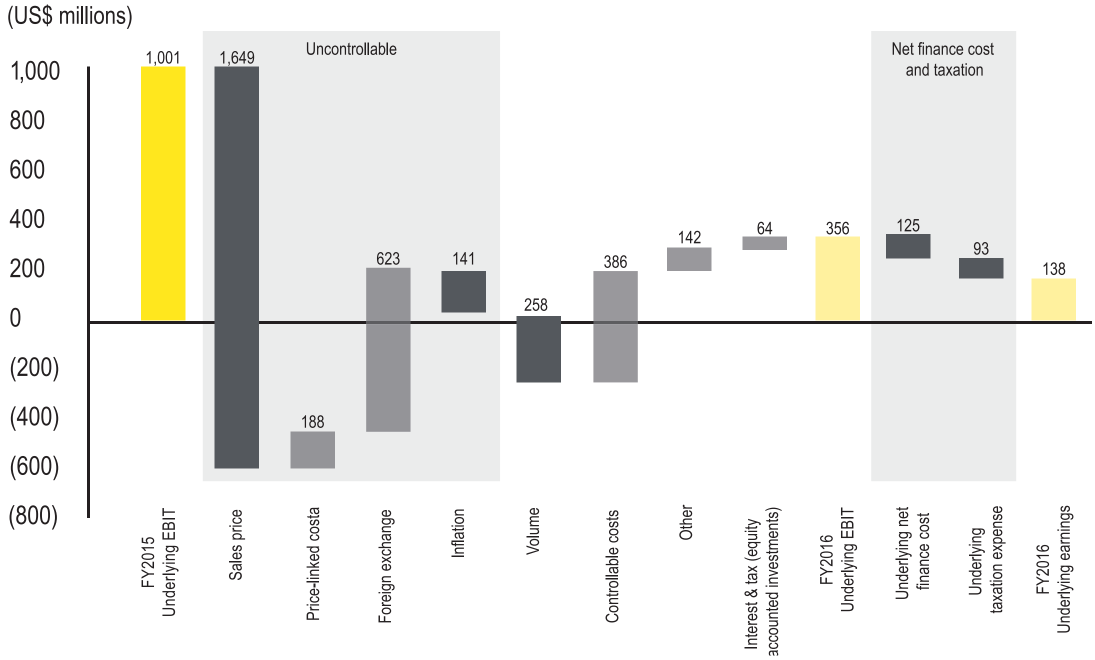
- Reserve estimates
- Exploration and evaluation expenditure
- Development expenditure, property, plant and equipment, intangible assets and investments accounted for using the equity method – recoverable amount
- Defined benefit pension schemes
- Provision for closure and rehabilitation and
- Taxation



EARNINGS ANALYSIS

The following key factors influenced Underlying earnings in FY2016, relative to pro forma FY2015.

Reconciliation of movements in Underlying earnings[1]
(US$ millions)



(1) Underlying net finance cost and Underlying taxation expense are actual FY2016 results, not year-on-year variances.

Prices, foreign exchange and inflation

A 21 per cent reduction in the average realised price of our commodities reduced revenue by US$1.6 billion. Weaker aluminium and alumina prices accounted for US$918 million of this impact. Lower manganese ore and alloy, metallurgical and energy coal, and nickel prices reduced revenue by a further US$268 million, US$262 million, and US$203 million, respectively.

The pronounced decline in commodity markets led to a US$188 million reduction in price-linked costs, although this was largely offset by general inflation which increased costs by US$141 million. The inflationary impact was most pronounced at our African operations, which accounted for 65 per cent of the total variance.

The general strengthening of the US dollar against a basket of producer currencies provided some relief, increasing Underlying EBIT by US$623 million.

Volume

We delivered record annual production at Australia Manganese (ore), Worsley Alumina, Brazil Alumina, Mozal Aluminium and Cannington (payable zinc), and robust performance at our other sites. In this context, the US$258 million volume related decline in revenue reflects the proactive decisions we took to temporarily suspend and then rebase production at South Africa Manganese, optimise production at South Africa Energy Coal for cash flow and margin, and extend the closure of loss making smelting activities at Brazil Alumina.

Controllable cost reduction

We reduced controllable costs by a substantial US$386 million in FY2016, including equity accounted investments. These savings were achieved by increasing labour productivity, lowering the utilisation of and rates for contractors and consultants, reducing procurement, freight and logistics costs, and optimising our energy footprint. This included a US$65 million reduction in controllable costs for our marketing and corporate functions, highlighting the breadth of our efforts.

Controllable costs savings

US$M	FY2016
Cost initiatives	238
Volume	(12)
Inventory	(68)
Australia region	**158**
Cost initiatives	99
Volume	152
Inventory	(59)
Africa region	**192**
Corporate and other[1]	36
Total	**386**

(1) Corporate and other includes Corporate cost savings of approximately US$65 million.

The temporary suspension and rebasing of production at South Africa Manganese contributed to the reduction in controllable costs, however this was broadly offset by an increase in costs within the income statement to reflect the associated reduction of inventory.

Other items

Other items increased Underlying EBIT by a net US$142 million. Depreciation and amortisation reduced by US$120 million primarily due to impairments recorded in the December 2015 half year at Australia Manganese, South Africa Energy Coal, South Africa Manganese and Brazil Alumina.

The suspension of aluminium smelting at Brazil Alumina reduced costs by US$57 million, although this was largely offset by a net US$36 million reduction in the contribution of power sales. As previously indicated, a US$24 million (onerous contract) provision has been recorded in the June 2016 half year to reflect the anticipated future losses associated with the remaining Eletronorte power supply commitments across FY2017 and FY2018.

Interest and tax associated with equity accounted investments

The Group's manganese operations are jointly controlled by South32 (60 per cent share) and Anglo American (40 per cent share). The Underlying interest and taxation expense associated with these equity accounted investments declined by US$64 million in FY2016 to US$41 million.

Net finance costs

The Group incurred Underlying net finance costs, excluding equity accounted investments, of US$125 million in FY2016. This largely reflects the unwinding of the discount applied to closure and rehabilitation provisions (US$96 million), and finance lease charges (US$37 million), primarily at Worsley Alumina.

Underlying net finance cost reconciliation

US$M	FY2016
Unwind of discount applied to closure and rehabilitation provisions	**(96)**
Finance lease charges	**(37)**
Other	**8**
Underlying net finance cost	**(125)**
Add back earnings adjustment for exchange rate variations on net debt	**30**
Add back Significant items	**(9)**
Net finance cost	**(104)**

Taxation expense

The Group's underlying income tax expense, which excludes taxation associated with equity accounted investments, was US$93 million for an Underlying effective tax rate (ETR) of 36.6 per cent. The tax expense for equity accounted investments was US$13 million, including royalty related taxation. The GEMCO (Australia Manganese) Northern Territory royalty, as a profits based tax, gives rise to royalty related taxation of US$9 million in equity accounted investments.

Underlying income tax expense reconciliation and Underlying ETR

US$M	FY2016
Underlying EBIT	**356**
Include: Underlying net finance cost	**(125)**
Remove: Share of profit/(loss) of equity accounted investments	**23**
Underlying Profit/(loss) before taxation	**254**
Income tax expense	**70**
Tax effect of earnings adjustments to Underlying EBIT	**187**
Tax effect of earnings adjustments to net finance cost	**(9)**
Exchange rate variations on tax balances	**(124)**
Tax on Significant items	**(31)**
Underlying income tax expense	**93**
Underlying effective tax rate	**36.6%**

OPERATING RESULTS

EARNINGS

The Group's statutory loss of US$1.6 billion in FY2016 was significantly impacted by non-cash impairment related charges recorded in the December 2015 half year totalling US$1.7 billion (post-tax US$1.7 billion). Consistent with our accounting policies, various items are excluded from Underlying earnings including the aforementioned impairments, major corporate restructures (US$63 million pre-tax), demerger related set-up costs (US$60 million pre-tax), exchange rate gains associated with the restatement of monetary items (-US$43 million pre-tax), the net benefit of adjustments to closure and rehabilitation provisions for closed sites (-US$59 million pre-tax), fair value losses on derivative instruments (US$60 million pre-tax), exchange rate gains associated with the Group's non-US dollar denominated debt and cash (-US$30 million pre-tax), exchange rate losses on tax balances (US$124 million), and the tax benefit on all pre-tax earnings adjustments (-US$178 million).

The Group generated Underlying EBITDA of US$1.1 billion in FY2016, for an operating margin of 21.5 per cent and Underlying EBIT and Underlying earnings of US$356 million and US$138 million, respectively. A deterioration in commodity markets was the primary driver of the significant decline in profitability, reducing revenue by US$1.5 billion, net of price linked costs. In this context, the Group would have recorded an Underlying EBIT loss if not for the substantial US$386 million reduction in controllable costs.

CASH FLOW

Despite a 21 per cent reduction in the average realised price of our commodities, we generated free cash flow from operations, excluding equity accounted investments, of US$597 million.

Capital expenditure, excluding equity accounted investments, was reduced by 39 per cent or US$246 million to US$383 million. This included:

- Sustaining capital expenditure, comprising Stay-in-business, Minor discretionary and Deferred stripping (including underground development), of US$351 million and
- Major project capital expenditure of US$32 million

The purchase of intangibles and the capitalisation of exploration accounted for a further US$17 million of expenditure.

The Appin Area 9 underground extension at Illawarra Metallurgical Coal was the Group's sole Major project in development during FY2016. The project was completed in the March 2016 quarter, 33 per cent below its US$845 million budget and three months ahead of schedule.

Capital expenditure associated with equity accounted investments of US$79 million in FY2016 included the Premium Concentrate Ore (PCO2) project at GEMCO (Australia Manganese) and the second phase of the Central Block development project at the Wessels underground mine (South Africa Manganese). The PCO2 project, which increased Australia Manganese ore production capacity by 0.5Mt to 5.3Mtpa (100 per cent basis), was delivered on schedule and under budget in the June 2016 quarter. The second phase of the Central Block development project will enable underground mining activity to relocate closer to critical infrastructure, thereby reducing cycle times. As a result of the fatality at Wessels in June 2016 and the subsequent reprioritisation of activities, commissioning is now expected in the March 2017 quarter. A further US$1 million in capitalised exploration expenditure associated with equity accounted investments was incurred in FY2016.

Total capital expenditure, including equity accounted investments was US$480 million in FY2016.

A US$121 million reduction in provisions was mostly associated with expenditure on closure and rehabilitation activities and a stronger US dollar, while lower commodity and raw material prices led to a US$244 million reduction in payables. In contrast, a reduction in supply chain inventory and receivables benefited cash flow by US$191 million and US$163 million, respectively, as average days debtors declined to 19 days (from 21 days at 31 December 2015). The resolution of two legacy tax disputes also contributed US$46 million to cash flow in the December 2015 half year.

Free cash flow of operations, excluding equity accounted investments

US$M	FY2016
Profit/(loss) from continuing operations	(1,441)
Non-cash items	2,190
(Profit)/loss from equity accounted investments	330
Change in working capital	(11)
Cash generated from continuing operations	**1,068**
Total capital expenditure, excluding equity accounted investments, including intangibles and capitalised exploration	(400)
Operating cash flows from continuing operations before financing activities and tax, and after capital expenditure	**668**
Interest (paid)/received	(19)
Income tax (paid)/received	(52)
Free cash flow of operations, excluding equity accounted investments	**597**

We received dividends totalling US$33 million during FY2016, including US$19 million from our equity accounted manganese investments and US$14 million from our investment in Mineração Rio do Norte S.A. A further US$38 million was received from our equity accounted manganese investments in the June 2016 half year as an overdraft facility owing to the South32 Group was repaid.

BALANCE SHEET

Strong operating cash flow and the sustainable decapitalisation of our business, via more focussed investment, further strengthened the South32 Group Balance Sheet and established a solid foundation from which to grow return on invested capital (ROIC). As at 30 June 2016, the South32 Group net cash position was US$312 million, a significant improvement on opening net debt of US$402 million. The restructuring of a legacy financing arrangement (US$90 million) in the December 2015 half year and a US$29 million reduction in finance leases primarily associated with the appreciation of the US dollar contributed to the US$714 million improvement in net cash. Additional liquidity is available via an undrawn US$1.5 billion revolving credit facility.

Consistent with our commitment to maintain a strong investment grade credit rating, Standard and Poor's and Moody's retained the Group's BBB+ and Baa1 credit ratings throughout FY2016.

OPERATIONS ANALYSIS

A summary of the underlying performance of the Group's operations is presented below.

Operations table

	Revenue		Underlying EBIT	
US$M	**FY2016**	**FY2015**	**FY2016**	**FY2015**
Worsley Alumina	**1,011**	1,291	**42**	174
South Africa Aluminium	**1,161**	1,541	**82**	250
Mozal Aluminium	**431**	630	**–**	112
Brazil Alumina	**346**	497	**78**	181
South Africa Energy Coal	**1,009**	1,315	**95**	94
Illawarra Metallurgical Coal	**642**	814	**(61)**	(30)
Australia Manganese(1)	**476**	595	**65**	123
South Africa Manganese(1)	**234**	420	**(47)**	(20)
Cerro Matoso	**333**	593	**(88)**	58
Cannington	**786**	902	**274**	287
Third party products	**587**	795	**6**	28
Inter-segment / Group and Unallocated	**(492)**	(635)	**(49)**	(151)
Total	**6,524**	8,758	**397**	1,106
Equity accounting adjustment(2)	**(712)**	(1,015)	**(41)**	(105)
South32 Group	**5,812**	7,743	**356**	1,001

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

(2) 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.

Note: Detailed operational analysis is presented on pages 59 to 68. Unless otherwise stated:

- All metrics reflect South32's share
- FY2015 comparative financial information reflects pro forma financial information and
- Operating unit costs, including Sustaining capital expenditure, is Revenue less Underlying EBITDA plus Sustaining capital expenditure

WORSLEY ALUMINA
(86% SHARE)

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

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

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

After crushing, the bauxite is transported to the alumina refinery via an overland conveyor system that stretches more than 50km, making it one of the longest of its kind in the Southern Hemisphere. The refinery extracts alumina using the Bayer process.

The four-stage Bayer process – digestion, clarification, precipitation and calcination – turns the red bauxite rock into white alumina powder.

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

Volumes

Worsley Alumina saleable production increased by 142kt (or four per cent) to 4.0Mt in FY2016 as an uplift in calciner availability underpinned record performance. This is the first time that the refinery has operated at its expanded capacity of 4.6Mtpa (100 per cent basis) across a full year and was achieved despite a power outage and associated process instability that was caused by water ingress during a severe storm in April 2016.

Saleable alumina production guidance is largely unchanged with the refinery expected to produce at its nameplate capacity of 4.6Mt (100 per cent basis) across FY2017 and FY2018.

Costs

Operating unit costs decreased by 16 per cent to US$210/t in FY2016 as we benefitted from a stronger US dollar, reduced employee and contractor numbers by 24 per cent, embedded procurement savings, including lower energy input costs, and restructured our teams to create discrete mining and refining operations with greater focus.

Financial performance

Underlying EBIT declined by US$132 million in FY2016 to US$42 million. Lower realised alumina prices (-US$249 million, net of price-linked costs), a favourable movement in foreign exchange rate markets (+US$71 million) and a US$41 million reduction in controllable costs had the most significant influence on financial performance.

Capital expenditure decreased by 29 per cent to US$44 million in FY2016.

Pre-tax restructuring costs, including redundancies, of approximately US$17 million were incurred in FY2016 and have been excluded from the Group's Underlying earnings measures.

South32 share	FY2016	FY2015
Alumina production (kt)	**3,961**	3,819
Alumina sales (kt)	**3,874**	3,857
Realised alumina sales price (US$/t)[1]	**261**	335
Operating unit cost (US$/t)[2]	**210**	250

(1) Realised sales price is calculated as sales revenue divided by sales volume.
(2) Operating unit cost is Revenue less Underlying EBITDA divided by sales volume.

South32 share (US$M)	FY2016	FY2015
Revenue	**1,011**	1,291
Underlying EBITDA	**199**	325
Underlying EBIT	**42**	174
Net operating assets	**3,208**	3,361
Capital expenditure	**44**	62
Major projects (>US$100M)	**–**	–
All other capital expenditure	**44**	62
Exploration expenditure	**–**	–
Exploration expensed	**–**	–

SOUTH AFRICA ALUMINIUM
(100%)

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

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

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

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

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

Volumes

South Africa Aluminium saleable production was largely unchanged in FY2016 as the impact of electricity load-shedding events was lower than anticipated, particularly in the December 2015 half year. While high rates of current efficiency are being achieved within the potlines, production will continue to be influenced by the duration and regularity of load-shedding events. We are yet to restart production in the 22 pots that were taken offline in September 2015 in response to market conditions.

Costs

Operating unit costs decreased by 19 per cent to US$1,430/t in FY2016, reflecting a stronger US dollar, lower aluminium price-linked power costs and weaker raw material prices. Additional cost savings were realised as the smelter continued to improve its energy efficiency. A total of 183 pots were relined across FY2016 at a cost of approximately US$191,000 per pot (FY2015: 136 pots at US$245,000 per pot).

While additional productivity gains are being pursued, the cost profile of the smelter will be more heavily influenced by power and raw material inputs, given the operation's high variable cost base. The price of electricity supplied to potlines one and two is linked to the LME aluminium price and the South African rand/US dollar exchange rate. The price of electricity supplied to potline three is South African rand based and linked to South African and United States producer price indices.

Financial performance

Underlying EBIT decreased by US$168 million in FY2016 to US$82 million. The combination of lower realised aluminium prices and premia reduced Underlying EBIT by US$258 million, net of price-linked costs. This impact was partially offset by a favourable movement in foreign exchange rates (+US$66 million) and an increase in sales volumes (+US$40 million).

Capital expenditure decreased by 46 per cent to US$19 million in FY2016.

Pre-tax restructuring costs, including redundancies, of approximately US$2 million were incurred in FY2016 and have been excluded from the Group's Underlying earnings measures.

South32 share	FY2016	FY2015
Aluminium production (kt)	**697**	699
Aluminium sales (kt)[(1)]	**709**	695
Realised sales price (US$/t)[(1)]	**1,638**	2,217
Operating unit cost (US$/t)[(2)]	**1,430**	1,761

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

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

South32 share (US$M)	FY2016	FY2015
Revenue	**1,161**	1,541
Underlying EBITDA	**147**	317
Underlying EBIT	**82**	250
Net operating assets	**1,059**	1,151
Capital expenditure	**19**	35
Major projects (>US$100M)	**–**	–
All other capital expenditure	***19***	*35*
Exploration expenditure	**–**	–
Exploration expensed	**–**	–

MOZAL ALUMINIUM
(47.1% SHARE)

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

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

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

Mozal is the only aluminium smelter in Mozambique and the second largest aluminium smelter in Africa. Mozal uses Aluminium Pechiney AP35 technology to produce standard aluminium ingots.

Volumes

Mozal Aluminium achieved record annual production of 266kt in FY2016 as a reduction in load-shedding events complemented an increase in potline current efficiency. While high rates of current efficiency are being achieved, production will continue to be influenced by the duration and regularity of load-shedding events.

Costs

Operating unit costs declined by 12 per cent to US$1,559/t in FY2016, reflecting a stronger US dollar and weaker raw materials prices. Planned relining activity increased in FY2016 with 109 pots relined at a cost of US$207,000 per pot (FY2015: 91 pots at US$231,000 per pot).

While additional productivity gains are being pursued, the cost profile of the smelter will be more heavily influenced by power and raw material inputs, given the operation's high variable cost base. Mozal Aluminium utilises hydroelectric power under a long-term contract that is generated by Hidroeléctrica de Cahora Bassa (HCB). HCB delivers power into the South African grid to Eskom and Mozal Aluminium sources the power via the Mozambique Transmission Company (Motraco).

Financial performance

Underlying EBIT decreased by US$112 million in FY2016 to US$0 million. The combination of lower realised aluminium prices and premia reduced Underlying EBIT by US$115 million, net of price-linked costs, while lower sales volumes reduced Underlying EBIT by a further US$47 million. These impacts were partially offset by a favourable movement in foreign exchange rate markets (+US$46 million).

Capital expenditure decreased by 50 per cent to US$7 million in FY2016.

South32 share	FY2016	FY2015
Aluminium production (kt)	**266**	265
Aluminium sales (kt)[1]	**254**	273
Realised sales price (US$/t)[1]	**1,697**	2,308
Operating unit cost (US$/t)[2]	**1,559**	1,762

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

South32 share (US$M)	FY2016	FY2015
Revenue	**431**	630
Underlying EBITDA	**35**	149
Underlying EBIT	**–**	112
Net operating assets	**565**	626
Capital expenditure	**7**	14
Major projects (>US$100M)	**–**	–
All other capital expenditure	**7**	*14*
Exploration expenditure	**–**	–
Exploration expensed	**–**	–

BRAZIL ALUMINA
(ALUMINA 36% SHARE, ALUMINIUM 40% SHARE)

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

South32 Limited's interests consist of the Mineração Rio do Norte (MRN) mine (14.8 per cent), the Alumar alumina refinery (36 per cent) and Alumar aluminium smelter (40 per cent). The smelter pot lines are currently suspended due to market conditions and subject to ongoing review.

The MRN mine is an open-cut strip mining operation that has an 18Mtpa installed bauxite capacity. Mined ore is hauled to primary crushers and then transported by conveyor belt to the beneficiation plant. The bauxite produced from the MRN mine is sold to its shareholders. South32 Limited's share of bauxite produced from the MRN mine is supplied to the Alumar refinery.

At the Alumar refinery, bauxite ore is refined using the Bayer refining process. The alumina produced from the refinery is exported through the Alumar Port. Brazil Alumina is managed from a small regional office in Rio de Janeiro.

Volumes

Brazil Alumina saleable alumina production increased by 7kt to a record 1,335kt in FY2016. Production guidance for FY2017 is unchanged at 1,320kt. A small increase in production is expected in FY2018 to 1,350kt.

Aluminium production was first curtailed in July 2013 and the suspension of all smelting activity was announced in March 2015. We have forward sold power until the end of CY2017 and have terminated our supply contract with Eletronorte.

Costs

Alumina operating unit costs at the non-operated refinery decreased by 12 per cent to US$189/t in FY2016 as the US dollar strengthened and raw material costs declined.

Financial performance

Underlying EBIT decreased by US$103 million in FY2016 to US$78 million. A reduction in realised alumina prices (-US$80 million, net of price-linked costs) and a declining contribution from power sales (-US$36 million) was partially offset by a favourable movement in foreign exchange rate markets (+US$29 million).

As a result of our decision to terminate the contract with Eletronorte, power sales are not expected to contribute to Underlying EBIT beyond FY2016. In this context, a US$24 million (onerous contract) provision has been recorded in the June 2016 half year to reflect anticipated future losses associated with the remaining Eletronorte power supply commitments across FY2017 and FY2018.

Unhedged power sales, inclusive of this provision, contributed BRL214 million to Underlying EBIT in FY2016 (FY2015: BRL300 million). The cumulative cash impact will change by up to BRL40 million for every +/-US10c/lb movement in the aluminium price above a floor of US$0.66/lb.

Capital expenditure at the refinery increased by 50 per cent to US$12 million in FY2016.

South32 share	FY2016	FY2015
Alumina production (kt)	**1,335**	1,328
Aluminium production (kt)	**–**	40
Alumina sales (kt)	**1,359**	1,309
Aluminium sales (kt)	**–**	41
Realised alumina sales price (US$/t)[(1)]	**255**	323
Realised aluminium sales price (US$/t)[(1)]	**N/A**	2,366
Alumina operating unit cost (US$/t)[(2)(3)]	**189**	215
Aluminium operating unit cost (US$/t)[(2)(4)]	**N/A**	2,366

(1) Realised sales price is calculated as sales revenue divided by sales volume.
(2) Operating unit cost is Revenue less Underlying EBITDA divided by sales volume.
(3) Includes cost of acquiring bauxite from Mineração Rio do Norte S.A.
(4) Includes cost of alumina transferred from the Alumar refinery to the Alumar smelter at the alumina contract sales price. Excludes EBITDA from the sale of power.

South32 share (US$M)	FY2016	FY2015
Revenue	**346**	497
Alumina	***346***	*423*
Aluminium	**–**	*97*
Intra-segment elimination	**–**	*(23)*
Other income[(1)]	**191**	229
Underlying EBITDA	**140**	259
Alumina	***89***	*141*
Aluminium	***51***	*118*
Underlying EBIT	**78**	181
Alumina	***36***	*83*
Aluminium	***42***	*98*
Net operating assets	**707**	928
Alumina	***737***	*744*
Aluminium	***(30)***	*184*
Capital expenditure	**12**	8
Major projects (>US$100M)	**–**	–
All other capital expenditure	***12***	*8*
Exploration expenditure	**–**	–
Exploration expensed	**–**	–

(1) Other income in FY2016 includes revenue of US$172 million from the sale of surplus electricity.

SOUTH AFRICA ENERGY COAL (92% SHARE)

SOUTH AFRICA ENERGY COAL OPERATIONS ARE LOCATED NEAR EMALAHLENI AND MIDDELBURG IN THE COALFIELDS OF MPUMALANGA

South32 Limited owns 92 per cent of South Africa Energy Coal, with the remaining eight per cent held by Phembani Holdings, a South African based industrial holding company.

Energy coal operations consist of primary coal mining operations (Khutala Colliery, Klipspruit Colliery and the Wolvekrans Middelburg Complex), as well as three processing plants.

The Khutala Colliery is an underground bord and pillar operation while Klipspruit Colliery is a single dragline, multi seam open-cut mine that is combined with a truck and shovel mini pit. The Wolvekrans Middelburg Complex consists of open-cut mines using draglines as well as truck and shovel operations.

Volumes

South Africa Energy Coal saleable production decreased by 2.6Mt (or eight per cent) to 31.7Mt in FY2016. Lower production resulted from the planned closure of the opencast mine at Khutala and a reduction in contractor activity at the Wolvekrans Middelburg Complex, consistent with our focus on value over volume.

Total coal production guidance for FY2017 is maintained at approximately 30.9Mt, with a higher proportion of domestic sales. In FY2018, a small decrease in production is expected to 29.8Mt.

The Klipspruit Life Extension project proceeded into the feasibility study stage in FY2016, where the viability of a lower capital cost development option is being assessed. In addition, we continue to work with Eskom under the existing (cost plus) Coal Sales Agreement to progress a lower capital cost option to extend the life of the Khutala underground mine.

Costs

Operating unit costs decreased by 13 per cent to US$26/t in FY2016 due to a stronger US dollar and a significant improvement in labour productivity. In this context, the insourcing of activity underpinned a 38 per cent reduction in contractor numbers when compared with the average headcount in FY2015, while employee numbers were also reduced by 14 per cent.

Financial performance

Underlying EBIT remained largely unchanged in FY2016 at US$95 million. A reduction in contractor and labour costs increased Underlying EBIT by US$66 million while a stronger US dollar delivered a further US$112 million net benefit. Non-cash charges declined by US$95 million as depreciation and amortisation was rebased following the recognition of impairments in FY2015 and the December 2015 half year. In contrast, lower realised prices reduced Underlying EBIT by US$117 million, net of price-linked costs.

Capital expenditure decreased by 36 per cent to US$63 million in FY2016 following the purchase of mobile equipment in the prior period.

Pre-tax restructuring costs, including redundancies, of approximately US$15 million were incurred in FY2016 and have been excluded from the Group's Underlying earnings measures.

South32 share(1)	FY2016	FY2015
Energy coal production (kt)	**31,681**	34,273
Domestic sales (kt)(2)	**17,169**	18,416
Export sales (kt)(2)	**15,157**	16,390
Realised domestic sales price (US$/t)(2)	**18**	21
Realised export sales price (US$/t)(2)	**46**	56
Operating unit cost (US$/t)(3)	**26**	30

(1) South32's interest in South Africa Energy Coal is accounted at 100 per cent until B-BBEE vendor loans are repaid.
(2) Volumes and prices do not include any third party trading that may be undertaken independently of equity production. Realised sales price is calculated as sales revenue divided by sales volume.
(3) Operating unit cost is Revenue less Underlying EBITDA divided by sales volume.

South32 share(1) (US$M)	FY2016	FY2015
Sales revenue(2)	**1,009**	1,315
Underlying EBITDA	**182**	276
Underlying EBIT	**95**	94
Net operating assets/(liabilities)	**(99)**	395
Capital expenditure	**63**	98
Major projects (>US$100M)	***2***	–
All other capital expenditure	***61***	98
Exploration expenditure	**–**	–
Exploration expensed	**–**	–

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

ILLAWARRA METALLURGICAL COAL (100%)

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

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

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

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

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

Volumes

Illawarra Metallurgical Coal saleable production decreased by 560kt (or six per cent) to 8.4Mt in FY2016 as challenging geological conditions were encountered at the Appin and Dendrobium mines in the first six months of the reporting period. Three planned longwall moves were also completed during the year.

The Appin Area 9 project was completed in January 2016, ahead of schedule and below budget, significantly increasing longwall utilisation and cutting rates. Saleable coal production guidance is unchanged at 9.5Mt for FY2017 and this rate of production is expected to be maintained in FY2018. Two longwall moves and one step around are planned for FY2017, with the step around scheduled for the September 2016 quarter and the two longwall moves for the March 2017 quarter.

Costs

Operating unit costs decreased by 18 per cent to US$61/t in FY2016 as the US dollar strengthened and we reorganised the operation into two teams, surface processing and logistics, and underground mining, thereby removing layers of management and functional support while creating greater focus. Employee and contractor numbers declined by 17 per cent.

Financial performance

Underlying EBIT decreased by US$31 million in FY2016 to a loss of US$61 million. Lower realised coal prices (-US$128 million, net of price-linked costs) and a decline in sales volumes (-US$36 million) were partially offset by a US$67 million reduction in controllable costs and the benefit of a stronger US dollar (+US$71 million).

Capital expenditure decreased by 40 per cent to US$185 million in FY2016 with the completion of the Appin Area 9 project. Underground development of US$106 million included US$64 million for Appin Area 9.

Pre-tax restructuring costs, including redundancies, of approximately US$12 million were incurred in FY2016 and have been excluded from the Group's Underlying earnings measures.

South32 share	FY2016	FY2015
Metallurgical coal production (kt)	**7,059**	7,455
Energy coal production (kt)	**1,307**	1,471
Metallurgical coal sales (kt)	**6,984**	7,324
Energy coal sales (kt)	**1,333**	1,378
Realised metallurgical coal sales price (US$/t)[(1)]	**84**	101
Realised energy coal sales price (US$/t)[(1)]	**43**	54
Operating unit cost (US$/t)[(2)]	**61**	74

(1) Realised sales price is calculated as sales revenue divided by sales volume.
(2) Operating unit cost is Revenue less Underlying EBITDA divided by sales volume.

South32 share (US$M)	FY2016	FY2015
Sales revenue[(1)]	**642**	814
Underlying EBITDA	**132**	167
Underlying EBIT	**(61)**	(30)
Net operating assets	**1,516**	1,518
Capital expenditure	**185**	308
Major projects (>US$100M)	***30***	*51*
All other capital expenditure[(2)]	***155***	*257*
Exploration expenditure	**4**	5
Exploration expensed	**4**	5

(1) Includes metallurgical coal and energy coal sales revenue.
(2) Includes capitalised underground development expenditure and Appin Area 9 project underground development expenditure in FY2016 of US$106 million (FY2015: US$119 million).

AUSTRALIA MANGANESE
(60% SHARE)

GEMCO MINES MANGANESE ORE IN THE NORTHERN TERRITORY, WHILE TEMCO IS A MANGANESE ALLOY PLANT IN TASMANIA

Australia Manganese consists of Groote Eylandt Mining Company (GEMCO) and Tasmanian Electro Metallurgical Company (TEMCO). South32 Limited owns 60 per cent of GEMCO and Anglo American Plc holds the remaining 40 per cent. TEMCO is wholly owned by GEMCO.

GEMCO is an open-cut strip mining operation, producing high-grade ore and is located in close proximity to Asian export markets.

Using mainly ore shipped from GEMCO, TEMCO produces high carbon ferromanganese, silicomanganese and sinter, primarily using hydroelectric power.

Volumes

Australia Manganese saleable ore production increased by 129kwmt (or 4 per cent) to a record 3.1Mwmt in FY2016 as concentrator performance improved and the Premium Concentrate Ore (PCO2) project was completed. The project, which increased GEMCO's production capacity by 500kwmt, was completed 17 per cent under budget and ahead of schedule in the June 2016 quarter.

In response to challenging market conditions, Australia Manganese is expected to operate below recently expanded capacity of 5.3Mwmt (100 per cent basis), with ore production of 3.1Mwmt projected for each of FY2017 and FY2018.

We obtained consent from the Anindilyakwa Land Council to access the Eastern Leases and the Southern Areas at GEMCO in June 2016. The Eastern Leases will enable us to mine new areas within our existing operating footprint. Access to the Southern Areas, adjacent to the existing operations, will substantially increase our exploration footprint at this highly prospective manganese operation.

Saleable manganese alloy production decreased by 34kt (or 20 per cent) to 133kt in FY2016 as power shortages led to the suspension of two of four furnaces. The operation returned to full production in July 2016.

Costs

FOB manganese ore operating unit costs decreased by 16 per cent to US$1.41/dmtu in FY2016 as the US dollar strengthened and we reduced GEMCO employee and contractor numbers by 4 per cent. Associated cost savings more than offset an increase in the strip ratio from 3.0 to 3.3.

Financial performance

Underlying EBIT decreased by US$58 million in FY2016 to US$65 million. Lower manganese ore and alloy prices reduced Underlying EBIT by US$163 million, net of price-linked costs, although this was partially offset by a stronger US dollar, which increased Underlying EBIT by US$33 million.

Capital expenditure decreased by US$30 million to US$68 million in FY2016 and included a US$28 million investment to complete the PCO2 project.

South32 share	FY2016	FY2015
Manganese ore production (kwmt)	**3,071**	2,942
Manganese alloy production (kt)	**133**	167
Manganese ore sales (kwmt)(1)	***3,084***	*2,788*
External customers	***2,771***	*2,483*
TEMCO	***313***	*305*
Manganese alloy sales (kt)(1)	**150**	139
Realised manganese ore sales price (FOB, US$/dmtu)(1)(2)	**2.48**	3.48
Realised manganese alloy sales price (US$/t)(1)	**860**	1,079
Ore operating unit cost (FOB, US$/dmtu)(2)(3)	**1.41**	1.68
Alloy operating unit cost (US$/t)(3)	**833**	971

(1) 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 sales revenue less freight and marketing costs, divided by 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 intra-segment transaction. External ore sales in italics have been restated.

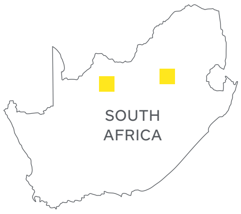
(2) FY2016 average manganese content of ore sales was 47.3 per cent on a dry basis (FY2015: 47.7 per cent). 94 per cent of FY2016 manganese ore sales (FY2015: 90 per cent) were completed on a CIF basis. FY2016 realised FOB ore prices and operating unit costs have been adjusted for freight and marketing costs of US$24 million (FY2015: US$37 million), consistent with our FOB cost guidance.

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

South32 share (US$M)	FY2016	FY2015
Sales revenue(1)	**476**	595
Manganese ore	***372***	*479*
Manganese alloy	***129***	*150*
Intra-segment elimination	***(25)***	*(34)*
Underlying EBITDA	**154**	243
Manganese ore	***150***	*228*
Manganese alloy	***4***	*15*
Underlying EBIT	**65**	123
Manganese ore	***67***	*116*
Manganese alloy	***(2)***	*7*
Net operating assets	**341**	1,384
Manganese ore	***322***	*1,365*
Manganese alloy	***19***	*19*
Capital expenditure	**68**	98
Major projects (>US$100M)	**–**	–
All other capital expenditure	***68***	*98*
Exploration expenditure	**1**	2
Exploration expensed	**–**	2

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

SOUTH AFRICA MANGANESE
(ORE 44.4% SHARE, ALLOY 60% SHARE)



SOUTH AFRICA MANGANESE COMPRISES HOTAZEL MANGANESE MINES AND METALLOYS ALLOY SMELTER

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

HMM has two operations, the Wessels high-grade underground mine and the Mamatwan medium grade open-pit mine. The Metalloys alloy plant produces high-carbon ferromanganese and medium-carbon ferromanganese alloy and is integrated with HMM.

Volumes

South Africa Manganese saleable ore production decreased by 563kwmt (or 25 per cent) to 1.7Mwmt in FY2016 following the decision to initially suspend mining activity in November 2015 and then restructure the operation in response to challenging market conditions. Mining recommenced at both Wessels and Mamatwan in the March 2016 quarter, ramping-up to an optimised 2.9Mwmt pa (100 per cent basis) production rate.

The second phase of the Central Block development project will enable underground mining activity to relocate closer to critical infrastructure, thereby reducing cycle times. As a result of the fatality at the Wessels underground mine in June 2016 and the subsequent reprioritisation of activities, commissioning is now expected in the March 2017 quarter.

Saleable manganese alloy production decreased by 155kt (or 63 per cent) to 91kt in FY2016 following the decision to suspend three of the four high-carbon ferromanganese furnaces at Metalloys in May 2015. Metalloys will continue to operate one of four furnaces until market conditions improve.

Costs

FOB manganese ore operating unit costs decreased by 3 per cent to US$1.91/dmtu in FY2016 as the US dollar strengthened, production volumes were rebased and employee and contractor numbers were reduced by 41 per cent.

Financial performance

Underlying EBIT decreased by US$27 million in FY2016 to a loss of US$47 million as lower realised manganese ore and alloy prices reduced Underlying EBIT by US$69 million, net of price-linked costs. Lower sales volumes reduced Underlying EBIT by a further US$112 million, although this impact was more than offset by a reduction in costs associated with the temporary suspension of operations (+US$111 million) and a stronger US dollar (+US$44 million).

Capital expenditure decreased significantly to US$11 million in FY2016. Pre-tax restructuring costs, including redundancies, of approximately US$8 million were incurred in FY2016 and have been excluded from the Group's Underlying earnings measures.

South32 share	FY2016	FY2015
Manganese ore production (kwmt)	**1,711**	2,274
Manganese alloy production (kt)	**91**	246
Manganese ore sales (kwmt)(1)	**1,834**	2,210
External customers	***1,736***	*1,685*
Metalloys	***98***	*525*
Manganese alloy sales (kt)(1)	**110**	251
Realised manganese ore sales price (US$/dmtu)(1)(2)	**2.06**	2.53
Realised manganese alloy sales price (US$/t)(1)	**682**	876
Ore operating unit cost (US$/dmtu)(2)(3)	**1.91**	1.97
Alloy operating unit cost (US$/t)(2)(3)	**882**	948

(1) Volumes and prices do not include any third party trading that may be undertaken independently of equity production. Realised ore prices are calculated as sales revenue less freight and marketing costs, divided by 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 intra-segment transaction. Manganese ore sales are grossed-up to reflect a 60 per cent accounting effective interest.

(2) FY2016 average manganese content of ore sales was 39.9 per cent on a dry basis (FY2015: 41.4 per cent). 57 per cent of FY2016 manganese ore sales (FY2015: 36 per cent) were completed on a CIF basis. FY2016 realised FOB ore prices and operating costs have been adjusted for freight and marketing costs of US$17 million (FY2015: US$20 million), consistent with our FOB cost guidance.

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

South32 share (US$M)	FY2016	FY2015
Revenue(1)	**234**	420
Manganese ore(2)	***166***	*249*
Manganese alloy	***75***	*220*
Intra-segment elimination	***(7)***	*(49)*
Underlying EBITDA	**(11)**	32
Manganese ore(2)	***11***	*50*
Manganese alloy	***(22)***	*(18)*
Underlying EBIT	**(47)**	(20)
Manganese ore(2)	***(13)***	*12*
Manganese alloy	***(34)***	*(32)*
Net operating assets	**342**	530
Manganese ore(2)	***258***	*384*
Manganese alloy	***84***	*146*
Capital expenditure	**11**	41
Major projects (>US$100M)	**–**	*–*
All other capital expenditure	***11***	*41*
Exploration expenditure	**–**	–
Exploration expensed	**–**	–

(1) Revenues referring to sales from Hotazel mines to Metalloys are eliminated as part of the consolidation.

(2) Consistent with the presentation of South32's segment information, South Africa Manganese ore production and sales have been reported at 60 per cent. The Group's financial statement will continue to reflect a 54.6 per cent interest in South Africa Manganese ore.

CERRO MATOSO
(99.9% SHARE)

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

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

Ore mined is blended with ore from stockpiles. The ore is then dried in rotary kilns and smelted in two electric arc furnaces where ferro nickel is produced. Cerro Matoso has a water management system that allows it to recycle 95 per cent of the water used in operations.

Volumes

Cerro Matoso payable nickel production decreased by 3.6kt (or 9 per cent) to 36.8kt in FY2016. Lower production resulted from a decline in the average ore grade, consistent with the mine plan.

Payable nickel production guidance remains unchanged at approximately 36.0kt for FY2017. A small decrease in production is expected in FY2018, however access to the higher grade La Esmeralda Mineral Resource is expected to be facilitated by the development of a low cost river crossing which should see payable nickel production rise temporarily to more than 40kt in FY2019 and FY2020.

La Esmeralda comprises 9.4Mt of Mineral Resources of the total reported Mineral Resources for FY2016. This is made up of 74 per cent Measured Mineral Resources and 26 per cent Indicated Mineral Resources at an average grade of 1.59 per cent nickel. The project is based on a completed Feasibility Study demonstrating the project is economically viable. La Esmeralda has recently been granted regulatory environmental approval. The Mineral Resources and Ore Reserves breakdown by classification are contained within the Resources and Reserves section on pages 73 to 84 of this report.

Costs

Operating unit costs decreased by 21 per cent to US$4.08/lb in FY2016. This largely reflected the benefit of a stronger US dollar, an 18 per cent reduction in employee and contractor numbers, and a decrease in energy usage and rates.

Financial performance

Underlying EBIT decreased by US$146 million in FY2016 to a loss of US$88 million due to weaker realised prices (-US$192 million, net of price-linked costs) and a decline in sales volumes (-US$57 million). These impacts were partially offset by a reduction in controllable costs (+US$36 million) and a stronger US dollar (+US$84 million).

Capital expenditure of US$18 million was 50 per cent lower than the prior period.

Pre-tax restructuring costs, including redundancies, of approximately US$4 million were incurred in FY2016 and have been excluded from the Group's Underlying earnings measures.

South32 share	FY2016	FY2015
Ore mined (kwmt)	**6,009**	6,321
Ore processed (kdmt)	**2,699**	2,629
Ore grade processed (%, Ni)	**1.54**	1.67
Payable nickel production (kt)	**36.8**	40.4
Payable nickel sales (kt)	**36.8**	40.6
Realised nickel sales price (US$/lb)(1)	**4.10**	6.63
Operating unit cost (US$/lb)(2)	**4.08**	5.14

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

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

South32 share (US$M)	FY2016	FY2015
Sales revenue	**333**	593
Underlying EBITDA	***2***	*133*
Underlying EBIT	***(88)***	*58*
Net operating assets	**683**	763
Capital expenditure	**18**	36
Major projects (>US$100M)	**–**	–
All other capital expenditure	***18***	*36*
Exploration expenditure	**5**	9
Exploration expensed	**2**	1

CANNINGTON
(100% SHARE)

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

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

Cannington consists of an underground hard rock mine and surface processing facility, a road-to-rail transfer facility and a concentrate handling and ship loading facility at the Port of Townsville.

Both open-stope and bench mining methods are used at Cannington, with approximately 3.3Mt of ore processed each year. The ore travels to the surface from depths of up to 620 metres (m) via two methods; either by a nine tonne capacity vertical shaft hoisting system or by 50t haul trucks. The ore is then stockpiled for processing.

The processes for extracting the silver, lead and zinc from the ore involve grinding, sequential flotation and leaching techniques that produce high-grade, marketable lead and zinc concentrates with a high silver content.

Volumes

Payable silver and lead production decreased by five per cent, to 21.39Moz and 173.2kt respectively, in FY2016 due to a temporary reduction in mill throughput. Conversely, an increase in the average zinc ore grade and recoveries resulted in record annual zinc production of 79.0kt (a nine per cent increase).

Following the completion of our first annual planning cycle, we have optimised the longer term mine plan at Cannington, with silver and lead production guidance for FY2017 reduced by two per cent and three per cent, respectively, and zinc production guidance increased by three per cent. This plan, which seeks to increase total silver, lead and zinc extraction across the remaining years of the underground operation and reduce geotechnical risk by resequencing stope design, results in a further 10-13 per cent reduction in payable metal production in FY2018 (to 16.55Moz for silver, 147kt for lead and 72kt for zinc).

We have also concluded that an investment decision to potentially extend the life of the Cannington mine will not be required before the end of this decade.

Costs

Operating unit costs declined by 15 per cent to US$145/t of ore processed in FY2016 as the US dollar strengthened, employee and contractor numbers were reduced by 17 per cent and procurement savings, including lower contractor rates, were embedded.

Financial performance

Underlying EBIT decreased by US$13 million in FY2016 to US$274 million. Lower average realised prices reduced Underlying EBIT by US$89 million, net of price-linked costs, although this impact was offset by a US$47 million reduction in controllable costs and a US$41 million benefit associated with the stronger US dollar.

Finalisation adjustments and the provisional pricing of Cannington concentrates reduced Underlying EBIT by US$11 million in FY2016 (-US$19 million in the December 2015 half year; -US$43 million in FY2015). Outstanding concentrate sales (containing 3.1Moz of silver, 30.9kt of lead and 6.4kt of zinc) were revalued at 30 June 2016. The final price of these sales will be determined in the first half of FY2017.

Capital expenditure of US$27 million was 31 per cent lower than the prior period.

South32 share	FY2016	FY2015
Ore mined (kt)	**3,289**	3,418
Ore processed (kt)	**3,149**	3,289
Ore grade processed (g/t, Ag)	**255**	257
Ore grade processed (%, Pb)	**6.6**	6.7
Ore grade processed (%, Zn)	**3.8**	3.4
Payable silver production (koz)	**21,393**	22,601
Payable lead production (kt)	**173.2**	183.0
Payable zinc production (kt)	**79.0**	72.3
Payable silver sales (koz)	**20,852**	23,831
Payable lead sales (kt)	**169.7**	188.9
Payable zinc sales (kt)	**82.6**	66.8
Realised silver sales price (US$/oz)(1)	**16.2**	16.8
Realised lead sales price (US$/t)(1)	**1,780**	1,890
Realised zinc sales price (US$/t)(1)	**1,780**	2,171
Operating unit cost (US$/t ore processed)(2)	**145**	170

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

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

South32 share (US$M)	FY2016	FY2015
Revenue	**786**	902
Underlying EBITDA	**330**	342
Underlying EBIT	**274**	287
Net operating assets	**242**	280
Capital expenditure	**27**	39
Major project (>US$100M)	**–**	–
All other capital expenditure	**27**	39
Exploration expenditure	**3**	5
Exploration expensed	**3**	5

THIRD PARTY SALES

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

US$M	FY2016	FY2015
South32 Group production		
Revenue	**5,227**	6,948
Related operating costs (net of other income)	**(4,854)**	(5,975)
Group production Underlying EBIT	**373**	973
Margin on Group production	**7.1%**	14.0%
Third party products		
Revenue	**585**	795
Related operating costs	**(579)**	(767)
Third party Underlying EBIT	**6**	28
Margin on third party products	**1.0%**	3.5%

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

- Production variability and occasional shortfalls from the South32 Group operations means that the South32 Group sometimes sources third party materials to ensure a consistent supply of product to its customers and
- To enhance value through product blending and supply chain optimisation, the South32 Group may buy physical product from third parties

NET DEBT AND SOURCES OF LIQUIDITY

Our policies on debt and treasury management are as follows:

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

Gearing and net debt

The table below presents net cash/(debt) and net assets of the South32 Group, based on the balance sheet as at 30 June 2016:

US$M	FY2016
Cash and cash equivalents	**1,225**
Current external debt	**(282)**
Non-current external debt	**(631)**
Net debt	**312**
Net assets	**9,422**

Given the net cash position of the South32 Group, a gearing ratio is not presented.

Funding sources

In addition to cashflow from operations as a primary source of funding, the South32 Group has a US$1.5 billion revolving credit facility, which is a standby arrangement to the South32 Group's US$1.5 billion US commercial paper programme, both entered into in FY2015. An option to extend the maturity of the revolving credit facility by 12 months was exercised during FY2016.

This borrowing facility is not subject to financial covenants at the South32 Group's current credit rating. Certain financing facilities in relation to specific operations are the subject of financial covenants that vary from facility to facility, however these are considered normal for such facilities.

As at 30 June 2016, the South32 Group's cash and cash equivalents on hand were US$1,225 million. Details of major standby and support arrangements are as follows:

US$M	Available FY2016	Used FY2016
Commercial paper programme[1]	1,500	–
Total standby and support arrangements	**1,500**	**–**

(1) The Group has an undrawn US$1.5 billion revolving credit facility, which is a standby arrangement to the US$1.5 billion US commercial paper programme. The multi-currency revolving credit facility is due for expiry in February 2021 and has one one-year extension option remaining.

Additional information regarding the maturity profile of the South32 Group's debt obligations and details of the standby and support agreements are included in note 19 to the financial statements.

Credit rating

In March 2016, Moody's Investors Service reaffirmed South32's long-term credit rating of Baa1 (the short-term credit rating is P-2). In October 2015, Standard and Poor's Ratings Services reaffirmed a long-term credit rating of BBB+ (the short-term credit rating is A-2).

OUTLOOK

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

Details regarding the most significant risk factors for the South32 Group, and how these are managed, are set out in Risk Management on pages 37 to 42. These include risks that could adversely affect the South32 Group's financial prospects for future financial years. In addition, information regarding external factors and trends that may impact on the South32 Group's performance and position are set out on pages 46 to 48.

PRODUCTION

Production guidance for operations for FY2017 and FY2018 is set out on pages 59 to 68. We continue to review production configurations in line with our strategy of optimising our operations for safe, sustainable and reliable production. Together with continued focus on cost reduction initiatives and disciplined capital investment, we aim to improve our position on industry cost or margin curves.

In response to market conditions, Australia Manganese (GEMCO) is expected to operate below its recently expanded capacity, and operational plans at South Africa Manganese will be adjusted to reflect customer demand. We will continue to take decisive action across our operations in line with our strategy and in response to market conditions.

Production guidance for operations may subsequently be updated to reflect decisions in line with our focus of value over volume and delivering the best returns for shareholders. This occurred at Cannington where an optimised long-term mine plan has led to revisions to previous guidance for FY2017, and has resulted in increased total silver, lead and zinc extraction over the remaining life of the operation.

Production plans at our downstream operations will differ depending on their unique circumstances. Specifically, production will continue to be influenced by electricity grid stability, and the duration and regularity of load-shedding events.

A summary of upstream production guidance for FY2017 and FY2018 as compared to FY2016 is shown below.

Upstream production guidance (South32 share)(1)

	FY2016	FY2017e(2)	FY2018e(2)
Worsley Alumina			
Alumina production (kt)	3,961	3,965	3,965
Brazil Alumina			
Alumina production (kt)	1,335	1,320	1,350
South Africa Energy Coal(3)			
Domestic coal production (kt)	16,825	17,000	17,000
Export coal production (kt)	14,856	13,850	12,800
Illawarra Metallurgical Coal			
Metallurgical coal production (kt)	7,059	8,150	8,140
Energy coal production (kt)	1,307	1,380	1,400
Australia Manganese			
Manganese ore production (kwmt)	3,071	3,120	3,125
South Africa Manganese			
Manganese ore production (kwmt)	1,711	Subject to Demand	Subject to Demand
Cerro Matoso			
Payable nickel production (kt)	36.8	36.0	35.0
Cannington			
Payable silver production (koz)	21,393	19,050	16,550
Payable lead production (kt)	173	163	147
Payable zinc production (kt)	79	80	72

(1) South32's ownership share of operations are as follows: Worsley Alumina (86 per cent share), South Africa Aluminium (100 per cent), Mozal Aluminium (47.1 per cent share), Brazil Alumina (Alumina 36 per cent share, Aluminium 40 per cent share), South Africa Energy Coal (92 per cent share), Illawarra Metallurgical Coal (100 per cent), Australia Manganese (60 per cent share), South Africa Manganese (60 per cent share), Cerro Matoso (99.9 per cent share), and Cannington (100 per cent).

(2) This refers to an estimate or forecast year.

(3) South32's interest in South Africa Energy Coal is accounted at 100 per cent until broad-based black economic empowerment (B-BBEE) vendor loans are repaid.

COSTS AND CAPITAL EXPENDITURE

Cost targets

In February 2016, we announced major restructuring initiatives at a number of our operations, including Worsley Alumina, Illawarra Metallurgical Coal, Australia Manganese (GEMCO), South Africa Manganese and Cerro Matoso. These restructuring activities have been completed, while additional cost savings were also embedded within our support functions.

As a result, we are well positioned to achieve the majority of our FY2017 operational cost targets, which have been adjusted to reflect revised commodity price and foreign exchange rate assumptions. In this regard, our cost target for South Africa Manganese is unlikely to be achieved before the June 2017 half year following the fatality at Wessels in June 2016 and the subsequent reprioritisation of activities in the underground mine. Cost targets for South Africa Energy Coal and Cannington are provided for the first time. Forecast corporate costs of approximately US$70 million per annum from FY2017 are almost 50 per cent lower than envisaged at the time of listing.

Operating unit costs, including Sustaining capital expenditure by upstream operation(1)

	Units	FY2015	FY2016	FY2017e(2)
Worsley Alumina	US$/t	266	221	204
Illawarra Metallurgical Coal	US$/t	104	80	71
Australia Manganese ore (FOB)	US$/dmtu	2.40	1.88	1.66
South Africa Manganese ore (FOB)	US$/dmtu	2.23	2.01	*1.71*
Cerro Matoso	US$/lb	5.54	4.30	3.87
South Africa Energy Coal	US$/t	33	27	26
Cannington(3)	US$/t	182	153	138

(1) New projected Operating unit cost targets, including Sustaining capital expenditure, and Sustaining capital expenditure guidance, include royalties (where appropriate) and the influence of exchange rate assumptions, and are predicated on: an alumina price of US$259/t; an average blended coal price of US$83/t for Illawarra Metallurgical Coal; a manganese ore price of US$3.23/dmtu for 44% manganese product; a nickel price of US$3.95/lb; a thermal coal price of US$54/t (API4) for South Africa Energy Coal; a silver price of US$17.50/troy oz; a lead price of US$1,723/t; a zinc price of US$1,907/t; an AUD:USD exchange rate of 0.72; a USD:ZAR exchange rate of 16.57; and a USD:COP exchange rate of 3,025; all of which reflect forward markets as at May 2016 or our internal expectations. The target for South Africa Manganese (in italics) reflects the expected June 2017 half year run-rate as activity has been reprioritised following a fatality at the Wessels underground mine in June 2016.

(2) This refers to an estimate or forecast year.

(3) Shows US dollar per tonne of ore processed. Periodic movements in finished product inventory may impact operating unit cost as related marketing costs and treatment and refining charges may change.

Capital expenditure

We expect capital expenditure, including equity accounted investments, to remain largely unchanged in FY2017 at approximately US$450 million. FY2017 Capital expenditure guidance is predicated on: an AUD:USD exchange rate of 0.72; a USD:ZAR exchange rate of 16.57; and a USD:COP exchange rate of 3,025; all of which reflect forward markets as at May 2016 or our internal expectations. Major project expenditure is not anticipated, aside from study costs and land acquisitions associated with our South Africa Energy Coal life extension options, primarily Klipspruit. Looking to FY2018, Sustaining capital expenditure, including equity accounted investments, is expected to remain largely unchanged from FY2017, while the rate of expenditure associated with Major projects will remain dependent on the status of our development options. The Klipspruit Life Extension is the sole Major project scheduled for approval before the end of FY2018, noting that the low cost La Esmeralda development at Cerro Matoso does not fall into this category.

Exploration expenditure

During the year we signed an option agreement with Northern Shield Resources to become a partner in the Huckleberry property in Northern Quebec, Canada. This agreement represents a low-cost entry into the Labrador Trough, a province identified as being highly prospective for copper, nickel and platinum group elements. We can earn a 50 per cent interest in the property by funding C$2.5 million of exploration spend and a further 20 per cent interest by funding an additional C$2.5 million.

Northern Shield's interest will be free carried to the completion of a Preliminary Economic Assessment (PEA) study on the property.

Modest investment in greenfield exploration is currently planned for FY2017, although the rate of expenditure will rise should additional opportunities be identified. Exploration expenditure of approximately US$12 million is expected within our existing footprint.

DEPRECIATION AND AMORTISATION

Depreciation and amortisation, excluding equity accounted investments, is expected to decrease by US$55 million to US$720 million in FY2017 following the recognition of non-cash impairment charges in FY2016. Similarly, depreciation and amortisation for equity accounted investments is expected to decline by US$55 million to US$70 million in FY2017.

TAX EXPENSE

The Group's Underlying effective tax rate (Underlying ETR) primarily reflects the geographic distribution of the Group's profit. The corporate tax rates applicable to the Group include: Australia 30 per cent; South Africa 28 per cent; Colombia 40 per cent; and Brazil 34 per cent. It should also be recognised that permanent differences have a disproportionate effect on the Group's Underlying ETR when commodity prices and profit margins are compressed. Based on current projections, the Group is not expected to generate franking credits in FY2017.

RESOURCES AND RESERVES

MINERAL RESOURCES AND ORE RESERVES

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

The information in this report relating to Mineral Resources and Ore Reserves has been provided by our Competent Persons. Eash person has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and to the activity being undertaken to qualify as a Competent Person as defined by the JORC Code. Each Competent Person consents to the inclusion in this report of the matters based on their information in the form and context in which it appears. The Competent Persons, their professional affiliation, employer and accountabilities are shown on page 75. Unless otherwise noted, all Competent Persons listed are full-time employees of South32 or its related entities.

Unless otherwise stated, Mineral Resources and Ore Reserves are reported in 100 per cent terms and represent estimates as at 30 June 2016. Mineral Resource information is inclusive of Mineral Resources that have been modified to produce Ore Reserves. All quantities are reported as dry metric tonnes (dmt), unless otherwise stated. All tonnes and grade information has been rounded to reflect relative uncertainty of the estimate, hence small differences may be present in the totals.

Commodity price and exchange rates used to estimate the economic viability of Ore Reserves are based on our long-range forecasts. The Ore Reserves reported are within existing, permitted mining tenements. Mineral leases are of sufficient duration, or convey a legal right to renew for sufficient duration, to enable all reserves on the leased properties to be mined in accordance with current production schedules.

Ore Reserves may include areas where additional approvals remain outstanding. However, based on knowledge and experience of the approvals process and technical investigations conducted as part of our planning process, it is expected that such approvals will be obtained as part of the normal course of business within the timeframe required by the current production schedule.

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

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

In FY2016, the Company undertook one independent audit of Mineral Resources and three internal mine planning and Ore Reserve audits. The frequency and scope of the audits are a function of the perceived risks and/or uncertainties associated with a particular Ore Reserve and Mineral Resource.

Total Mineral/Coal Resources and total Ore/Coal Reserves are presented in the table below. Additional information of the Company's Mineral/Coal Resources and Ore/Coal Reserves, including categories of resources and reserves are available on the following pages.

AT A GLANCE - RESOURCES AND RESERVES

Operation	Total Ore/Coal Reserve (Mt)	Total Mineral/Coal Resource (Mt)
Cannington	21	96
Cerro Matoso	42	296
Australia Manganese	79	174
Worsley Alumina	270	1,080
Illawarra Metallurgical Coal[1]	146	1,254
South Africa Manganese	152	242
South Africa Energy Coal[1]	386	4,955
Brazil Alumina	66	527

(1) Coal Reserves in this table are presented as Marketable Coal Reserves. Process recoveries are reported in the following detailed disclosures for each Coal operations.

EXPLORATION RESEARCH AND DEVELOPMENT

Operations within our company carry out exploration as well as research and development necessary to support their activities. Our exploration activities primarily support brownfield expansion of mineral deposits connected to our existing operations and focus on the delineation and categorisation of those deposits. Exploration expenditure for FY2016 was US$13 million (FY2015: US$21 million), including equity accounted investments.

COMPETENT PERSONS

AUSTRALIA REGION

Mineral Resources

Cerro Matoso: I Espitia (MAusIMM)

GEMCO: D Hope (MAusIMM)

Worsley Alumina: J Binoir (MAusIMM)

Cannington: M Readford (MAusIMM(CP))

Ore Reserves

Cerro Matoso: N Monterroza (MAusIMM)

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

Worsley Alumina: G Burnham (MAusIMM)

Cannington: T Curypko (MAusIMM)

Coal Resources

Bulli and Wongawilli: J Gale (MAusIMM)

Coal Reserves

Bulli and Wongawilli: M Rose (MAusIMM)

AFRICA REGION

Mineral Resources

Wessels and Mamatwan: E P Ferreira (Pri. Sci. Nat.,SACNASP), C Nengovhela (Pri. Sci. Nat.,SACNASP), F T Rambuda (Pri. Sci. Nat.,SACNASP)

Ore Reserves

Wessels and Mamatwan: D Takalani (MSAIMM, employed by NRR Mining and Consulting)

Coal Resources

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

Klipspruit: H Strauss (MGSSA)

Wolvekrans Middelburg Complex: S Kara (Pri. Sci. Nat., SACNASP), L Visser (Pri. Sci. Nat., SACNASP)

Davel, Leandra, Naudesbank and Weltevreden: M Basson (Pri. Sci. Nat.,SACNASP)

Coal Reserves

Khutala, Klipspruit and Wolvekrans Middelburg Complex: P Mulder (MSAIMM)

CORPORATE

BRAZIL ALUMINA

Mineral Resources

Mineração Rio do Norte: M A H Monteiro (MAusIMM, employed by Mineração Rio do Norte)

Ore Reserves

Mineração Rio do Norte: D C A Morais (MAusIMM, employed by Mineração Rio do Norte)

AUSTRALIA REGION

CANNINGTON

Silver, Lead, Zinc

MINERAL RESOURCES

As at 30 June 2016		Measured Resources				Indicated Resources				Inferred Resources				Total Resources				South32 Interest	As at 30 June 2015 Total Resources			
Deposit	Ore Type	Mt	g/t Ag	% Pb	% Zn	Mt	g/t Ag	% Pb	% Zn	Mt	g/t Ag	% Pb	% Zn	Mt	g/t Ag	% Pb	% Zn	%	Mt	g/t Ag	% Pb	% Zn
Cannington [1][2]	UG Sulphide	50	190	5.11	3.45	17	140	4.06	2.77	8.4	101	3.56	2.04	76	169	4.70	3.14	100	71	170	4.86	3.26
	OC Sulphide	14	85	3.38	2.20	6.3	56	2.55	1.76	-	-	-	-	20	76	3.12	2.06		21	78	3.23	2.07

ORE RESERVES

As at 30 June 2016		Proved Ore Reserves				Probable Ore Reserves				Total Ore Reserves				Reserve Life	South32 Interest	As at 30 June 2015 Total Ore Reserves				Reserve Life
Deposit	Ore Type	Mt	g/t Ag	% Pb	% Zn	Mt	g/t Ag	% Pb	% Zn	Mt	g/t Ag	% Pb	% Zn	Years	%	Mt	g/t Ag	% Pb	% Zn	Years
Cannington [1][3][4][5][6]	UG Sulphide	17	202	5.73	3.69	3.8	227	5.87	3.71	21	206	5.76	3.69	6.5	100	21	225	5.90	3.82	8.0

(1) Cut-off grade: Net smelter return (NSR) in A$/t.

	Mineral Resources	Ore Reserves
UG Sulphide	100	130
OC Sulphide	40	

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

(3) Ore delivered to process plant.

(4) Average metallurgical recovery: 85% Ag, 88% Pb and 81% Zn.

(5) Increase in Ore Reserves due to additional drilling and updated resource model.

(6) Life of operation was reported as reserve life in FY2015.

AUSTRALIA REGION

CERRO MATOSO (COLOMBIA)

Nickel

MINERAL RESOURCES

As at 30 June 2016		Measured Resources		Indicated Resources		Inferred Resources		Total Resources		South32 Interest	As at 30 June 2015 Total Resources	
Deposit	Ore Type	Mt	% Ni	Mt	% Ni	Mt	% Ni	Mt	% Ni	%	Mt	% Ni
Cerro Matoso [1]	Laterite [2]	48	1.2	130	0.9	42	0.8	220	0.9	99.94	280	0.9
	SP [3]	15	1.0	43	0.9	-	-	59	0.9		52	1.1
	MNR - Ore	17	0.2	-	-	-	-	17	0.2		17	0.2

ORE RESERVES

As at 30 June 2016		Proved Ore Reserves		Probable Ore Reserves		Total Ore Reserves		Reserve Life	South32 Interest	As at 30 June 2015 Total Ore Reserves		Reserve Life
Deposit	Ore Type	Mt	% Ni	Mt	% Ni	Mt	% Ni	Years	%	Mt	% Ni	Years
Cerro Matoso [1][4][5]	Laterite	12	1.1	4.9	1.2	17	1.1	13	99.94	20	1.1	14
	SP	9.1	1.1	16	1.1	25	1.1			25	1.3	

(1) Cut-off grade

	Mineral Resources	Ore Reserves
Laterite	0.6% Ni	0.6% Ni
SP	0.6% Ni	0.6% Ni
MNR-Ore	0.12% Ni	

(2) Decrease in Mineral Resources for Laterite due to application of updated metallurgical constraints.

(3) Increase in stockpile Mineral Resources due to additional drilling, density adjustment and application of updated metallurgical constraints.

(4) Ore delivered to process plant.

(5) Metallurgical Recovery: 84% (reserves to metal).

AUSTRALIA REGION

AUSTRALIA MANGANESE (GEMCO)

Manganese

MINERAL RESOURCES

As at 30 June 2016		Measured Resources			Indicated Resources			Inferred Resources			Total Resources			South32 Interest	As at 30 June 2015 Total Resources		
Deposit	Ore Type	Mt	% Mn	% Yield	Mt	% Mn	% Yield	Mt	% Mn	% Yield	Mt	% Mn	% Yield	%	Mt	% Mn	% Yield
GEMCO [1]	ROM [2]	95	45.0	48	29	43.4	47	35	42.6	49	159	44.1	48	60	169	44.3	48
	Sands [3]	-	-	-	13	20.8	-	2.3	20.0	-	15	20.7	-		15	20.7	-

ORE RESERVES

As at 30 June 2016		Proved Ore Reserves			Probable Ore Reserves			Total Ore Reserves			Reserve Life	South32 Interest	As at 30 June 2015 Total Ore Reserves			Reserve Life
Deposit	Ore Type	Mt	% Mn	% Yield	Mt	% Mn	% Yield	Mt	% Mn	% Yield	Years	%	Mt	% Mn	% Yield	Years
GEMCO [1][4][5][6]	ROM	52	45.2	55	20	43.2	55	72	44.6	55	9.0	60	82	44.8	55	10
	Sands	-	-	-	7.4	40.0	33	7.4	40.0	33			7.6	40.0	33	

(1) Cut-off grade

ROM >40% Mn washed product and ≥ 1.0m ore thickness

Sands >0% Mn in situ

(2) Mineral Resource ROM tonnes are stated as in situ, manganese grades are given as per washed ore samples and should be read together with their respective tonnage yields.

(3) Mineral Resource Sands tonnes and manganese grades are reported as in situ.

(4) Ore Reserve tonnes are stated as ROM, manganese grades are reported as expected product and should be read together with their respective tonnage yields.

(5) Ore delivered to process plant.

(6) For metallurgical recovery, see yield in the Ore Reserves table.

AUSTRALIA REGION

WORSLEY ALUMINA

Aluminium

MINERAL RESOURCES

As at 30 June 2016

		Measured Resources			Indicated Resources			Inferred Resources			Total Resources			South32 Interest	As at 30 June 2015 Total Resources		
Deposit	Ore Type	Mt	% A. Al_2O_3	% R. SiO_2	Mt	% A. Al_2O_3	% R. SiO_2	Mt	% A. Al_2O_3	% R. SiO_2	Mt	% A. Al_2O_3	% R. SiO_2	%	Mt	% A. Al_2O_3	% R. SiO_2
Worsley (1)(2)	Laterite	337	28.6	1.5	337	29.6	2.2	408	28.8	2.5	1,080	29.0	2.1	86	1,110	31.4	2.2

ORE RESERVES

As at 30 June 2016

		Proved Ore Reserves			Probable Ore Reserves			Total Ore Reserves			Reserve Life	South32 Interest	As at 30 June 2015 Total Ore Reserves			Reserve Life
Deposit	Ore Type	Mt	% A. Al_2O_3	% R. SiO_2	Mt	% A. Al_2O_3	% R. SiO_2	Mt	% A. Al_2O_3	% R. SiO_2	Years	%	Mt	% A. Al_2O_3	% R. SiO_2	Years
Worsley (1)(3)(4)(5)	Laterite	256	28.4	1.6	14	28.1	1.5	270	28.4	1.6	15	86	278	31.0	1.6	17

(1) Cut-off grade

Laterite Variable ranging from 22-29.5% A.Al_2O_3, ≤3.0-3.5% R.SiO_2 and ≥ 1m thickness.

(2) Change in grade of A.Al_2O_3 compared to FY2015 is related to change in analytical method. The metallurgical recovery associated with new analytical method is higher when compared to previous method resulting in a similar quantity of alumina in ore.

(3) Upgrading of Ore Reserves due to additional drilling and updated resource model.

(4) Ore delivered to process plant.

(5) Metallurgical recovery at Worsley refinery: 93%

AUSTRALIA REGION

ILLAWARRA METALLURGICAL COAL

Coal

COAL RESOURCES

As at 30 June 2016			Measured Coal Resources				Indicated Coal Resources				Inferred Coal Resources				Total Coal Resources				South32 Interest	As at 30 June 2015 Total Coal Resources			
Deposit (1)(2)	Mining Method	Coal Type	Mt	% Ash	% VM	% S	Mt	% Ash	% VM	% S	Mt	% Ash	% VM	% S	Mt	% Ash	% VM	% S	%	Mt	% Ash	% VM	% S
Bulli (3)	UG	Met	155	11.2	23.7	0.37	291	12.5	23.8	0.36	330	13.7	23.0	0.36	776	12.8	23.5	0.36	100	801	12.8	23.5	0.36
Wongawilli	UG	Met/Th	73	29.4	23.6	0.59	249	29.7	22.4	0.58	156	29.9	22.5	0.58	478	29.7	22.6	0.58	100	484	29.4	22.6	0.58

COAL RESERVES

As at 30 June 2016			Proved Coal Reserves	Probable Coal Reserves	Total Coal Reserves	Proved Marketable Coal Reserves				Probable Marketable Coal Reserves				Total Marketable Coal Reserves				Reserve Life	South32 Interest	As at 30 June 2015 Total Marketable Coal Reserves				Reserve Life
Deposit (1)(4)(5)(6)	Mining Method	Coal Type	Mt	Mt	Mt	Mt	% Ash	% VM	% S	Mt	% Ash	% VM	% S	Mt	% Ash	% VM	% S	Years	%	Mt	% Ash	% VM	% S	Years
Bulli	UG	Met	28	119	147	24	8.9	23.9	0.37	99	8.9	24.9	0.36	123	8.9	24.7	0.36	22	100	129	8.9	24.7	0.36	23
Wongawilli	UG	Met/Th	11	20	31	-	-	-	-	-	-	-	-	-	-	-	-	6.2	100	-	-	-	-	7.6
	UG	Met	-	-	-	5.1	9.7	23.7	0.60	9.1	9.7	24.4	0.60	14	9.7	24.1	0.60			17	9.7	24.0	0.59	
	UG	Th	-	-	-	3.2	27.0	-	-	6.1	27.0	-	-	9.3	27.0	-	-			12	27.0	-	-	

(1) Cut-off grade

Coal Resources	No seam thickness cut-off applied because minimum thickness is economic.
Coal Reserves	The cut-off criteria applied was ≥ 1.8m seam thickness.

(2) Resource tonnages are in situ moisture basis. Ash is reported as Raw, VM and S are reported as potential product on air-dried basis.

(3) Changes to Coal Resource in Bulli seam include sterilisation of mining blocks due to closure of the West Cliff operation following exhaustion of the Coal Reserves.

(4) Coal delivered to wash plant.

(5) Process recoveries for the operations

Bulli	84%
Wongawilli	76%

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

AFRICA REGION

SOUTH AFRICA MANGANESE

Manganese

MINERAL RESOURCES

As at 30 June 2016		Measured Resources			Indicated Resources			Inferred Resources			Total Resources			South32 Interest	As at 30 June 2015 Total Resources		
Deposit [(1)]	Ore Type	Mt	% Mn	% Fe	Mt	% Mn	% Fe	Mt	% Mn	% Fe	Mt	% Mn	% Fe	%	Mt	% Mn	% Fe
Wessels	Lower Body-HG	7.1	46.9	12.5	13	47.4	11.8	0.9	46.8	11.8	21	47.2	12.1	44.4	23	47.7	12.1
	Lower Body-LG	12	42.0	12.8	18	41.9	13.4	2.3	44.1	13.3	32	42.1	13.2		27	41.8	14.0
	Upper Body	-	-	-	94	41.4	18.3	-	-	-	94	41.4	18.3		94	41.4	18.3
Mamatwan[(2)]	M, C, N Zones	19	37.6	4.4	42	37.0	4.5	0.3	37.0	5.0	61	37.2	4.5	44.4	69	37.2	4.5
	X Zone	2.5	37.8	4.6	4.2	36.3	4.8	-	-	-	6.7	36.9	4.7		7.6	37.0	4.8
	Top Cut (balance I&O)	7.5	30.4	6.3	19	29.4	6.4	0.1	28.7	8.3	27	29.7	6.4		30	29.8	6.4

ORE RESERVES

As at 30 June 2016		Proved Ore Reserves			Probable Ore Reserves			Total Ore Reserves			Reserve Life	South32 Interest	As at 30 June 2015 Total Ore Reserves			Reserve Life
Deposit [(1)(4)(5)]	Ore Type	Mt	% Mn	% Fe	Mt	% Mn	% Fe	Mt	% Mn	% Fe	Years	%	Mt	% Mn	% Fe	Years
Wessels [(3)]	Lower Body-HG	2.3	46.2	12.5	8.1	46.3	12.3	10	46.3	12.4	67	44.4	9.6	47.6	12.1	49
	Lower Body-LG	3.8	41.0	11.8	12	41.4	13.6	16	41.3	13.2			13	41.6	13.9	
	Upper Body	-	-	-	64	41.8	17.9	64	41.8	17.9			51	41.4	18.3	
Mamatwan	M, C, N Zones	18	37.2	4.5	38	36.6	4.5	56	36.7	4.5	17	44.4	56	37.3	4.4	17
	X Zone	2.4	37.5	4.7	3.7	35.9	4.8	6.1	36.5	4.7			4.0	37.5	4.7	

(1) Cut-off grade for Mineral Resources and Ore Reserves

Wessels		Mamatwan	
Lower Body-HG	≥ 45% Mn	M, C, N Zones	≥ 35% Mn
Lower Body-LG	≥ 37.5% Mn	X Zone	≥ 35% Mn
Upper Body	≥ 37.5% Mn	Top Cut (balance I&O)	≥ 28% Mn

(2) Decrease in Mineral Resources to account for an incorrect mining depletion from within the FY2015 Mineral Resources.

(3) Addition to Wessels Ore Reserves is based on improved mining recovery assumptions.

(4) Ore delivered to process plant.

(5) Metallurgical recovery for the operations

Wessels: 88%

Mamatwan: 96%

AFRICA REGION

SOUTH AFRICA ENERGY COAL

Energy Coal

COAL RESOURCES

As at 30 June 2016																									As at 30 June 2015				
			Measured Coal Resources					Indicated Coal Resources					Inferred Coal Resources					Total Coal Resources					South32 Interest	Total Coal Resources				
Deposit[(1)(2)]	Mining Method	Coal Type	Mt	% Ash	% VM	% S	KCal/ kg CV	Mt	% Ash	% VM	% S	KCal/ kg CV	Mt	% Ash	% VM	% S	KCal/ kg CV	Mt	% Ash	% VM	% S	KCal/ kg CV	%	Mt	% Ash	% VM	% S	KCal/ kg CV
South Africa - Operating mines																												
Khutala	OC	Th	1,104	30.2	22.7	1.19	4,900	-	-	-	-	-	-	-	-	-	-	1,104	30.2	22.7	1.19	4,900	92	1,070	31.0	22.4	1.19	4,830
	UG	Th	219	34.6	20.6	0.90	4,440	-	-	-	-	-	-	-	-	-	-	219	34.6	20.6	0.90	4,440		251	35.4	20.3	0.87	4,350
Klipspruit	OC	Th	114	28.3	22.4	1.21	5,150	-	-	-	-	-	-	-	-	-	-	114	28.3	22.4	1.21	5,150	92	126	28.1	22.3	1.25	5,180
Wolvekrans Middelburg Complex	OC	Th	663	26.3	22.8	1.12	5,520	17	29.2	22.9	1.01	5,190	115	28.9	23.2	1.08	5,210	795	26.8	22.8	1.11	5,470	92	826	27.1	22.8	1.11	5,440
South Africa - Projects																												
Davel	UG	Th	-	-	-	-	-	-	-	-	-	-	226	22.8	27.2	1.49	5,790	226	22.8	27.2	1.49	5,790	92	226	22.8	27.2	1.49	5,790
Leandra[(3)]	UG	Th	353	27.1	23.3	1.25	5,020	182	28.0	23.1	1.21	4,950	1,128	28.5	22.0	0.98	4,840	1,663	28.1	22.4	1.06	4,890	92	1,587	26.6	22.6	1.09	5,010
Naudesbank	OC/UG	Th	99	24.9	25.5	1.07	5,600	124	24.3	25.6	1.05	5,660	51	24.7	25.3	1.06	5,640	274	24.6	25.5	1.06	5,630	92	273	25.1	25.4	1.07	5,580
Weltevreden	OC/UG	Th	230	29.8	22.2	1.25	5,100	188	31.3	21.7	1.12	4,960	142	31.0	21.7	1.16	5,020	560	30.6	21.9	1.18	5,030	92	560	30.6	21.9	1.18	5,030

SOUTH AFRICA ENERGY COAL (CONTINUED)

Energy Coal (continued)

COAL RESERVES

As at 30 June 2016			Proved Coal Reserves	Probable Coal Reserves	Total Coal Reserves	Proved Marketable Coal Reserves					Probable Marketable Coal Reserves					Total Marketable Coal Reserves					Reserve Life	South32 Interest	As at 30 June 2015 Total Marketable Coal Reserves					Reserve Life
Deposit[1][2][4][5]	Mining Method	Coal Type	Mt	Mt	Mt	Mt	% Ash	% VM	% S	KCal/ kg CV	Mt	% Ash	% VM	% S	KCal/ kg CV	Mt	% Ash	% VM	% S	KCal/ kg CV	Years	%	Mt	% Ash	% VM	% S	KCal/ kg CV	Years
South Africa - Operating mines																												
Khutala	UG	Th	47	-	47	47	34.1	21.3	0.89	4,520	-	-	-	-	-	47	34.1	21.3	0.89	4,520	9.0	92	50	35.5	20.3	0.7	4,360	12
Klipspruit	OC	Th Export	31	-	31	9.1	14.2	25.1	0.47	6,290	-	-	-	-	-	9.1	14.2	25.1	0.47	6,290	4.0	92	11	14.2	25.9	0.52	5,910	5.0
	OC	Th				15	25.0	21.0	0.58	5,290	-	-	-	-	-	15	25.0	21.0	0.58	5,290			19	29.1	8.5	2.37	4,370	
Wolvekrans Middelburg Complex	OC	Th	466	17	483																24	92						21
	OC	Th Export				174	15.9	25.3	0.48	6,280	7.0	15.9	25.3	0.48	6,280	181	15.9	25.3	0.48	6,280			194	16.8	25.0	0.46	6,320	
	OC	Th Domestic				130	25.4	21.3	0.92	5,420	4.0	25.4	21.3	0.92	5,420	134	25.4	21.3	0.92	5,420			156	28.7	21.2	0.47	5,300	

(1) Cut-off criteria

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

(2) Tonnes and qualities are reported on an air-dried basis.

(3) Leandra: Increase in Coal Resource tonnes due to additional drilling.

(4) Process recoveries for the operations:

Khutala	100%
Klipspruit	79%
Wolvekrans Middelburg Complex	67%

(5) Coal delivered to wash plant.

BRAZIL ALUMINA

MINERAÇÃO RIO DO NORTE

Aluminium

MINERAL RESOURCES

As at 30 June 2016		Measured Resources			Indicated Resources			Inferred Resources			Total Resources			South32 Interest	As at 30 June 2015 Total Resources		
Deposit	Ore Type	Mt	% A. Al_2O_3	% R. SiO_2	Mt	% A. Al_2O_3	% R. SiO_2	Mt	% A. Al_2O_3	% R. SiO_2	Mt	% A. Al_2O_3	% R. SiO_2	%	Mt	% A. Al_2O_3	% R. SiO_2
MRN (1)(2)	MRN Washed	337	49.8	4.3	57	49.6	4.6	134	49.9	3.7	527	49.8	4.1	14.8	543	49.8	4.2

ORE RESERVES

As at 30 June 2016		Proved Ore Reserves			Probable Ore Reserves			Total Ore Reserves			Reserve Life	South32 Interest	As at 30 June 2015 Total Ore Reserves			Reserve Life
Deposit	Ore Type	Mt	% A. Al_2O_3	% R. SiO_2	Mt	% A. Al_2O_3	% R. SiO_2	Mt	% A. Al_2O_3	% R. SiO_2	Years	%	Mt	% A. Al_2O_3	% R. SiO_2	Years
MRN (1)(2)(3)(4)	MRN Washed	48	49.2	4.2	18	49.8	4.6	66	49.4	4.3	4.0	14.8	83	49.2	4.5	5.1

(1) Cut-off grade for Mineral Resources and Ore Reserves- MRN washed ≥46% A.Al_2O_3, ≤ 7% R.SiO_2, ≥1m thickness and ≥ 30% recovery on weight per cent basis.

(2) MRN washed tonnes and grades represent the expected product based on forecast beneficiation yield.

(3) Ore delivered to process plant.

(4) Metallurgical recovery: 96% of A.Al_2O_3

CORPORATE GOVERNANCE

GOVERNANCE AT SOUTH32

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

Under ASX Listing Rule 4.10.3, ASX-listed entities are required to benchmark their corporate governance practices against the third edition of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (ASX Recommendations). The ASX Recommendations are available at *www.asx.com.au/documents/asx-compliance/cgc-principles-and-recommendations-3rd-edn.pdf*. We comply with all relevant ASX Recommendations. Our compliance is set out in the Appendix 4G in the Corporate Governance section of our website at *www.south32.net*

During FY2016, the Board Charter and Committee Terms of Reference were reviewed and updated to reflect the activities of the Board and Committees. These documents and other corporate governance documents referenced in this Corporate Governance Statement can be found in the Corporate Governance section of our website.

This Corporate Governance Statement is current as at 6 September 2016 and has been approved by the Board.

BOARD STRUCTURE AND COMPOSITION

The Board currently comprises eight Directors. Seven are Non-Executive Directors and six are Independent Directors.

Further details of the Directors can be found from page 13. These include qualifications, experience and special responsibilities and directorships held in other companies.

Role and responsibilities of the Board

The role of the Board is to represent shareholders and to promote and protect the interests of South32. The Board has regard to the interests of our shareholders as a whole, the interests of other relevant stakeholders (where appropriate) and South32's desire to be a trusted corporate citizen.

The Board Charter sets out the Board's roles and responsibilities. It also describes those matters expressly reserved for the Board and those matters delegated to management through the CEO, who is supported in this function by the Executive Committee. Each member of the Executive Committee is employed under an individual Executive Services Agreement, on broadly consistent terms. See page 16 for details regarding the Executive Committee.

The ultimate responsibility for governance and strategy rests with the Board. Other responsibilities reserved by the Board include:

- Appointing and conducting performance appraisals of the CEO and overseeing succession planning for the CEO and Executive Committee
- Overseeing South32's Risk Management Framework and internal controls and monitoring ethical and legal compliance, including promoting ethical and responsible decision making
- Monitoring the integrity of South32's financial and other reporting systems, including the external audit
- Approving and monitoring the progress of operating budgets, major capital expenditure, acquisitions, divestments and capital management decisions
- Developing and reviewing the application of corporate governance principles and policies, including approval of the Company's diversity policy and measurable objectives for achieving gender diversity
- Monitoring the process for making timely and balanced disclosures

The Board, through the CEO, also instils a culture aligned with the Company's Values of Care, Trust, Togetherness and Excellence. The Board believes that culture is largely about having the right leadership capability at all levels, evidenced by behaviours linked to our Values.

Table 5.1 Board composition

Name of Director	Term	Classification
David Crawford AO (Chairman)	Director and Chairman since 2 February 2015	Independent
Graham Kerr (CEO)	Director since 21 January 2015	Executive
Frank Cooper AO	Director since 7 May 2015	Independent
Peter Kukielski	Director since 7 May 2015	Independent
Xolani Mkhwanazi	Director since 2 July 2015	Non-independent(1)
Ntombifuthi (Futhi) Mtoba	Director since 7 May 2015	Independent
Wayne Osborn	Director since 7 May 2015	Independent
Keith Rumble	Director since 27 February 2015	Independent

(1) The classification of Xolani Mkhwanazi as a Non-independent Director is explained on page 88.

Our Regional model drives accountability and strong functional support, skills and processes to ensure effective decision making. Board oversight of our culture takes many forms, including employee surveys, engaging with staff directly and site visits.

Directors' skills experience and attributes

The Board considers that our Directors have the combined skills, diversity and experience to discharge their respective responsibilities in a publicly-listed, globally-diversified metals and mining company, and to oversee the implementation of South32's strategy.

Directors David Crawford, Keith Rumble and Xolani Mkhwanazi have a deep knowledge of our assets. David Crawford brings broad governance experience, including in the areas of risk and financial controls in the metals and mining sector and other industries. Keith Rumble and Xolani Mkhwanazi have extensive commercial and operational experience in both the metals and mining sector and in the Regions where we operate, especially South Africa. Directors Frank Cooper, Peter Kukielski, Futhi Mtoba and Wayne Osborn further enhance the extensive mining, exploration, commercial and financial experience of the Board. Peter Kukielski also has extensive operational experience in South America. The majority of our Directors have strong Australian experience gained from former executive and Board roles.

Collectively, the Board brings commercial and financial experience across multiple industries, with a particular focus on finance, processing of minerals and mining. Graham Kerr as CEO and Managing Director brings unique knowledge and experience in relation to our operations.

The collective skills and experience to be held by the Board are set out in Table 5.2. Diagram 5.1 illustrates the current skills and experience held by the Board. In addition, the Board requires that each Director possess the following qualities:

- Honesty and integrity
- A proven track record of creating value for shareholders
- The ability to think strategically
- A willingness to question, and challenge
- A commitment to the highest governance standards
- The ability to devote sufficient time to their Board role and responsibilities

Table 5.2 Summary of Board skills and experience

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

In facilitating the development of the skills summary in Diagram 5.1, each Director annually undertakes a skills and experience self-assessment.

Diagram 5.1 Board skill/experience matrix

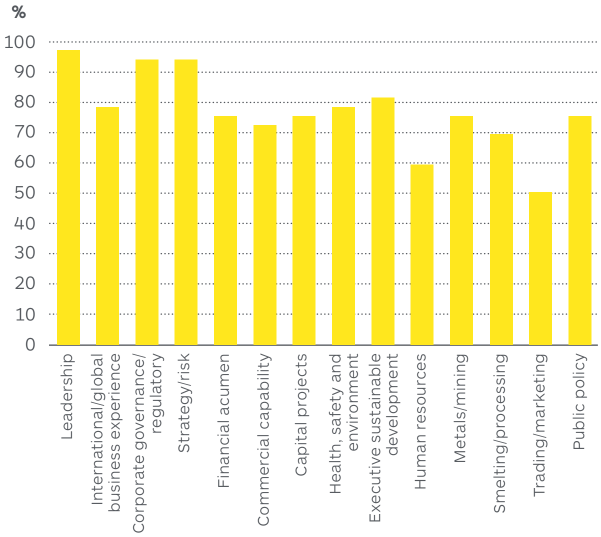
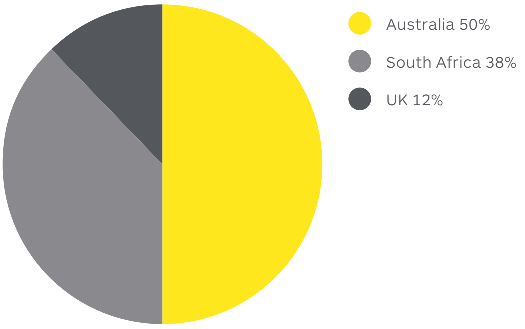


Diagram 5.1 reflects the collective level of experience under each category.

Diagram 5.2 – Director location



The Board also formally considered its skills and experience as part of its first Board evaluation process in FY2016 and confirmed that the Board has the requisite skills and experience, in light of South32's current strategy and formative stage.

The Board's vision for diversity considers the broadest definition of difference, including gender, ethnicity, disability, age, thought, education, experience, family responsibilities and sexuality. Our current Board represents a range of nationalities and backgrounds and currently includes one female Director. The Board is committed to increasing the number of female Directors through future Director appointments. One Director is aged between 40 and 50 years, and seven Directors are above the age of 50 years. The average age of the Non-Executive Directors is 62 years, with a range of 13 years from 59 to 72 years. Further information regarding our approach to diversity and inclusion can be found later in this statement.

The skills and experience analysis, along with the succession planning process, will continue to identify opportunities for Director training and development. It will also inform skills gaps that may be addressed through future Board appointments.

Independence

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

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

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

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

When making assessments of independence, the Board takes into account all relevant facts and circumstances.

The Board has adopted thresholds to assist it in determining materiality of customer and supplier relationships with the South32 Group when considering the independence of its Directors as follows:

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

Directors are required to inform the Board of any changes to their interests or relationships that could bear upon their independence. Non-Executive Directors may be involved with other companies or professional firms which may from time to time have dealings with South32. All dealings with these companies and firms are analysed for materiality of spend at least annually. The Directors currently hold no material customer or supplier relationships. Details of some of the offices held with other organisations are provided on pages 13 to 15 of this report.

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

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

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

Relationships and associations of Directors

Both David Crawford and Keith Rumble were former independent directors of BHP Billiton Limited and BHP Billiton Plc (BHP Billiton). They resigned from these positions in November 2014 and May 2015, respectively. BHP Billiton Limited was previously the holding company of South32 Limited and is no longer a shareholder following the demerger. David Crawford and Keith Rumble have no ongoing connection with BHP Billiton following their retirement as Directors and the Board has concluded that these past relationships with BHP Billiton do not compromise the exercise of objective or independent judgement by either Director in relation to South32's affairs.

The previous experience with BHP Billiton has enabled David Crawford and Keith Rumble to bring a deep understanding of the industries in which our business operates and the history of these operations, and provides invaluable background and knowledge for our new Board.

Futhi Mtoba was a Partner of Deloitte & Touche South Africa until 2014. An analysis of services provided by Deloitte & Touche South Africa to the Company found that the services have been of a consulting/advisory nature, are not connected with the external audit of the Company in South Africa, and the amount charged for the services provided is not material to either South32 or Deloitte & Touche South Africa. The Board has concluded that Futhi Mtoba's past relationship with Deloitte & Touche South Africa does not compromise her exercise of objective or independent judgement in relation to South32's affairs.

For the reasons set out above, the Board has assessed David Crawford, Keith Rumble and Futhi Mtoba, as independent, notwithstanding the existence of these relationships. Frank Cooper, Wayne Osborn and Peter Kukielski do not have any existing relationships (including within the last three years as at the date of this report) that may affect their independence.

Independent Chairman

The Chairman of the Board must be an independent Non-Executive Director and should not be the same person as the CEO. The principal role of the Chairman is to provide leadership to the Board, to ensure the Board works effectively and discharges its responsibilities, and to encourage a culture of openness and debate fostering a high-performing and collegial team. The Chairman:

- Represents the Board to the shareholders and communicates the Board's position
- Serves as the primary link between the Board and management
- Sets the agenda for each Board meeting in consultation with the CEO and Company Secretary

David Crawford has been an independent Non-Executive Director and Chairman of South32, since 2 February 2015.

Company Secretaries

The Company Secretaries, through the Chairman, are accountable directly to the Board on all matters regarding the proper functioning of the Board, for the effectiveness of the implementation of corporate governance processes, ensuring adherence to the Board's principles and procedures and co-ordinating all Board business. All Directors have access to the Company Secretaries. Details of the experience and qualifications of the Company Secretaries are set out on page 122.

Director appointment, election and re-election

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

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

To facilitate an orderly rotation among the other Non-Executive Directors, Wayne Osborn (Chairman of the Remuneration Committee) and Keith Rumble (Chairman of the Sustainability Committee) will retire from the Board and offer themselves for re-election at the 2016 AGM.

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

Director selection and succession planning

The Nomination and Governance Committee periodically considers the Board's size, composition and the mix of skills, experience, independence, knowledge and diversity appropriate to competently discharging its duties, including in the context of succession planning. It has regard to the:

- Strategic direction of the Company and the short, medium and long term ongoing needs of the Company
- Desire to adopt the better of those standards of corporate governance applicable to the Company which lead to the best outcome from a governance perspective for the Company's stakeholders

The skills matrix set out in Diagram 5.1 and the Board evaluation process noted on page 90 are inputs into this process.

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

Director induction and continuing education

Directors participated in the Company's induction programme which was held in FY2015. A new Director is required to undergo a similar induction process. In addition, all of our Directors are expected to participate in continuous education programmes. Some programmes are conducted internally and some involve attendance at industry seminars and other continuing professional development programmes.

As part of our Board professional development programme, in conjunction with Board and Committee meetings, the Board participated in a number of briefings during FY2016, which provided an overview of the:

- Organisation or a specific function
- Most significant business imperatives
- Market environment in which South32 is operating
- Risks and opportunities for South32

To ensure Directors may achieve a deeper understanding of our business, they undertake visits to our operations across the globe. These visits provide a deeper insight of operational risks and an opportunity to explore culture on the ground. Coinciding with Board meeting dates, site visits during FY2016 included:

Timing	Operation	Location
August 2015	Worsley Alumina	Australia Region
October 2015	Khutala Colliery	Africa Region
February 2016	Cannington	Australia Region
March 2016	Hillside	Africa Region
June 2016	Mozal	Africa Region

One Board meeting was also held in Singapore and focussed on our Marketing business.

Board, Committee, Director and Executive Committee evaluations

The Nominations and Governance Committee is responsible for developing and overseeing the annual performance evaluation process. Evaluations are conducted either internally or facilitated externally by a consultant. The review in a particular year may cover the Board, Committees and/or individual Directors.

During FY2016, our first Board evaluation process was conducted by an external consultant. The process involved the provision of a questionnaire to Directors and nominated senior executives, followed by a facilitated discussion of Board and Committee members. The external review focussed on matters most relevant to a Board in an emerging phase:

- Board and Committee effectiveness
- The role of the Chairman
- Board composition including skills and experience
- Interaction with management

The review found that the Board is developing well, in light of its formative stage.

In FY2016 the Nomination and Governance Committee also reviewed the performance and time commitment of each Non-Executive Director who is standing for re-election at the next AGM, to determine whether or not the Board should support the re-election of a Director.

The performance of the Executive Committee is reviewed on an ongoing basis and measured annually through a formal performance evaluation process. Key Performance Indicators (KPIs) are established to align with our business strategy and plan. The demonstration of behaviours, in accordance with our Values, is also taken into account.

The performance of the CEO is evaluated by the Board, while the performance of other Executive Committee members is evaluated by the CEO and noted by the Board.

The first performance evaluations of the members of the Executive Committee occurred in August 2015. Details of our remuneration policies and practices, and the remuneration paid to the Directors (Executive and Non-Executive) and other Key Management Personnel are set out in the Remuneration Report from page 97. Shareholders will be invited to consider and to approve the Remuneration Report at the 2016 AGM.

Board Committees

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

Each Committee operates within its Board-approved Terms of Reference, which set out the roles, responsibilities, membership requirements and meeting procedures for the relevant Committee.

Each Committee meets as frequently as required but not less than four times per year, with the exception of the Nomination and Governance Committee, which is required to meet not less than three times per year. For details regarding the number of Board and Committee meetings held and attendance refer to page 121.

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

The four permanent Board Committees are:

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

A copy of each of the Committee's Terms of Reference is available on our website in the Corporate Governance section. Details of relevant qualifications and experience for all Committee members can be found from page 13.

Nomination and Governance Committee	
Members	David Crawford (Chairman) Frank Cooper Peter Kukielski Futhi Mtoba Wayne Osborn Keith Rumble
Composition Requirements	■ Only Non-Executive Directors ■ A minimum of three members ■ A majority of independent Directors including the Chairman

Nomination and Governance Committee

Responsibilities include	■ Reviewing the size and composition of the Board ■ Succession planning processes for the Board, Committees, Board Chairman, CEO, Executive Committee and identified critical roles ■ Recommending nominees for the Board ■ Overseeing Board and Director performance evaluation ■ Assessing the independence and time commitment required of Non-Executive Directors ■ Training and development opportunities for Directors ■ Monitoring compliance with the ASX Recommendations and other applicable governance requirements ■ Reviewing South32's progress in achieving its diversity objectives

Remuneration Committee

Members	Wayne Osborn (Chairman) Frank Cooper Peter Kukielski Keith Rumble The Committee's work is supported by the CEO and the head of human resources (or person acting in that or an equivalent role).
Composition Requirements	■ Only Non-Executive Directors ■ A minimum of three members ■ A majority of independent Directors including the Chairman
Responsibilities include	■ Overseeing the remuneration policy and framework (including short and long term incentive plans) for the specific application to the CEO and Executive Committee, general application to all employees and recommending Chairman and Non-Executive Director remuneration ■ Determining levels of reward and annual performance evaluation of the CEO and the Executive Committee ■ Preparing the Remuneration Report ■ Communicating the remuneration policy to shareholders ■ South32's compliance with applicable legal and regulatory requirements associated with remuneration matters

Risk and Audit Committee

Members	Frank Cooper (Chairman) David Crawford Futhi Mtoba The Committee's work is supported by the CEO, CFO, the Group Financial Controller and the Head of Risk and Assurance. Regional Risk and Audit Committees also assist the Risk and Audit Committee and are supported by Executives in equivalent Regional roles.
Composition Requirements	■ Only independent Non-Executive Directors, including the Chairman ■ A minimum of three members
Responsibilities include	■ Overseeing corporate reporting processes designed to safeguard the integrity of reporting ■ Overseeing the preparation of financial reports and reviewing the results of external audits of these reports ■ Reviewing and monitoring related party transactions ■ Appointing, monitoring and reviewing independence and performance of the external auditor ■ Approving the external auditor's fees and policy for the Provision of Non-Audit services and monitoring those services ■ Overseeing the effectiveness, independence and objectivity of the internal audit including the implications of internal audit findings ■ Approving the appointment, terms of engagement and removal of the Head of Risk and Assurance (being the Head of the internal audit function) who is accountable to both the Committee and the CEO ■ Meeting with the Head of Risk and Assurance without management at least once per year or whenever deemed appropriate ■ Overseeing development and implementation of risk management systems in light of the risk appetite set by the Board and reviewing the effectiveness of South32's Risk Management Framework ■ Considering, approving and overseeing matters pertaining to capital structure

Sustainability Committee	
Members	Keith Rumble (Chairman) Peter Kukielski Xolani Mkhwanazi Wayne Osborn The Committee's work is supported by the CEO, the COO Australia, the COO Africa and the Chief Transformation Officer.
Composition Requirements	■ Only Non-Executive Directors ■ A minimum of three members ■ A majority of independent Directors including the Chairman
Responsibilities include	■ Reviewing and monitoring the appropriateness of HSEC framework ■ Monitoring, reviewing and evaluating the HSEC performance of the Group ■ Recommending to the Remuneration Committee key performance indicators for the HSEC component of the annual incentive plan for the CEO and the Executive Committee; and determining the outcome for referral to the Remuneration Committee ■ Reviewing and endorsing the Group's public HSEC targets ■ Reviewing and approving the Sustainability Policy every two years ■ Reviewing and approving the Sustainability Reporting in the Annual Report and other significant position and public statements ■ Reporting to the Risk and Audit Committee on material HSEC risks identified ■ Reviewing and endorsing to the Risk and Audit Committee the HSEC section of the annual internal audit plan

RISK MANAGEMENT AND INTERNAL CONTROLS

Risk Management Framework

The Board is responsible for reviewing, ratifying and overseeing systems of risk management and internal control, and ethical and legal compliance.

Our overall approach to risk management has been defined in the Risk Management Framework approved by the Board (a copy of which is available in the Corporate Governance section of our website). The key objectives of this framework are to:

- Ensure our strategic direction is appropriate in light of the economic, social, political, legal and regulatory environments in which we operate
- Provide a means of identifying priorities (in terms of relative risk versus return levels) and allocating resources effectively and efficiently
- Provide a means of demonstrating due diligence in discharging legal and regulatory obligations, and meeting the expectations and standards of external stakeholders
- Provide a means to maximise the value of our operations, projects and other business opportunities, and to assist in encouraging enterprise and innovation, with a view to enhancing the value of shareholders' investments

To meet these key objectives, we undertake the following activities:

- Identify the potential for impacts on the achievement of our purpose and business generally through risk assessments using approved materiality and tolerability criteria
- Conduct a risk assessment for material risk issues (risk identification, risk analysis, including the likelihood and impact assessment, and risk evaluation)
- Design, implement, operate and assess controls to ensure residual risks are tolerable
- Establish performance standards for critical controls over material risks with supporting verification processes

The Board is responsible for reviewing, endorsing and overseeing our Risk Management Framework, at least annually, and satisfying itself that it continues to be sound and that we are operating within the risk appetite set by the Board. The Board will also review and consider our risk profile on a regular basis to ensure it supports the achievement of our strategy, including the nature and extent of risks we are prepared to take in the pursuit of our objectives.

The Risk and Audit Committee supports the Board in this regard. This includes reviewing the effectiveness of our risk management and internal control systems to ensure that material risks have been, and will continue to be, identified and managed. The Risk and Audit Committee will report the results of the review and any recommended action resulting from the review to the Board.

A review of the risk management and internal control systems based on the process outlined in our Risk Management Framework have been undertaken in FY2016. The Risk and Audit Committee and Executive Committee concluded that the systems are effective and continue to be sound.

Risk and Assurance

The Corporate Function known as Risk and Assurance performs our internal audit function. The Head of Risk and Assurance is supported by a combination of internal and co-sourcing resources to conduct internal audit reviews.

The Risk and Assurance function performs our internal audit reviews, evaluating whether:

- Material risks are appropriately identified and managed
- Internal controls are both designed and operating effectively
- Significant financial, HSEC, operational and managerial information is accurate, reliable and timely
- Resources are acquired economically, used efficiently and adequately protected
- Significant legislative or regulatory issues impacting us are recognised and appropriately addressed by management
- The requirements set out in policies, standards and authorities are met
- Fraud or business conduct matters identified or brought to the attention of the function are appropriately addressed

Material risks

Details regarding the most significant risks currently identified for the Group and how these are managed, including material economic, environmental and social sustainability risks, are set out from page 37 in Risk Management.

Risk management and financial reporting

The management of financial risk and financial reporting risk is a key focus of the Board, Risk and Audit Committee and Executive Committee. Management is responsible for implementing and maintaining internal controls to manage financial and financial reporting risks, and the Board establishes and oversees the Risk Management Framework.

Due to inherent limitations, internal controls over financial reporting, even when determined to be effective, may not provide absolute assurance. Additionally, changes in conditions may impact the effectiveness of risk controls in relation to future periods, and the degree of compliance with the Group's risk management policies or procedures may deteriorate. We consider it is critical to continually review the effectiveness of our internal controls for managing financial reporting risk.

Further information in relation to the financial risk management objectives and policies of South32 is set out in Note 19a to the financial statements.

CEO and CFO certifications

Before approving the financial statements for each half year and full year, including the FY2016 Consolidated Financial Statement for the Group, the Board received from the CEO and CFO a declaration that:

- In their opinion the Group's financial records have been properly maintained and that the financial statements comply with the relevant accounting standards and give a true and fair view of the consolidated Group's financial position and performance
- The opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively

PROMOTING RESPONSIBLE AND ETHICAL BEHAVIOUR

We have established various policies and procedures that set out our Values and expectations regarding how we will work and behave towards each other. These policies and Values establish the foundation of our culture.

Code of Business Conduct

The South32 Code of Business Conduct represents a commitment by all our employees, Directors, officers, contractors and suppliers to uphold ethical business practices and meet or exceed applicable legal requirements. Based on our Values, it sets the standard for behaviour and provides guidance which in turn assists in building trusting relationships with our communities, governments, suppliers, business partners, customers and teams.

We have independent, external systems (EthicsPoint) in place for employees and contractors to be able to anonymously report concerns regarding the behaviour of our employees, or those representing us.

Failure to comply with the Code of Business Conduct is viewed as a serious matter, which may lead to disciplinary action, including dismissal and/or legal action.

A copy of the Code can be found in the Corporate Governance section of our website.

Anti-corruption

We believe that through the fair allocation of resources, we will create value which can make a lasting difference to the communities in which we operate. We are committed to realising the potential of both human and mineral resources, recognising that bribery and corruption presents a challenge to the delivery of this commitment. We understand that corruption can negatively impact the lives of people in our host communities by driving up the costs of public services and works, and through the misallocation of resources and wasting of opportunities that arise from resource development issues. Corruption can affect the poorest people in society and undermine the integrity of governments, reinforcing poverty, and improperly influencing government and community decision making.

South32's anti-corruption compliance framework reinforces a zero tolerance approach and compliance with all applicable anti-corruption and anti-bribery laws. The framework was approved by the Board and requires a review and approval of activities and transactions that potentially involve a higher risk of corruption, including the provision of:

- Gifts, entertainment and hospitality to or from anyone (including government officials) above a modest value threshold
- Any other thing of value to anyone (including government officials) on behalf of South32
- Commercial sponsorships
- Community or charitable contributions
- Paid participation in political events and activities
- Specified high risk third parties that interact with others on our behalf

Our Board of Directors received anti-corruption training during FY2016. We are also currently providing our annual anti-corruption training to the Executive Committee and employees identified as having a higher risk of exposure to corruption (approximately 33 per cent of our total workforce). Additionally, the Executive Committee regularly discuss the topic of anti-corruption risk.

We are conducting a company-wide anti-corruption risk assessment. Risk assessments form a critical part of our anti-corruption compliance programme, focussing resources on the highest areas of risk and adopting an adequate set of controls to mitigate these risks.

Competition

There were no legal actions pending or completed during the reporting period regarding anti-competitive behaviour and violations of anti-trust and monopoly legislation in which the Company has been identified.

The United States Government has the ability to make anti-dumping determinations, which have the potential to apply to South32.

In February 2015, TEMCO was notified of a petition filed with the United States Department of Commerce (USDoC) and the United States International Trade Commission (USITC) requesting the imposition of antidumping duties on silicomanganese imports of Australian origin (of which TEMCO is the only producer).

At the final USITC hearing, USITC unanimously determined on 11 March 2016 that the US industry is not materially injured or threatened with material injury by reason of imports of silica manganese from Australia. As a result, no anti-dumping duties as determined by USDoC have been imposed on TEMCO.

Conflicts of interest

Guidelines in relation to managing conflicts of interest can also be found in our Code of Business Conduct, and a number of measures have been adopted to ensure compliance. South32 maintains a Conflict of Interest Register. Employees and agency contractors are required to record any actual conflict of interest or any appearance of one. In accordance with the requirements of the *Corporations Act (Cth)*, Directors who have a material personal interest in a matter that is being considered at a Directors' meeting must not be present while the matter is being considered. The other Directors may, however, allow such Directors to participate and vote in relation to the issue if they are satisfied that the interest should not disqualify the Director from voting or being present.

Sustainability

The Sustainability Policy defines the South32 social, environmental and economic principles behind our decision making. The Sustainability Policy affirms our commitment to Sustainable Development, defined as supporting the needs of the present without compromising the ability of future generations to meet their own needs. The Policy contains statements on our commitment to respect human rights, stewardship of resources and communities, and the continuous improvement of environmental, safety and health performance. The Sustainability Policy also references a clear commitment to governance and transparency and is available on our website at *www.south32.net*

DEALINGS IN SOUTH32 SECURITIES

South32 has a Securities Dealing Policy and Procedure (Securities Dealing Policy) to:

- Ensure that public confidence is maintained in the reputation of South32, its Directors and employees and in the trading of the Company's securities
- Explain the Company's policy and procedures for the dealing in securities
- Recognise that some types of dealing in securities are prohibited by law in Australia, the United Kingdom and/or South Africa

The Securities Dealing Policy applies to all our employees, Directors and contractors. There are also additional requirements that specifically apply to Directors and Key Management Personnel (together, Persons Discharging Managerial Responsibilities), employees who have been advised by the Company Secretariat that they are on an insider list and employees who are subject to additional requirements under this Policy.

The Securities Dealing Policy also sets out our policy on hedging arrangements, further details of which are set out in the Remuneration Report from page 97.

A copy of the Policy can be found in the Corporate Governance section on our website.

MARKET DISCLOSURE AND COMMUNICATIONS WITH SHAREHOLDERS

South32 is committed to continuous disclosure and keeping the market informed, and places considerable importance on its processes for controlling market sensitive information and effective communication with shareholders and market participants.

Market disclosure and communications

South32 has legal and regulatory disclosure obligations within Australia, the United Kingdom and South Africa.

To safeguard the effective dissemination of information we have adopted a Market Disclosure and Communications Policy that outlines:

- The standards adopted by South32 for meeting its disclosure requirements
- The roles and responsibilities of the Board, Disclosure Officers, CEO and Company Secretariat in ensuring we comply with our obligations
- The standards we adopt for ensuring effective communication with shareholders and market participants

We have established a disclosure procedure so that information that may need to be disclosed is reported in a timely manner. These procedures extend to the Directors, employees, contractors, consultants and other service providers where they are under a relevant contractual obligation.

A copy of the Policy can be found on our website in the Corporate Governance section.

Shareholder engagement

In addition to meeting all our continuous disclosure obligations, South32 is committed to delivering consistent, predictable, transparent, simple and regular communications with shareholders and other financial market participants. We do this through our investor relations programme, electronic communications and Director engagement programmes. Shareholders are encouraged to access announcements, annual and half year reports and other presentations, in addition to market briefings made to analysts or institutional investors, on our website.

Our investor relations programme aims to allow investors and other financial market participants to gain a greater understanding of our business, governance, financial performance and prospects. The programme includes:

- Full and half year results briefing and presentations to analysts and institutional investors which are also webcast live and made available on our website
- Quarterly production reports
- Domestic and international roadshows to meet with existing and potential shareholders

Our investor relations team assesses, evaluates and provides shareholder feedback to executive management and the Board. Feedback is received through calls to the team, question and answer sessions at the Annual General Meeting (AGM), and questions raised at investment briefings and strategy days.

Shareholders have the option to electronically send and receive communications and other shareholding information from the Company and its share registry.

We are also committed to an annual programme of engagement between our Directors, shareholders and other financial market participants. This assists the Directors and the Board to understand different perspectives and respond to feedback. All feedback from these communication programmes is reported to the relevant Committees and to the Board.

Annual General Meeting

The AGM provides an important occasion to update shareholders on our performance and offers an opportunity for shareholders to ask questions of and to hear from the Board. We intend for all our Directors and members of the Executive Committee to attend the 2016 AGM, as well as the External Auditor, who will be available to answer questions relating to the audit.

The Notice of Meeting explains how shareholders can appoint proxies and how questions can be registered prior to the AGM. Shareholders can also submit proxies electronically through a link to our share registry.

The AGM will be webcast so that shareholders who are unable to attend will have the opportunity to listen to the meeting. Copies of the Chairman's and CEO's speeches will be lodged with the relevant exchanges and on our website immediately prior to the meeting. The outcome in respect of each resolution put to the meeting will be lodged with the relevant exchanges and made available on our website as soon as practicable after the AGM.

DIVERSITY AND INCLUSION AT SOUTH32

South32 aspires to be a diverse and inclusive organisation, where our workforce reflects the broader demographics of the countries and communities in which we operate.

Our Diversity and Inclusion Policy sets out this vision, and its importance to our business. The Nomination and Governance Committee has responsibility for oversight of the Policy which is available on our website.

Our Board approves our measurable objectives for diversity each year and monitors progress towards achieving them on an annual basis. Our measurable objectives for FY2016 focussed on moving towards balanced gender representation and ethnically diverse teams, both in leadership roles and in the workforce overall. With these as our focus areas, our commitment to creating an inclusive workplace also creates the conditions to achieve greater diversity beyond gender and ethnicity.

We employ a diverse mix of people from different backgrounds. This diversity is reflected in the composition of our Board. Our Directors are based in South Africa, Australia and the United Kingdom and represent a range of nationalities and backgrounds. The Board also currently includes one female Director (13 per cent). Further information about the skills and experience of the Board can be found on pages 13-15 of this annual report. In our overall workforce of 14,049[1], female representation was 16 per cent. Fourteen per cent of our workforce are aged less than 30 years, 67 per cent are aged between 30 and 50 years, and 19 per cent are above the age of 50 years.

(1) Total number of employees at 30 June 2016.

Our measurable objectives

Our progress towards achieving our objectives for diversity is shown below:

Measurable objective	Progress during FY2016
Year on year increase in the proportion of women in our workforce (from an FY2015 baseline of 14 per cent)	■ Women represent 16 per cent of our workforce
Women to represent 30 per cent of our leadership teams by end FY2018: Board, Executive Committee, Region Lead Teams, Corporate Functions Lead Teams, and Operations Lead Teams	■ One of our eight Board Directors is female (13 per cent) ■ One of the six members of our Executive Committee is female (17 per cent) ■ Female representation is 15 per cent in our Africa Region Lead Team, 29 per cent in our Australia Region Lead Team, and 48 per cent in our Corporate Functions Lead Team ■ Our Operations Lead Teams comprise 11 per cent women in our Australia Region and 10 per cent in our Africa Region

Measurable objective	Progress during FY2016
Increase the representation of Black People in our South Africa Region by FY2020: ≥ 85 per cent of total workforce ≥ 70 per cent of management roles (Note that 'Black People' is a term meaning Africans, Coloureds and Indians who are citizens of the Republic of South Africa by birth or descent)	■ In South Africa, Black People represent 79 per cent of our workforce and 45 per cent of management roles
Continue to work towards gender and, where applicable, ethnic pay equity	Following a comprehensive review of pay equity across all roles, we are developing action plans to address pay differences as a result of gender bias in all locations and bias as a result of ethnicity in South Africa Our first review of pay equity has provided us with early insight into where pay differences exist within levels of our organisation structure. We are further exploring these differences and will be implementing our action plans to address the anomalies that are identified as a result of gender or ethnic bias

Our progress in FY2016

Given the very different contexts in each of our Regions, including our commitment to support the spirit and intent of the national transformation and empowerment agenda in South Africa, both Regions have put in place a Diversity and Inclusion Plan to address their particular context in support of our measurable objectives.

In Africa, in addition to our South32-wide objectives, the plan addresses the legislative imperatives outlined in the Mineral and Petroleum Resources Development Act (Mining Charter) and the Employment Equity Act, as well as our B-BBEE obligations. Further, we have implemented Women in Mining initiatives across our operations in Africa, such as improving how we provide alternative duties for employees pre and post childbirth, and established a Women's Forum to discuss and raise issues relating to gender diversity at work. Our bursary, graduate and learnership schemes align to our diversity targets, with a focus on sourcing participants from the communities in which we operate. National Women's Day in South Africa was celebrated to recognise our female employees and their achievements, as was International Women's Day across the Group.

In Australia, our Plan focusses on addressing barriers to greater diversity and inclusion in practical ways that include conducting unconscious bias training and reviewing our site facilities to ensure they contribute to an inclusive work environment. The formation of our Diversity Working Group, with representation from each of our Australian operations and our regional office, provides a means to gain workforce input on our strategic direction for diversity and inclusion in the Australia Region.

As part of South32's first company-wide employee survey, we asked our people for their views about diversity and inclusion in our workplace, and we intend to monitor our progress via surveys over time.

We have commenced the introduction of a number of flexible work options as part of promoting an inclusive workplace, including compressed working hours and working remotely. These arrangements assist employees to balance their work and non-work responsibilities, and are available to employees irrespective of gender.

Our Parental Leave provisions continue to support our commitment to satisfy, and often exceed, our legal obligations relating to parental leave. This contributes to positioning us as an employer of choice for both men and women. Our Code of Business Conduct states our commitment to equality in employment practices, zero tolerance for harassment or bullying and our expectations of all employees in this regard.

Measurable objectives for FY2017

Ongoing implementation of our Diversity and Inclusion Plans will continue to move us towards achieving our measurable objectives. While most of the FY2016 objectives represent challenging targets, given our progress with female representation in our senior leadership teams, we have increased the target for the representation of women on the Corporate and Regional Leadership teams to at least 40 per cent by the end of FY2020. In FY2017, we will continue to work towards the following measurable objectives to:

1. Demonstrate year on year improvement in the representation of women in the total workforce
2. Improve the representation of women in leadership teams, targeting 30 per cent for our Board, Executive Committee and Operations Lead Teams by the end of FY2018, and 40 per cent for the Corporate and Region Lead Teams by the end of FY2020
3. Continue to work towards our ethnicity targets for the representation of Black people in South Africa (at least 85 per cent of the workforce, and at least 70 per cent of management roles, by FY2020)
4. Continue to work towards gender pay equity

We will report our progress on these objectives in our FY2017 Annual Report.

REMUNERATION REPORT

CONTENTS

LETTER FROM REMUNERATION COMMITTEE CHAIRMAN

Dear Shareholder

On behalf of the Board of South32, I am pleased to present the Remuneration Report for the year ended 30 June 2016.

We have simplified the report by bringing actual remuneration outcomes toward the front, with the governance and statutory information at the back.

At South32, we celebrated our first year as a listed company on 25 May 2016 and much has happened at South32, in our industry and, indeed, in the world during the past year. As our shareholders would understand, this has been a challenging year for our industry with weak commodity prices and fluctuating equity and foreign exchange markets. At South32, we recognised US$1.7 billion of impairments relating to operations transferred from BHP Billiton as part of the demerger. Whilst many of these developments are outside the control of South32, as a diversified global commodity company, we have focussed on the many elements we can control.

During the year, the Board reviewed the South32 remuneration philosophy and framework to ensure that it is well aligned with our strategy. Based on this review, the Board believes that our framework:

- Enables South32 to compete for talent globally
- Incentivises management to deliver on the agreed strategy
- Focusses Executives on outcomes that they can significantly influence
- Aligns Executives with the experience of shareholders through an emphasis on equity in the long-term incentive and deferred short-term incentive

This review resulted in a change to our Australian peer group, for benchmarking of remuneration of all Executive Key Management Personnel in FY2017, from ASX 10-40 (established at demerger for FY2016) to ASX 15-65 which is more representative of our position in the ASX since listing. Our peer group of global mining companies was also reviewed and amended slightly and comprises of companies with a similar market capitalisation, revenue, geographic spread and commodity mix to South32. The Board also resolved that from FY2017 the LTI will be allocated using the face value, rather than fair (or expected) value to simplify our practices and communication with our stakeholders. It has been already agreed that there will be no change to Directors' fees for FY2017, or to fixed remuneration in FY2017 for Executive Key Management Personnel (unless there is a change in their role and accountabilities or other market factors).

For FY2016, the STI outcomes were strongly linked to business performance. In summary, during the year South32 successfully transitioned to our regional model, completed a series of restructuring initiatives to implement a low-cost operating model, delivered robust operating performance and produced strong results. South32 exceeded its adjusted ROIC target, generated controllable cost savings of US$386 million, reduced capital expenditure by US$306 million and finished the year with net cash of US$312 million. However, tragically, there were four fatalities in our African operations.

The Board considered performance against each element of the Business Scorecard for the STI and applied its discretion to reach what we believe to be fair outcomes for our shareholders and Executives. A number of factors were considered, primarily the number of fatalities in the business during this financial year, which resulted in the Scorecard outcomes being reduced in a range of 10 per cent to 40 per cent for the Executive Key Management Personnel. This adjustment reflects our commitment to the safety of our people.

The Committee is confident that our philosophy and practices on remuneration are appropriate to support overall business performance and delivery of value to shareholders over time, and that the outcomes for FY2016 demonstrate the alignment between remuneration and performance.

Thank you for your continued support of South32.

Wayne Osborn

Chairman, Remuneration Committee

FY2016 SUMMARY

This Remuneration Report has been prepared in accordance with section 300A of the *Corporations Act 2001 (Cth)* (Act) and audited as required by section 308(3C) of the Act. It relates to those persons who were Key Management Personnel (KMP) of South32 for FY2016.

Members of KMP

The table below sets out details of those persons who were KMP of South32 for FY2016. KMP are defined as those individuals who have authority and responsibility for planning, directing and controlling the activities of South32 either directly or indirectly.

Table 6.1 – Members of KMP for FY2016

Name	Title	Period as KMP
Executive Members of KMP (Executive KMP)		
G Kerr	Chief Executive Officer and Executive Director	Full year
B Harris	Chief Financial Officer	Full year
R Grimbeek	President and Chief Operating Officer, Australia	Full year
M Fraser	President and Chief Operating Officer, Africa	Full year
Non-Executive Members of KMP (Non-Executive Directors)		
D Crawford	Chairman and Independent Non-Executive Director	Full year
F Cooper	Independent Non-Executive Director	Full year
P Kukielski	Independent Non-Executive Director	Full year
X Mkhwanazi	Non-Independent Non-Executive Director	From 2 July 2015
N Mtoba	Independent Non-Executive Director	Full year
W Osborn	Independent Non-Executive Director	Full year
K Rumble	Independent Non-Executive Director	Full year

FY2016 Remuneration – Key Points

Table 6.2 - Key Points

Fixed Remuneration	Fixed Remuneration for all Executive KMP (except Mr Grimbeek) remained unchanged in FY2016. Mr Grimbeek's Fixed Remuneration was increased during the year to align his pay to internal and external benchmarks. Fixed Remuneration for all Executive KMP will be frozen for FY2017 unless an Executive moves into a new role and there is an increase in their accountabilities.	Further detail is included in Fixed Remuneration on page 103
Short Term Incentives (STI)	Overall STI outcomes were determined by the Board, with individual outcomes for Executive KMP ranging from 55 per cent to 91 per cent of maximum.	Further detail is included in STI on page 104
Long Term Incentives (LTI)	The Executive KMP were granted rights to South32 shares in FY2016 according to the South32 incentive plan framework, with vesting anticipated in 2019 subject to performance hurdles being met. Mr Kerr was the only Executive KMP to have rights to South32 shares vest in FY2016. These were Replacement rights in relation to historical BHP Billiton awards that reached the end of the performance period on 30 June 2015 and vested in August 2015.	Further detail is included in LTI on page 107
Non-Executive Director fees	The maximum aggregate fee pool remains unchanged. There were no increases to base fees or committee fees for Non-Executive Directors during FY2016.	Further detail is included in Non-Executive Director Remuneration on page 112

Remuneration received by Executive KMP in respect of FY2016

South32 voluntarily discloses "actual" remuneration received by Executive KMP, providing additional information to assist shareholders in understanding the cash and other benefits received by Executive KMP with respect to the 2016 financial year.

The information provided in Table 6.3 contains non-IFRS information (that is, it has not been prepared in accordance with the Australian Accounting Standards). See Statutory and Other Disclosures on page 115 of this report for statutory remuneration disclosures that have been prepared in accordance with the Australian Accounting Standards.

We have included the following information in Table 6.3 for all Executives who were KMP during FY2016:

- Fixed Remuneration earned in FY2016, which includes pension/superannuation
- Other cash earned in FY2016, including Dividend Equivalent Payments relating to Replacement Awards (see Summary of BHP Billiton Replacement and Transitional awards on page 118) that reached the end of the performance period on 30 June 2016
- Any non-monetary benefits, including fringe benefits paid in FY2016
- Termination benefits paid in FY2016
- STI payable in cash in respect of FY2016 performance
- Deferred STI that reached the end of the deferral period on 30 June 2016
- LTI and Replacement Awards that reached the end of the performance period on 30 June 2016

Table 6.3 excludes the accounting expense of equity grants and other long-term benefits such as annual and long service leave accruals.

Table 6.3 – Remuneration received in respect of FY2016 (A$'000)

Executive KMP	Fixed Remuneration (incl. super)	Other Cash(1)	Non-monetary benefits	Termination benefits(2)	STI awards		LTI awards(5)	Replacement awards(6)	Total
					Cash(3)	Deferred(4)			
G Kerr	1,770	73	4	–	1,009	949	–	334	**4,139**
B Harris	830	–	42	–	601	191	–	232	**1,896**
R Grimbeek	893	–	164	–	733	156	–	158	**2,104**
M Fraser	970	48	2	–	481	655	–	984	**3,140**

(1) Includes Dividend Equivalent Payments relating to the Replacement FY2014 Deferred STI that reached the end of the performance period on 30 June 2016. The payment relates to 43,811 BHP Billiton rights initially awarded to Mr Kerr, and 28,567 rights awarded to Mr Fraser that were cancelled and replaced with South32 awards. These amounts are based on dividends of US$1.24 per BHP Billiton right using a conversion rate at 30 June 2016 of USD 0.744 : AUD 1.

(2) No Termination Benefits were paid in FY2016.

(3) Cash component of the STI award that was earned in respect of FY2016 performance and will be paid in September 2016. This is inclusive of pension/superannuation (if applicable) but excludes the deferred component of FY2016 STI.

(4) STI earned in respect of performance in FY2014 and deferred for two years until 30 June 2016. These FY2014 awards were part of the Replacement Awards to substitute previously granted BHP Billiton awards with South32 awards as part of the demerger process and converted to South32 ordinary shares in August 2016. The value of these Deferred STI awards is the number of rights to vest, multiplied by South32's closing share price on 30 June 2016 of A$1.54.

(5) No South32 LTI Awards reached the end of their performance period in FY2016.

(6) The Replacement Awards were granted by South32 to replace awards that had initially been granted to the Executive KMP by BHP Billiton and were offered on essentially the same terms as the original grant. The Awards that reached the end of the performance period on 30 June 2016 were the Replacement FY2014 Management Award Plan (MAP) (service conditions only), the Replacement FY2014 Deferred STI (service conditions only), the Replacement Transitional Awards and FY2015 Transitional Award. These Transitional Awards held service and discretionary performance conditions that were pro-rated for time in BHP Billiton and South32 during the performance period. Of a maximum of 100 per cent, the Board approved outcomes of 86 per cent for Mr Kerr's Replacement Transitional Award, 81 per cent for Mr Fraser's Replacement Transitional Award and 86 per cent for Mr Fraser's FY2015 Transitional Award. The balance of the Transitional Awards lapsed. The value of the awards indicated in the above table is the number of rights to vest in August 2016, multiplied by South32's closing share price on 30 June 2016 of A$1.54. For more information on Replacement Awards refer to Long-term Incentives on page 107 and the Summary BHP Billiton Replacement and Transitional Awards on page 118.

Changes planned for FY2017

Revised ASX Peer Group

South32 uses target peer groups to benchmark salaries and total reward levels offered to Executive KMP. As South32 is a global company, our direct competitors are predominantly other global resources organisations. As we are Australia-listed, we also consider remuneration practices and pay levels for similar sized organisations on the ASX. The two primary peer groups are therefore based on similar-sized global mining companies and ASX-listed companies (see further detail in Total Reward on page 103).

For FY2017 the ASX Peer Group has been adjusted to include ASX 15-65 companies (excluding foreign domiciled companies and REITs) as this broader range is more reflective of South32's market capitalisation since listing and is likely to be more enduring. This will replace the FY2016 peer group of ASX 10-40 which was determined at demerger.

Move to face value for LTI allocation methodology

From FY2017, South32 will adopt a face value approach for allocation of rights under the Long-Term Incentive. A face value approach will provide greater simplicity and transparency for shareholders and greater certainty and consistency in the annual awards granted to Executives.

The face value represents the maximum number of rights that can vest at the end of the four-year performance period, subject to being tested against the demanding performance conditions set for the award. Vesting of the full number of rights will require significant outperformance of South32's Total Shareholder Return (TSR) relative to the comparator peer groups (described in Long-Term Incentives on page 107) and meaningful value delivered to shareholders. Should the Company not perform to at least the level of the relevant index, none of these rights will vest and the full amount will lapse. The minimum value of these awards will therefore be nil.

In transitioning to a face value approach, South32 has opted for a lower per cent of Fixed Remuneration than that of FY2016, having considered alignment to the reward philosophy and market benchmarks in the global peer group and the ASX peer group. The face value for the CEO will reduce from 324 per cent of Fixed Remuneration to 300 per cent of Fixed Remuneration, which is consistent with the details communicated in the Information Memorandum provided to the market in March 2015.

The proposed face value of the FY2017 LTI awards for the Executive KMP are included in the table below:

Table 6.4 – Proposed face value of LTI

Executive KMP	FY2016 Face Value(1)	FY2017 Face Value(1)
G Kerr	324%	**300%**
R Grimbeek/M Fraser	270%	**250%**
B Harris	216%	**200%**

(1) Face value expressed as a percentage of Fixed Remuneration.

REMUNERATION PHILOSOPHY

Purpose and drivers of Executive remuneration at South32

Our reward philosophy seeks to remunerate our Executives appropriately and responsibly. As remuneration has an important role to play in supporting the implementation and achievement of our strategy and ongoing performance, arrangements have been designed to ensure that our Executives are rewarded in a way that is aligned to our strategic objectives, the long-term interests of our shareholders, performance outcomes and good market practice.

The key principles that underpin the design of remuneration at South32 are as follows:

Diagram 6.1 – Remuneration principles

Remuneration links to strategy and performance

The structure of our reward aligns the activities and behaviours of our Executives with the key elements of our strategy.

The STI recognises the underlying performance of the business during the financial year and includes demanding measures that are within the control of management in order to motivate the right behaviour of Executives. For example, the ROIC measure excludes the impact of commodity prices and foreign exchange fluctuations that are outside management control.

An important feature of the STI is that the outcomes are not driven purely by a formulaic approach. Rather, the Board assesses various business and individual performance outcomes and applies discretion to determine the final performance scores for Executive KMP.

The delivery of half the STI outcome as equity, deferred for two years, encourages the focus on enduring outcomes to operational and strategic decision-making.

The LTI rewards Executive KMP only when the Company outperforms the target peer groups over a sustained period on a shareholder return basis. This ensures that the actual rewards received by Executive KMP reflect our performance and share price over a prolonged timeframe.

In addition, the Board has discretion to adjust all elements of reward to ensure that appropriate outcomes are achieved. This is an important mitigation against the risk of unintended reward outcomes.

Target remuneration in FY2016

South32 remuneration arrangements are designed to ensure appropriate reward levels relative to the market, to ensure the business is able to attract and retain the talent to run a business of its size, scope and geographic spread. Emphasis is placed on rewarding sustainable delivery of the organisation's short-term and long-term objectives and creating value for shareholders.

Total Reward is therefore purposely designed to place a greater emphasis on performance-based pay, or pay at risk. These variable components are structured with deliberately challenging hurdles, as per the Remuneration Principles and are not expected to vest each year. However, the potential opportunity for Executive KMP is sufficiently high to be motivating, with performance measures driving a long-term focus.

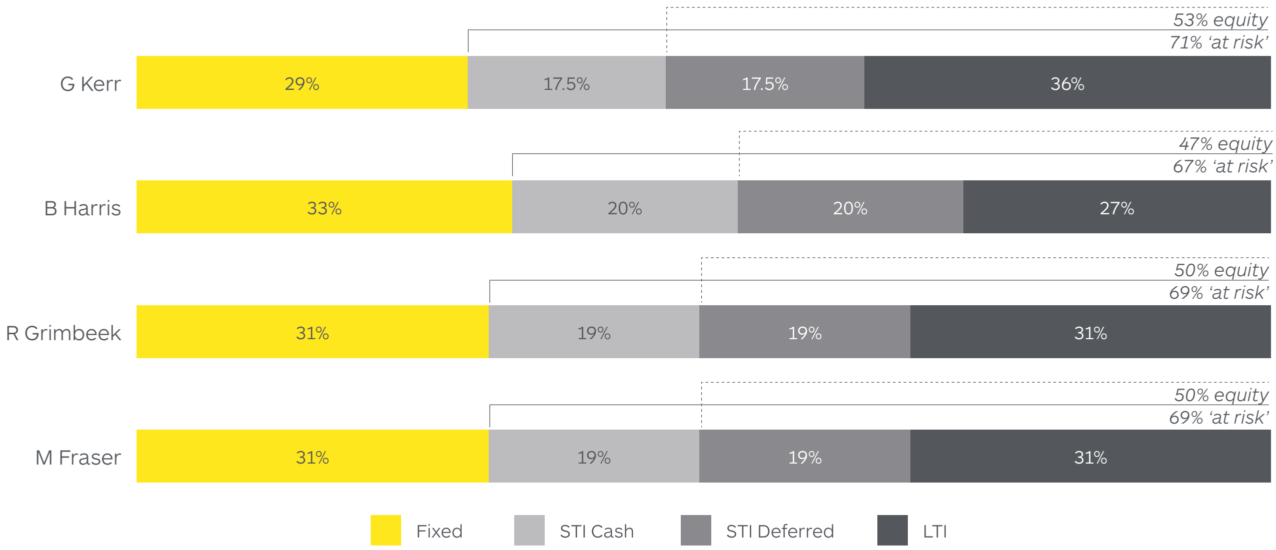
The target remuneration opportunities for Executive KMP in FY2016 are summarised in Table 6.5 and Diagram 6.2. These amounts exclude the Replacement and Transitional Awards (page 118) and the one-off Transitional LTI awards provided to Mr Harris and Mr Grimbeek as discussed in Long-Term Incentives on page 110.

Table 6.5 – Target remuneration (A$'000)

Executive KMP	Fixed Remuneration	STI(1)	LTI(2)	Total
G Kerr	1,770	2,124	2,177	**6,071**
B Harris	830	996	681	**2,507**
R Grimbeek(3)	910	1,092	933	**2,935**
M Fraser	970	1,164	994	**3,128**

(1) Assumes STI paid at 100 per cent of target outcomes.
(2) Assumes fair value of LTI Award, which is calculated by multiplying the face value by the expected value factor, which takes into account the probability that the Executive may not derive value from the LTI award, along with other factors, including the difficulty of achieving performance hurdles and anticipated share price volatility. The expected value factor is calculated at the start of the vesting period, using a Monte Carlo simulation model (see note 25 of the financial statements).
(3) Mr Grimbeek's Fixed Remuneration was increased on 1 November 2015 from A$860,000 to A$910,000.

Diagram 6.2 – Target remuneration mix



EXECUTIVE REMUNERATION FRAMEWORK AND OUTCOMES

This section provides a summary of the components of Executive remuneration and includes explanations of:

- how these components are structured to support South32's strategic objectives and to align to long-term value creation for our shareholders
- grants made in FY2016
- reward outcomes for FY2016

Total reward

Total reward framework	
Links to strategy and performance	Total Reward includes Fixed Remuneration, STI and LTI and any other benefits paid to the Executive. The components of Total Reward are designed to ensure that Executives are rewarded at market competitive levels for delivery of the organisation's short-term and long-term objectives. Remuneration outcomes are designed to reflect overall business performance and delivery of value to shareholders over time, ensuring alignment to shareholder interests.
'At risk' remuneration	In order to support South32's strategy of adopting a long-term approach to decision-making, of rewarding Executives for delivering positive business outcomes and of maximising value for shareholders, a greater portion of the remuneration package is 'at risk' and paid in the form of STI and LTI, with challenging performance measures and targets. Fixed Remuneration is therefore set around the median of our target market with a higher proportion of variable remuneration such that Total Reward should deliver upper quartile outcomes when all variable pay targets are exceeded in a given year.
Positioning relative to market	Total Reward is set to reflect each individual's responsibilities, location, skills, experience and performance within South32. Reward levels are reviewed annually and are informed by benchmarking to comparable roles.
Peer groups for benchmarking reward levels	As South32 is a global company, our direct competitors are predominantly other global resources organisations. As we are Australia-listed, we also consider remuneration practices and pay levels for similar sized organisations on the ASX. For benchmarking purposes, we therefore use two primary peer groups, as follows: ■ **Global Mining Companies Peer Group** Includes approximately 15 global mining companies within a similar market capitalisation range of A$2 billion to A$20 billion and a similar commodity mix, from across Australia, South Africa, USA, Canada, UK and Europe. ■ **ASX Peer Group** The FY2016 peer group was based on companies in ASX 10-40, based on market capitalisation expectations for the financial year. In addition, supplementary peer groups are used, particularly for the roles that are more difficult to match in the market, such as the President and Chief Operating Officer of the Regions. In these cases, we have sourced market data for roles from where talent could be sourced or to where our Executives may move. Note: The peer groups used to benchmark Fixed Remuneration and Total Reward are distinct from the comparator groups used as part of the LTI to assess relative TSR performance, see Long-Term Incentives on page 107.

Fixed Remuneration

Fixed Remuneration Framework	
Links to strategy and performance	Fixed Remuneration, which includes pension/superannuation, is reflective of the role, responsibilities, location, skills and experience for each Executive. Competitive Fixed Remuneration is paid in order to attract, retain and motivate talented Executives to lead South32 and further its strategic goals.
Positioning relative to market	Levels of Fixed Remuneration are generally around the median of the target peer groups.

Fixed remuneration for FY2016

Following a review of the reward for Executive KMP to ensure alignment to internal and external benchmarks and remuneration commensurate to the responsibilities of the relevant role, Mr Grimbeek's Fixed Remuneration was increased from A$860,000 to A$910,000 per annum (an increase of 5.8 per cent) effective 1 November 2015.

There was no change in Fixed Remuneration for any other Executive KMP.

For FY2017, Fixed Remuneration for the Executive KMP will remain unchanged, unless an Executive moves into a new role and there is an increase in their accountabilities or other market factors.

Short-Term Incentive (STI)

Short-Term Incentive Framework	
Links to strategy and performance	The purpose of the STI is to focus the efforts of Executives on those performance measures and outcomes that are a priority for South32 in the relevant financial year and to motivate Executives to achieve challenging performance objectives. The STI outcome is made up of a mix of both business and individual performance measures. Robust targets are established for all measures to drive high levels of business performance and leadership behaviours. A focus beyond the short-term is provided by deferring a portion of the STI into rights to South32 shares.
STI opportunity	The Target STI opportunity for all Executive KMP is 120 per cent of Fixed Remuneration, with half of the outcome delivered in the form of rights to South32 shares, deferred over two years. The maximum STI outcome is capped at 150 per cent of Target (i.e. 180 per cent of Fixed Remuneration).
Business Performance hurdles	The Board, with input from Board Committees (such as the Remuneration, Risk & Audit and Sustainability Committees) approves the business performance measures at the beginning of the year. Measures are chosen because they reflect the key drivers of South32 performance in FY2016 and beyond. They represent a combination of key strategic milestones and ongoing factors that are essential to business performance and South32's licence to operate. The FY2016 measures are:

Performance Measure		Weighting
Sustainability	health, safety, environment and community	**25%**
Finance	production, cost and capital expenditure	**25%**
Finance	adjusted return on invested capital (adjusted ROIC)	**25%**
Strategy	delivery against key elements of the strategic plan	**25%**

Individual Performance hurdles	Individual performance measures were set by the Board for the CEO and by the CEO for the other Executives. These measures relate to their roles and responsibilities and include items such as implementation of the operating model, delivery against strategic projects and ensuring operational, financial and people excellence.
How performance is measured	The final STI outcomes for Executive KMP are not based purely on a formulaic approach. At the conclusion of the financial year, the Board assesses the business performance outcomes and individual performance outcomes for each Executive. In this process, guidance provided by Board Committees (such as the Remuneration, Risk & Audit and Sustainability Committees) and any other relevant business information is considered. An overall scorecard modifier is then applied, which reflects the discretion reserved for the Board to consider business outcomes or other factors that are not specifically included in the scorecard. Items included in the modifier for consideration are reputational issues, significant safety issues or any other item the Board considers appropriate. This is an important mitigation against the risk of unintended award outcomes.
Delivery of awards	STI payments are only paid after the auditors have signed off on the statutory financial accounts for the full year. Each Executive KMP will receive half of their award in cash, with the remaining half (subject to shareholder approval being obtained at the 2016 Annual General Meeting in respect of the CEO) deferred into rights to ordinary shares in South32 which are expected to be granted in December. These rights, which vest after approximately two years, are subject to continued service with the South32 Group and to the conditions linked to the award of rights as outlined in on page 111.
Determining the number of deferred rights	The number of rights granted to each Executive KMP, is calculated by dividing the value of the Deferred STI by the VWAP of South32 shares for the five days up to, but excluding, the date of grant. For the FY2015 Deferred STI, this was A$1.09.

Short-Term Incentive Outcomes for FY2016

FY2016 performance overview

The table below summarises South32's performance against key financial measures over the last two financial years, following listing on 25 May 2015.

Table 6.6 - Financial performance

Performance Measures	FY2016	FY2015 (pro forma[1])
Underlying EBIT (US$m)[2]	**356**	1,001
Underlying earnings (US$m)[2]	**138**	575
Closing net cash/(debt) (US$m)	**312**	(402)
Improvement on Adjusted return on invested capital (percentage point)[3]	**1.8**	n/a
Closing share price on 30 June (A$)[4]	**1.54**	1.79
Dividends (USc)	**-**	-
TRIF (per cent per million hours worked)	**7.7**	5.8

(1) South32's pro-forma FY2015 result. To assist shareholders in their understanding of the South32 Group, pro forma financial information for FY2015 has been prepared to reflect the business as it is now structured and as though it was in effect for the period 1 July 2014 to 30 June 2015. The pro forma financial information is not prepared in accordance with IFRS. Refer to Operating Financial Review of the Annual Report for additional information.

(2) The Underlying EBIT and Underlying earnings are not prepared in accordance with IFRS. Refer to page 53 of the Annual Report for a reconciliation to statutory earnings.

(3) The improvement in adjusted return on invested capital is by reference to the previous performance period.

(4) South32's share price on 25 May 2015 was A$2.32.

While there were a number of operational highlights during the financial year, these were overshadowed by four fatalities at our operations. It is one of the core values of our business to ensure that all our people go home safe and well after every shift, so this is an unacceptable outcome. We are committed to a step change in our safety and risk management performance across the business to ensure the safety of our people. As such, the Board has considered this in applying its discretion and applied the scorecard modifier to reduce the overall STI outcome for the Executives.

The performance of the business relative to the performance measures for FY2016 are outlined below.

FY2016 Business Scorecard outcomes

The Business Scorecard outcomes for the FY2016 performance year, as determined by the Board, are summarised in the following table, with additional detail provided below.

Zero is provided where the threshold is not achieved, 'Good' where performance targets are met, and 'Outstanding' where performance requirements are significantly exceeded.

Diagram 6.3 - FY2016 Business Scorecard outcomes

Measure	Zero	Good (Target)	Outstanding (Max.)
Sustainability (HSEC)			
Production, cost & capital expenditure			
Adjusted ROIC			
Strategic Plan			
Scorecard Result			
Overall Scorecard Modifier	Modifier applied to the Business Scorecard in FY2016, primarily to reflect the fatalities in operations. Based on accountability, modifiers range from 0.6 (i.e. 40 per cent reduction) to 0.9 (10 per cent reduction).		
Overall Business Outcome	Outcomes vary by Executive based on accountabilities and application of the Modifier.		

Sustainability

Performance for FY2016

The Sustainability performance measure assesses South32's performance in the areas of health, safety, environment and community.

We tragically lost four of our colleagues in FY2016, which we recognise as being an unacceptable outcome.

While we also experienced a deterioration in the reportable injury rate, some significant progress was made with regard to other sustainability targets. Our FY2016 occupational illness rate delivered a material improvement and the business delivered pleasing results for OEL, where FY2016 outcomes were well below FY2015 levels. In addition, good progress was made with regard to improvement plans to ensure that the reduction in exposure levels continues.

Overall, our GHG emissions reduced for FY2016, some of which is accounted for by reduced production volumes in manganese in our response to market demand, and improvement plans that are prepared and in implementation.

Assessed outcome

In determining the outcome relative to this measure, the Board sought guidance from the Remuneration Committee and Sustainability Committee.

While we have delivered outstanding outcomes in some areas of sustainability, these are overshadowed by the fatalities. For the portion of the Sustainability measure relating to fatalities, 0 per cent was applied to the CEO, President and Chief Operating Officer Africa and Chief Financial Officer. In addition the final Business Scorecard outcomes for all Executive KMP were further reduced by between 10 per cent and 40 per cent as part of the STI modifier that, for FY2016, was mostly as a result of the fatalities.

Production, Cost and Capital Expenditure

Performance for FY2016

The production, cost and capital expenditure performance measures are set as stretch targets whilst also seeking to achieve South32's strategy of delivering value over volume. Accordingly, the outcomes reflect the actions taken during the year that impacted production volumes and/or costs.

Both the Australian and African operations delivered on production targets by achieving throughput levels at targeted utilisation rates. In addition, South32 demonstrably followed its "value over volume" approach by curtailing production to protect shareholder value, including at South Africa Manganese (Metalloys), South Africa Aluminium and the Brazil Aluminium Smelter.

All parts of the South32 Group contributed to an Outstanding cost performance outcome for FY2016. Controllable costs were reduced by US$386 million during the period, exceeding the target set to achieve over three years as a result of advanced progress regarding organisation restructuring and business optimisation. Costs were reduced across the operations in the areas of labour, raw material and consumable usage, as well as within functional overheads in the Corporate centre and Marketing.

Capital expenditure (excluding major projects) for South32 was US$430 million against a target of US$578 million (adjusted to exclude the benefit of foreign exchange rate movements). The Group delivered a sustainable reduction in capital expenditure and also delivered the Illawarra Appin Area major capital project ahead of schedule and 33 per cent under budget.

Assessed Outcome

Across the operations, South32 has delivered excellent results in FY2016 in production, cost and capital expenditure, reflecting an overall result between Good and Outstanding.

Adjusted ROIC

Performance for FY2016

The Adjusted Return on Invested Capital (ROIC) assesses South32's earnings performance as a return on the capital base (fixed assets and inventory) of the Group's operations, after adjusting for uncontrollable factors (commodity prices and foreign exchange rates).

Factors that affect ROIC include how well management utilises the capital base excluding any impairments that would otherwise reduce this base (productivity), and how efficiently the operation performs together with improvements in financial outcomes through effective cost management (cost control).

South32 delivered a 1.8 percentage points improvement in Adjusted ROIC relative to FY2015 which exceeded the business targets set for Outstanding performance, of an improvement of at least 1.3 percentage points. This result was a combination of solid production performance (including the optimisation decision taken at South Africa Manganese), a significant reduction in operating costs and a sustainable reduction in capital expenditure.

Assessed Outcome

On all aspects of this measure, South32 has delivered an outstanding result in FY2016. This is reflected in an Outstanding outcome for this performance measure.

Delivery against Strategic Plan

Performance for FY2016

The Delivery against Strategic Plans includes key elements of the South32 strategic plan that are a priority to deliver in the financial year. For FY2016, the targets in this area included key initiatives with regard to People, Risk Management and Business Optimisation.

Good progress has been made with regard to People measures, including Diversity, where challenging targets regarding the number of females in leadership roles was met. An employee survey was conducted at the start of the year, with key actions identified and used as focus areas into the work on culture and leadership.

In Risk Management, the corporate policy, including minimum requirements, has been developed and implemented. The regions are making progress with regard to the assessment of material risks and implementing remediation plans where required.

Good progress has been made with regard to the Business Optimisation measure.

Assessed Outcome

The outcome for Delivery against Strategic Plans was assessed as just below Good.

Overall Scorecard Modifier

The Overall Scorecard Modifier may be applied to the Business Scorecard to reflect the discretion reserved for the Board to consider business outcomes that are not included in the scorecard. Modifiers may be applied to Executive KMP on an individual or a group basis.

While these may change from year to year, for FY2016, a number of factors were considered, including year on year fall in earnings and the impairments of US$1.7 billion that took place in the financial year. The Board considered that the impairments occurred due to matters outside South32 management's control, that is, to valuation decisions prior to the demerger.

The greatest emphasis was applied to the four fatalities in our operations. As all four fatalities took place in the Africa Region, a modifier of 0.6 was applied to the President and Chief Operating Officer Africa (i.e. reducing the STI result by 40 per cent). A modifier of 0.76 (reduction of 24 per cent) has been applied to the CEO and 0.9 (10 per cent reduction) to the other Executives. The weight applied to fatalities in the application of this modifier reflects our commitment to making South32 a safe place to work for all our employees.

FY2016 Executive KMP Scorecard Outcomes

Following the Board's assessment of the Business Scorecard, Individual Scorecard and Overall Scorecard Modifier, the actual STI outcomes and amounts to be paid to the Executive KMP in respect to their performance in FY2016 are outlined in the table below.

Table 6.7 – STI earned by Executive KMP in respect of FY2016 performance

				Percentage of maximum STI	
Executive KMP	**Total STI Award (A$'000)**	**Cash (A$'000)**	**Rights (A$'000)**	**Awarded %**	**Forfeited %**
G Kerr	2,018	1,009	1,009	63	37
B Harris	1,202	601	601	80	20
R Grimbeek	1,466	733	733	91	9
M Fraser	962	481	481	55	45

Half of the STI will be paid in cash in September 2016, with the remaining half deferred into rights to South32 shares that will be granted in or around December 2016 and will be due to vest in August 2018. The rights remain subject to continued service with the South32 Group. Accordingly, the minimum possible total value of the rights for future financial years is nil.

Long-Term Incentive (LTI)

Long-Term Incentive Framework	
Links to strategy and performance	The LTI focusses the efforts of Executives on the achievement of sustainable, long-term value creation and success, including appropriate management of business risks. This benefit aligns outcomes for Executives with the long-term interests of shareholders through the use of Relative TSR (South32's TSR performance relative to the comparator peer groups) as the performance hurdle.
LTI opportunity	Award levels are set to incentivise Executives to meet South32's long-term goals, provide retention for the Executives and contribute towards the competitiveness of the overall package in the markets in which we compete for talent (namely, with reference to both the global peer group and the ASX peer group). For FY2016 the Board considered both fair value and face value in setting the quantum for LTI for the Executives. The face value determines the number of rights to be granted to each Executive. This is the maximum number of rights that can vest at the end of the four-year performance period, subject to being tested against the performance conditions set for the award. The Board considers it important to communicate and have regard to the face value of LTI to aid transparency. The Committee also has consideration for fair value for setting and benchmarking the quantum of the LTI opportunity, because fair value takes into account the likelihood of the Executive deriving value from the LTI at vesting. Fair value is therefore considered when assessing the level of LTI opportunity that will motivate an Executive and effectively promote performance aligned with our shareholder interests.
South32 expected value factor	The face value of the LTI award is determined by applying the expected value factor to the fair value i.e. fair value ÷ expected value factor = face value. The expected value factor takes into account the probability that the Executive may not derive value from the LTI award, along with other factors, including the difficulty of achieving performance hurdles and anticipated share price volatility. For FY2016 this factor is 38 per cent of the face value as calculated by PwC at the start of the vesting period using, amongst others, a Monte Carlo simulation model (see note 25 of the financial statements).
LTI quantum for FY2016	The percentage of Fixed Remuneration used to determine the FY2016 LTI awards for the Executive KMP are included in the table below.

Executive KMP	**FY2016 Fair Value % of Fixed Remuneration**	**FY2016 Face Value % of Fixed Remuneration[(1)]**
G Kerr	123%	324%
R Grimbeek/M Fraser	102.5%	270%
B Harris	82%	216%

(1) The face value percentage is calculated by dividing the fair value percentage by the expected value factor of 38 per cent.

The number of rights granted in FY2016 is outlined in Table 6.8.

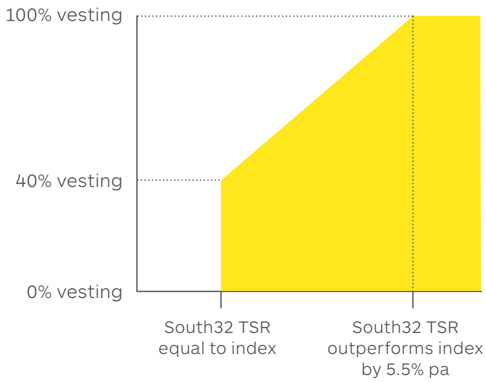
Long-Term Incentive Framework	
How the award is delivered	Participants in the LTI are granted rights to South32 ordinary shares. Vesting of each right will result in one ordinary share in South32. The resulting shares are not subject to any additional deferral. As the rights form part of the Executive's remuneration, they are granted at no cost to the Executive.
Share Price to determine number of rights	The number of rights granted to each Executive under the LTI is calculated by dividing the face value of the LTI award by the Grant VWAP of South32 shares traded on the ASX over the last 10 trading days of June preceding the start of the vesting period. This period has been chosen because it precedes the start of the performance period for the LTI, and is therefore aligned to the overall reward approach. The resulting number of rights has been rounded down to the nearest whole number of rights. For the FY2016 grant, a share price of A$1.91 was used.
Vesting Period	A four-year vesting period will apply to the grants under the South32 LTI plan.
Vesting date	Vesting of the awards will take place after the release of the annual results, usually in August.
LTI Performance Measure	LTI awards will be subject to a Relative TSR performance condition, which must be achieved over the vesting period. South32 TSR will be measured relative to the TSR of relevant comparator groups. Relative TSR has been chosen as the most appropriate performance hurdle as it measures value created for shareholders and business growth relative to the comparator groups. In addition, it allows for an objective external assessment over a sustained period on a basis that is familiar to our shareholders.
Averaging period	An averaging period of one month will be used in the TSR calculations to account for short-term price fluctuations. The starting TSR value for the FY2016 award is based on the average TSR for the month of June, representing the start of the vesting period.
Comparator Groups(1)	Two comparator indices have been selected to ensure the TSR performance condition is appropriately robust and reflective of the sectors and markets in which we have exposure. For FY2016, the comparator indices were: ■ **The Euromoney Global Mining Index**, with constrained weighting by company and sector, in relation to vesting of two thirds of the LTI award. This comparator index comprises approximately 150 companies and is considered the most appropriate sector comparison for South32 in terms of companies in a related industry, with a relevant commodity mix and a collective global footprint ■ **The Morgan Stanley Capital International (MSCI) World Index**, in relation to the vesting of one third of the LTI award. This is a global equity index consisting of companies listed in developed markets and with a footprint in both developed and emerging market countries. This is considered an appropriate market index for South32 given the diversity of geographies across which we operate (1) The comparator groups used to assess relative TSR performance are distinct from the peer groups used to benchmark Fixed Remuneration and Total Reward on page 103.
Vesting	Full vesting of the LTI awards will only occur where South32's TSR significantly outperforms the TSR of comparator groups.

Long-Term Incentive Framework

How performance is measured

As illustrated in the diagram, if the TSR of South32:

- Is below the TSR of the comparator index, 0 per cent of the rights vest
- Is equal to the TSR of the comparator index, 40 per cent of the rights vest
- Exceeds the comparator index by 5.5 per cent per annum cumulative (Outperformance), 100 per cent of rights vest
- Is between the TSR of the comparator index and Outperformance, vesting will be on a straight line between 40 – 100 per cent



No retesting

There is no retesting if the performance condition is not met, and any rights that do not vest, lapse. Accordingly, if the performance conditions are not met, the minimum possible value of the rights is nil.

Board discretion

Before vesting, the Board will satisfy itself that the Relative TSR performance is an appropriate reflection of underlying performance of South32 over the vesting period and can adjust vesting accordingly.

In addition, the Board has the discretion to lapse all or part of an Executive's LTI award if it considers that this is appropriate in the circumstances.

LONG-TERM INCENTIVES GRANTED AND VESTED IN FY2016

LTI Awards granted

The table below details the number of rights granted in FY2016 as part of the Company's LTI Plan, including the face value and fair value of these awards. The grant of rights for the CEO, Mr Kerr, was approved at the Annual General Meeting on 18 November 2015.

The performance period for these awards will be 1 July 2015 to 30 June 2019.

Table 6.8 – FY2016 LTI grants

	Reward Determination(1) (start of vesting period)				Grant (December 2015)		
Executive KMP	Fair Value % of Fixed Remuneration(2)	Fair Value(2) (A$'000)	Face Value % of Fixed Remuneration(3)	Face Value(3) (A$'000)	Number of rights granted(4)	Face Value at grant(5) (A$'000)	Fair Value at grant(6) (A$'000)
G Kerr	123%	2,177	324%	5,735	**3,002,513**	3,063	1,681
B Harris	82%	681	216%	1,793	**938,638**	957	526
R Grimbeek	102.5%	933	270%	2,457	**1,286,387**	1,312	720
M Fraser	102.5%	994	270%	2,619	**1,371,204**	1,399	768

(1) The Reward Determination columns outline the calculation of Target remuneration (see page 101) based on the South32 LTI Framework. These figures are determined at the start of the vesting period.

(2) The fair value percentage was determined by the Board in line with the South32 LTI Framework. The dollar value is calculated by multiplying the fair value percentage by the Executive KMP's Fixed Remuneration. The fair value of the LTI Award is calculated by multiplying the face value by the expected value factor, which takes into account the probability that the Executive KMP may not derive value from the LTI Award, along with other factors, including the difficulty of achieving performance hurdles and anticipated share price volatility.

(3) The fair value is calculated by dividing the Reward Determination Fair Value by the expected value factor of 38 per cent.

(4) The number of rights granted to the Executive KMP, in December 2015, is calculated by dividing the face value by the volume weighted average price of South32 shares traded on the ASX over the last 10 trading days of June 2015 (Grant VWAP), of A$1.91.

(5) As the rights are granted in December 2015, after the start of the performance period, the actual share price at the time of grant will usually differ to the Grant VWAP. The face value at grant is the number of rights granted multiplied by the share price at the time of grant, of A$1.02.

(6) The fair value at grant is the accounting fair value calculated at the grant of the rights, subject to TSR performance hurdles. This value was determined by PwC, using a Monte Carlo simulation model (see note 25 of the financial statements) and may differ to the Reward Determination Fair Value as it is calculated at date of grant rather than at the start of the performance period.

One-off Transitional LTI Awards

As disclosed in the FY2015 Remuneration Report, the Board approved a one-off grant of equity for Executive KMP moving from the three year BHP Billiton Management Award Plan (MAP) to the four year South32 LTI, to fill the gap in 2018 where no long-term incentives are due to vest. The performance period for these awards will be 1 July 2015 to 30 June 2018. All other terms of these awards are the same as the LTI plan as outlined in the LTI Framework on page 107.

Table 6.9 – FY2016 Transitional grants

	Grant (December 2015)		
Executive KMP	**Number of Rights granted**	**Face Value at grant[1] (A$'000)**	**Fair Value at grant[2] (A$'000)**
B Harris	469,319	479	249
R Grimbeek	643,193	656	341

(1) The face value at grant is the number of rights granted multiplied by the share price at the time of grant, of A$1.02.

(2) The fair value at grant is the accounting fair value calculated at the grant of the rights, subject to TSR performance hurdles. This value was determined by PwC, using a Monte Carlo simulation model.

LTI vested during/since FY2016

Mr Kerr was the only Executive KMP to have rights vest in FY2016. These were Replacement Awards in relation to historical BHP Billiton Transitional GMC awards. Refer to Details of rights held by Executive KMP (page 116) and Summary of BHP Billiton replacement and transitional awards (page 118) for more information on the Replacement Awards.

These awards held service and performance conditions to 30 June 2015. As the service condition was satisfied, the Board assessed the business and individual performance outcomes for the period 1 July 2012 to 30 June 2015, with input from BHP Billiton for the period 1 July 2012 to 24 May 2015.

The Board determined a vesting outcome of 88 per cent (against a maximum of 100 per cent). Accordingly, 221,856 of the 252,109 Transitional GMC Awards (tranche 1) held by Mr Kerr, vested in August 2015 and the remainder lapsed.

Table 6.10 – LTI vested/exercised

Executive KMP	Award	Number of Rights granted	Number of Rights vested	Number of Rights forfeited	Value at vesting[1] (A$)
G Kerr	Replacement BHP Billiton FY2013 Transitional GMC Award (tranche 1)	252,109	221,856	30,253	339,440

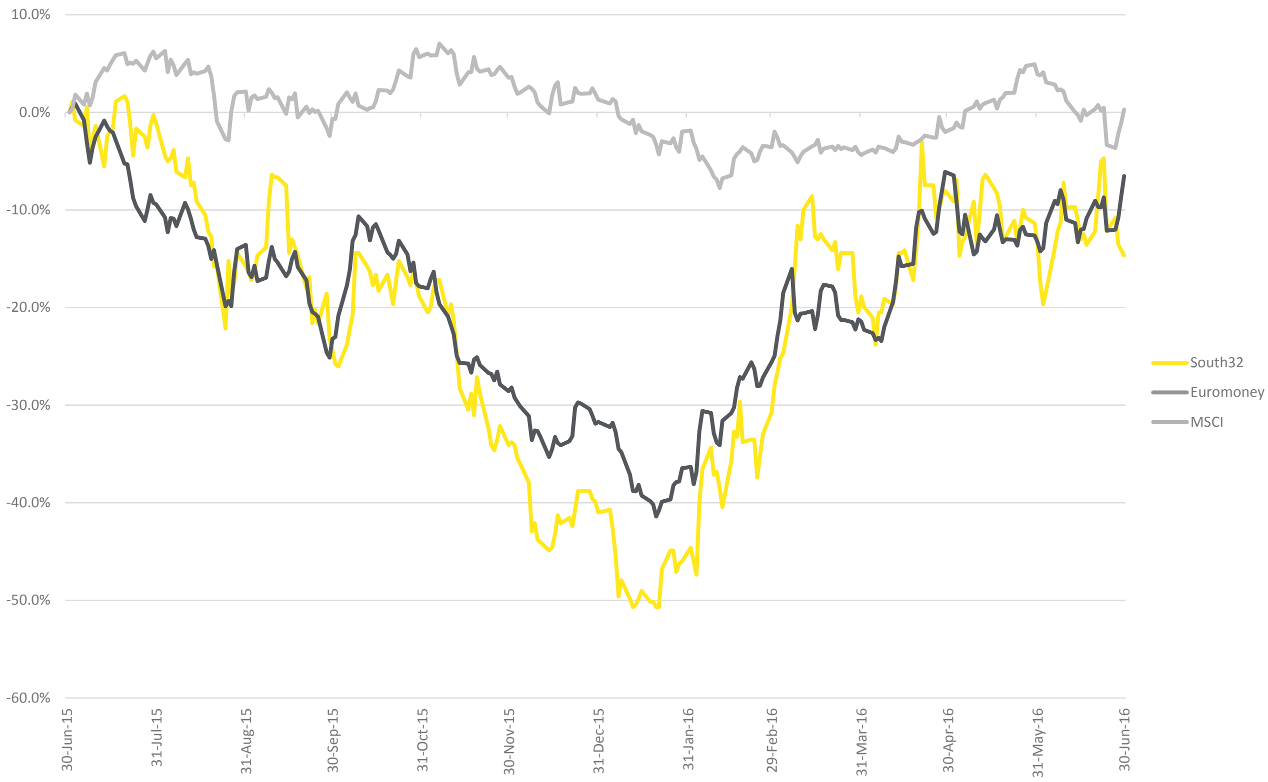
(1) The value at vesting is the number of rights that vested, multiplied by the closing share price of South32 shares on the vesting date, of A$1.53.

South32 TSR Performance

The graph below shows the performance of South32's TSR relative to the Euromoney Global Mining Index (with constrained weightings) and the MSCI World Index, since 1 July 2015.

There are no South32 performance awards that vested in FY2016.

Diagram 6.4 - South32 TSR performance vs. comparator indices



Note: The diagram is for information purposes only and demonstrates South32's TSR performance against the comparator indices for the period 1 July 2015 to 30 June 2016.

CONDITIONS LINKED TO THE AWARD OF RIGHTS

Voting and dividends

Rights will not attract any entitlement to voting, dividends or dividend equivalent payments.

(Note that the exception to this is the Replacement LTIP and Replacement STI awards, see Summary of BHP Billiton replacement and transitional awards, page 118, that were granted under the same terms and conditions as the cancelled BHP Billiton awards. These awards will receive dividend equivalent payments.)

Treatment of incentives on cessation of employment

The Board has the discretion to determine how incentive awards will be treated if an Executive ceases their employment with South32. This discretion can be exercised on a case-by-case basis, allowing the Board to ensure the treatment of incentives is appropriate in the circumstances and aligns to shareholder expectations.

However, guidelines relating to different circumstances are as follows:

- Resignation or terminated for cause – all unvested awards to lapse
- Death, serious injury, disability or illness that prevents continued employment or total permanent disability – all unvested awards to vest immediately
- Other circumstances – a pro-rata portion of rights to remain on foot subject to the Remuneration Committee's discretion to lapse or vest

Change of control

The Board has discretion to determine the level of vesting (if any) having regard to the portion of the vesting period elapsed, performance to date against any applicable performance conditions and other factors the Board deems appropriate.

Minimum shareholding requirements

As part of South32's policy of aligning remuneration with shareholders' long-term interests, a minimum shareholding requirement (MSR) of equal to or greater than their annual Fixed Remuneration applies to all Executives. Each is provided a five year period to build up their shareholding, commencing at the end of FY2015, or their appointment as an Executive (if later). All purchased shares held directly or indirectly by Executives including vested shares from South32 incentive plans will count towards the MSR. Unvested deferred STI and LTI awards will not count towards the MSR, as they remain subject to a risk of forfeiture until vesting occurs.

Malus and clawback

The Board has discretion to reduce or clawback STI and LTI awards in certain circumstances to ensure that no inappropriate benefit is obtained by Executives. The Board's discretion applies to all vested and unvested components of STI and LTI awards. The circumstances in which the Board may exercise this discretion are broad. Examples include: where an Executive engages in misconduct, a material misstatement of the Company's accounts results in vesting, behaviours of Executives that bring South32 into disrepute or any other factor that the Board deems justifiable.

Prohibition on hedging of South32 shares and equity instruments

All employees must comply with the South32 Securities Dealing Policy, which prohibits employees from entering into any hedging arrangement that limits the risk of holding unvested or restricted South32 equity awards under our STI and LTI Plans.

NON-EXECUTIVE DIRECTOR REMUNERATION

Remuneration policy

Details of Non-Executive Director remuneration and terms of appointment are set out in a letter of appointment. All appointments to the position of Non-Executive Director are made on the basis that the Director:

- cannot hold office without re-election past the third Annual General Meeting following the Non-Executive Director's appointment
- may resign on reasonable notice
- is not entitled to payments for early termination or loss of office
- will not receive any performance-based pay

Table 6.11 – Components of Non-Executive Director remuneration

Remuneration component	Operation
Fees	
■ Competitive base fees are paid in order to attract and retain high-quality individuals, and to reflect the size and complexity of South32 ■ Consideration is made for the anticipated workload and time commitment of the role ■ Committee fees are paid to recognise the additional responsibilities, time and commitment	■ The maximum aggregate amount available to South32 to pay its Non-Executive Directors remains unchanged at A$3,900,000 per annum (Fee Pool). South32 will seek shareholder approval before making any changes to the Fee Pool ■ The Fee Pool includes base fees, committee fees, travel allowances and superannuation contribution fees, but excludes reimbursement for business related and travel expenses and special exertion fees ■ The Chairman is paid a single fee for all responsibilities and does not receive any additional fees for his participation in Board Committees ■ Fees are reviewed annually, taking into account fee levels for comparable roles in companies of similar complexity, size, geographic footprint, listing jurisdictions, reach and industry. External advice may be sought in the benchmarking and review of fees
Travel Allowances	
■ Competitive benefits are paid to adequately compensate for travel required by Board business	■ Non-Executive Directors receive travel allowances if extended air travel is required as a result of Board business ■ Allowances are provided for each return journey as follows: - Air travel greater than three hours but less than 10 hours to destination - A$7,840 - Air travel greater than 10 hours to destination - A$16,800
Minimum shareholdings	
■ To preserve the independence of Non-Executive Directors but encourage alignment with shareholder interests, Non-Executive Directors are required to hold shares in South32	■ The Board is committed to each Director achieving a minimum shareholding level of one year's base fees to be accumulated over a reasonable period

Remuneration details

Board and Committee fees in FY2016

The table below sets out the fee levels for FY2016, which will also apply for FY2017.

Table 6.12 – Board fees

Fee	Description	A$ per annum
Board fees	**Main Board of Directors**	
	Chairman of the Board	550,000
	Members	180,000
Committee fees	**Risk and Audit, Remuneration, Sustainability Committees**	
	Committee Chairman	45,000
	Members	22,500

Remuneration outcomes for Non-Executive Directors

The following table sets out the statutory disclosures required under the *Corporations Act 2001 (Cth)* and in accordance with the Australian Accounting Standards.

Table 6.13 – Non-Executive Director remuneration (A$'000)

		Short-term benefits			Post-employment benefits	Total(1)
Non-Executive Director		Board & Committee fees	Non-monetary benefits(2)	Other cash allowances & benefits(3)	Superannuation benefits	
D Crawford	**FY2016**	**531**	**5**	**90**	**19**	**645**
	FY2015	220	–	–	9	229
F Cooper	**FY2016**	**228**	–	**41**	**19**	**288**
	FY2015	33	–	–	5	38
P Kukielski	**FY2016**	**222**	–	**159**	**3**	**384**
	FY2015	30	–	–	1	31
X Mkhwanazi(4)	**FY2016**	**198**	–	**67**	**4**	**269**
	FY2015	–	–	–	–	–
N Mtoba	**FY2016**	**199**	–	**67**	**4**	**270**
	FY2015	26	–	–	1	27
W Osborn	**FY2016**	**228**	–	**74**	**19**	**321**
	FY2015	33	–	–	5	38
K Rumble(5)	**FY2016**	**244**	–	**101**	**3**	**348**
	FY2015	23	–	–	1	24
TOTAL	**FY2016**	**1,850**	**5**	**599**	**71**	**2,525**
	FY2015	365	–	–	22	387

(1) The remuneration for FY2015 reflects the fees and benefits payable to each Non-Executive Director from the date of their appointment until 30 June 2015.
(2) This column includes items such as spouse travel.
(3) Includes Travel Allowance from May 2015 to June 2016.
(4) Mr Mkhwanazi commenced as a Non-Executive Director on 2 July 2015 so no fees are shown for FY2015.
(5) Mr Rumble received no remuneration for his services as a Non-Executive Director prior to 22 May 2015.

REMUNERATION GOVERNANCE

Governance structure

The Remuneration Committee assists the Board to ensure that remuneration arrangements at South32 are equitable and aligned to the long-term interests of shareholders, whilst operating within our risk framework. In order to ensure independence, the Remuneration Committee is comprised solely of Non-Executive Directors.

Diagram 6.5 – South32 remuneration governance

THE SOUTH32 BOARD

The Board maintains overall responsibility for oversight of the Company's remuneration policy and the principles and processes which give effect to that policy. The Board approves, having regard to the recommendations of the Remuneration Committee:

- Contractual arrangements, remuneration and benefits in relation to the CEO and Executive Committee (including the framework of the short and long-term incentive)
- Remuneration arrangements for Non-Executive Directors including fees, travel and other benefits
- Remuneration policy and framework and its application to all South32 employees

REMUNERATION COMMITTEE

The role of the Remuneration Committee is to assist the Board in overseeing the remuneration policy, its specific application to the CEO and Executive Committee and Non-Executive Directors and its general application to all South32 employees.

The Committee is also responsible for overseeing:

- The remuneration framework (including short and long-term incentive plans) and its application to the CEO, Executive Committee and all South32 employees
- Annual performance evaluation of the CEO and Executive Committee
- Determination of reward quanta for the CEO and Executive Committee
- The Company's compliance with applicable legal and regulatory requirements associated with remuneration matters
- Communication of the remuneration policy to the Company's shareholders

EXTERNAL ADVISORS

The Remuneration Committee may engage remuneration and other external advisors to provide information on remuneration related issues where required.

CHIEF EXECUTIVE OFFICER

The CEO makes recommendations to the Remuneration Committee on remuneration arrangements for the CEO's direct reports and on the remuneration policy and framework including its application to all South32 employees.

Informed decision-making

The Remuneration Committee seeks information from a variety of sources when making decisions on remuneration matters. Members of management may also provide the Remuneration Committee with information and insights regarding current and emerging issues affecting our business and put forward proposals for consideration that may supplement information and advice received from external advisors, including remuneration consultants.

In setting the remuneration arrangements for Executives in FY2016, South32 sought information and analysis from a range of external advisors, including benchmarking information and market data. The Committee rigorously assessed the information to ensure considered reward outcomes.

Where a remuneration recommendation is sought from an external Remuneration Consultant on issues related to Executive KMP remuneration, the consultant will be directly engaged by the Remuneration Committee and any recommendation will be free of management influence. No remuneration recommendations were received by the Remuneration Committee in relation to Executive KMP in FY2016.

Service contracts

The terms of employment for Executives, including the CEO, are formalised in employment contracts which have no fixed term. Key terms are consistent for all Executives. Shareholder approval was granted at the 2015 Annual General Meeting in relation to termination benefit arrangements for Executive KMP.

Notice period and terms:

- Six months' notice by either party or payment by the Company in lieu of notice; or
- Termination without notice for serious misconduct; or
- Two months' notice by the Executive where a fundamental change occurs that materially diminishes their status, duties, authority or terms and conditions (receiving payment in lieu of six months' notice)

The maximum payment in lieu of notice will not exceed six months and Executives will be subject to a number of post-employment restraints for a period of up to six months after their employment with the South32 Group ends.

STATUTORY AND OTHER DISCLOSURES

Statutory remuneration table

The following table sets out the statutory disclosures required under the *Corporations Act 2001 (Cth)* and in accordance with the Australian Accounting Standards. The amounts shown reflect the remuneration for each Executive KMP that relates to their service as a KMP of the South32 Group in FY2016.

Table 6.14 – Statutory remuneration of Executive KMP in FY2016 (A$'000)

		Short term benefits			Post-employment benefits	Termination benefits	Other long-term benefits[4]	Share-based payments		Total Remuneration	Percentage of Total Remuneration which is Performance Tested
Executive KMP		**Salary**	**Cash bonus[1]**	**Non-monetary benefits[2]**	**Superannuation benefits[3]**			**Cash Settled[5]**	**Rights[6]**		
G Kerr[7]	**FY2016**	**1,598**	**1,009**	**4**	**19**	–	**169**	–	**4,569**	**7,368**	**76%**
BHP Billiton	FY2015	479	387	–	120	–	45	–	167	1,198	46%
South32	FY2015	179	121	8	3	–	17	–	662	990	79%
B Harris[8]	**FY2016**	**731**	**601**	**42**	**19**	–	**78**	–	**1,191**	**2,662**	**67%**
	FY2015	83	52	–	3	–	6	–	69	213	57%
R Grimbeek[8]	**FY2016**	**817**	**733**	**164**	**19**	–	**86**	–	**1,131**	**2,950**	**63%**
	FY2015	86	46	9	6	–	8	632	53	840	87%
M Fraser[9]	**FY2016**	**903**	**481**	**2**	**19**	–	**92**	–	**4,443**	**5,940**	**83%**
	FY2015	97	55	15	2	–	7	–	229	405	70%
TOTAL	**FY2016**	**4,049**	**2,824**	**212**	**76**	–	**425**	–	**11,334**	**18,920**	–
	FY2015	924	661	32	134	–	83	632	1,180	3,646	–

(1) STI is provided half in cash (which is included in the cash bonus column of the table) and half in deferred equity (which is included in the share-based payments column of the table). The value of the deferred equity portion is pro-rated over the vesting period.

(2) Non-monetary benefits are non-pensionable and include such items as relocation costs and personal tax assistance.

(3) Under his BHP Billiton contract, Mr Kerr was entitled to retirement benefits equal to 25 per cent of base salary up to 24 May 2015.

(4) Other long-term benefits is the accounting expense of annual and long-service leave accrued in FY2016.

(5) The cash settled equity award is the payment made to Mr Grimbeek on 25 June 2015 representing 49 per cent of his Replacement BHP Billiton awards. In total 289,605 Replacement BHP Billiton awards were settled in this manner.

(6) The amounts were not actually provided to the Executive KMP during FY2016. The figures are calculated in accordance with Australian Accounting Standards and are the amortised fair values of equity and equity-related instruments that have been granted to Executive KMP. Refer to Table 6.15 on page 116 in this report for information on awards outstanding during FY2016.

(7) For Mr Kerr, the FY2015 remuneration in the above table is separated into two periods being the BHP Billiton period (from 21 January 2015 to 24 May 2015) and the South32 period (25 May 2015 to 30 June 2015). During the BHP Billiton period, Mr Kerr's remuneration was specified in USD. The amounts relating to this period in the above table have been converted from USD to AUD using an average exchange rate for this period of USD 0.781 : AUD 1. For all other Executive KMP, the FY2015 remuneration is for the period 25 May 2015 to 30 June 2015.

(8) Mr Grimbeek and Mr Harris received payments of A$139,014 and A$134,164 respectively in June 2015 relating to services performed in the period from assuming their South32 role to 24 May 2015. These amounts are not included for FY2015 in the table above.

(9) Mr Fraser received a one-off relocation allowance of A$681,780 (with no trailing entitlements) in regard to his international relocation in June 2015. Mr Fraser's relocation occurred prior to 25 May 2015, the date he became an Executive KMP. The amount is not reflected for FY2015 in the table above.

Details of rights held by Executive KMP

The following table provides further information regarding the holdings of rights over South32 shares held by Executive KMP, including the movements in rights held during FY2016.

Table 6.15 – Details and movement of Rights over South32 shares held by Executive KMP during FY2016

Executive KMP	Award[(1)]	Conditions	Opening Balance	Grant Date	Fair Value per Right[(2)]	Granted in FY2016		Vested in FY2016		Forfeited or other change in FY2016		Closing balance	Anticipated vesting date
			Number		$	Number	$	Number[(3)]	%	Number	%	Number	
G Kerr			**5,899,101**			**4,060,231**	**2,887,206**	**221,856**	**88**	**30,253**	**12**	**9,707,223**	
	S32 FY2015 Deferred STI	Service only	–	10-Dec-15	1.14	1,057,718	1,205,799	–	–	–	–	1,057,718	Aug-17
	S32 FY2016 LTI	Service and performance	–	10-Dec-15	0.56	3,002,513	1,681,407	–	–	–	–	3,002,513	Aug-19
	Replacement BHP Billiton FY2013 Transitional GMC Award	Service and performance	504,218	25-May-15	2.22	–	–	221,856	88	30,253	12	252,109	Aug-16
	Replacement BHP Billiton FY2014 STI Award	Service only	616,461	25-May-15	2.25	–	–	–	–	–	–	616,461	Aug-16
	Replacement BHP Billiton FY2013 LTIP Award	Service and performance	1,532,870	25-May-15	0.89	–	–	–	–	–	–	1,532,870	Aug-17
	Replacement BHP Billiton FY2014 LTIP Award	Service and performance	1,581,485	25-May-15	0.95	–	–	–	–	–	–	1,581,485	Aug-18
	Replacement BHP Billiton FY2015 LTIP Award	Service and performance	1,664,067	25-May-15	1.12	–	–	–	–	–	–	1,664,067	Aug-19
B Harris			**420,145**			**1,654,771**	**1,055,744**	–	–	–	–	**2,074,916**	
	S32 FY2015 Deferred STI	Service only	–	10-Dec-15	1.14	246,814	281,368	–	–	–	–	246,814	Aug-17
	S32 FY2016 LTI	Service and performance	–	10-Dec-15	0.56	938,638	525,637	–	–	–	–	938,638	Aug-19
	FY2016 Transitional Performance Award	Service and performance	–	10-Dec-15	0.53	469,319	248,739	–	–	–	–	469,319	Aug-18
	Replacement BHP Billiton FY2014 MAP	Service only	150,559	25-May-15	2.19	–	–	–	–	–	–	150,559	Aug-16
	Replacement BHP Billiton FY2014 GSTIP	Service only	124,303	25-May-15	2.19	–	–	–	–	–	–	124,303	Aug-16
	Replacement BHP Billiton FY2015 MAP	Service only	145,283	25-May-15	2.14	–	–	–	–	–	–	145,283	Aug-17

Executive KMP	Award[1]	Conditions	Opening Balance	Grant Date	Fair Value per Right[2]	Granted in FY2016		Vested in FY2016		Forfeited or other change in FY2016		Closing balance	Anticipated vesting date
			Number		$	Number	$	Number[3]	%	Number	%	Number	
R Grimbeek			**301,426**			**2,190,979**	**1,359,264**	–	–	–	–	**2,492,405**	
	S32 FY2015 Deferred STI	Service only	–	10-Dec-15	1.14	261,399	297,995	–	–	–	–	261,399	Aug-17
	S32 FY2016 LTI	Service and performance	–	10-Dec-15	0.56	1,286,387	720,377	–	–	–	–	1,286,387	Aug-19
	FY2016 Transitional Performance Award	Service and performance	–	10-Dec-15	0.53	643,193	340,892	–	–	–	–	643,193	Aug-18
	Replacement BHP Billiton FY2014 MAP	Service only	102,641	25-May-15	2.19	–	–	–	–	–	–	102,641	Aug-16
	Replacement BHP Billiton FY2014 GSTIP	Service only	101,421	25-May-15	2.19	–	–	–	–	–	–	101,421	Aug-16
	Replacement BHP Billiton FY2015 MAP	Service only	97,364	25-May-15	2.14	–	–	–	–	–	–	97,364	Aug-17
M Fraser			**4,987,420**			**2,077,690**	**1,573,268**	–	–	–	–	**7,065,110**	
	S32 FY2015 Deferred STI	Service and performance	–	10-Dec-15	1.14	706,486	805,394	–	–	–	–	706,486	Aug-17
	S32 FY2016 LTI	Service and performance	–	10-Dec-15	0.56	1,371,204	767,874	–	–	–	–	1,371,204	Aug-19
	Replacement BHP Billiton FY2014 STI Award	Service only	401,964	25-May-15	2.25	–	–	–	–	–	–	401,964	Aug-16
	Replacement BHP Billiton FY2014 GSTIP	Service only	23,597	25-May-15	2.19	–	–	–	–	–	–	23,597	Aug-16
	Replacement BHP Billiton FY2014 Transitional GMC Award	Service and performance	437,690	25-May-15	2.16	–	–	–	–	–	–	437,690	½ Aug-16 ½ Aug-17
	FY2015 Transitional Performance Award	Service and performance	1,616,241	29-Jun-15	1.72	–	–	–	–	–	–	1,616,241	⅓ Aug-16 ⅓ Aug-17 ⅓ Aug-18
	Replacement BHP Billiton FY2014 LTIP Award	Service and performance	1,222,058	25-May-15	0.95	–	–	–	–	–	–	1,222,058	Aug-18
	Replacement BHP Billiton FY2015 LTIP Award	Service and performance	1,285,870	25-May-15	1.12	–	–	–	–	–	–	1,285,870	Aug-19

(1) Replacement awards refer to the BHP Billiton awards that were cancelled and replaced with South32 awards in FY2015. At the time of vesting, the quantum of awards that vest based on performance conditions will automatically convert to ordinary South32 shares for nil consideration in the participant's name. Any rights that do not vest will immediately lapse, hence there is no expiry date associated with the awards.

(2) The fair value at grant for the awards in the above table is the grant date fair value for accounting purposes. The fair value for the Replacement BHP Billiton Long-Term Incentive Awards, One-off Transitional LTI Awards and South32 Long Term Incentive Awards has been calculated using a Monte Carlo methodology. The fair value of all other awards has been calculated using a Black Scholes methodology. The closing share price was as follows: 25 May 2015 - A$2.32; 29 June 2015 - A$1.74; 10 December 2015 - A$1.02.

(3) Rights will convert to ordinary South32 shares for nil consideration as soon as practicable after the first non-prohibited period date occurring after the end of the performance period subject to the conditions for vesting being met. The expected vesting month is shown in the table.

Shareholdings of KMP

Table 6.16 – Shares of South32 held directly, indirectly or beneficially by each KMP, including their related parties

	Held at 30 June 2015	Received on vesting of rights	Received as remuneration	Other net change	Held at 30 June 2016
Non-Executive Directors					
D Crawford	39,127	–	–	331,500	370,627
F Cooper	–	–	–	122,866	122,866
P Kukielski(1)	–	–	–	72,500	72,500
X Mkhwanazi	–	–	–	28,887	28,887
N Mtoba	–	–	–	31,206	31,206
W Osborn	5,704	–	–	120,000	125,704
K Rumble	20,680	–	–	105,000	125,680
Executives					
G Kerr(2)	147,411	221,856	–	414	369,681
B Harris	27,700	–	–	–	27,700
R Grimbeek(2)	110,368	–	–	14,000	124,368
M Fraser	187,800	–	–	–	187,800

(1) Mr Kukielski holds 14,500 American Depositary Shares, representing an interest in 72,500 ordinary shares in South32 Limited.

(2) Other net change for Mr Kerr and Mr Grimbeek includes acquired South32 shares (as part of the demerger from BHP Billiton) which were not previously included in notified interests. Refer to 15 December 2015 ASX announcements.

Summary of BHP Billiton replacement and transitional awards

South32 made a number of awards to Executives in FY2015 under the South32 Equity Incentive Plan, to replace BHP Billiton awards that were cancelled or withheld in connection with the demerger (Replacement Awards). The Replacement Awards granted by South32 are of a similar value and made on similar terms (including service and performance conditions) to the BHP Billiton awards they replaced. However, performance and service conditions are linked to South32 instead of BHP Billiton for the period post-demerger.

Table 6.17 – Key Terms and Performance Conditions for the BHP Billiton Replacement and Transitional Awards

Award	Key Terms and Performance Conditions
Replacement LTIP Awards	**LTIP Performance Measure:** Awards are subject to Relative TSR over a 5-year vesting period, with reference to the Euromoney Global Mining Index (constrained) determining vesting of 67 per cent of the Rights and the MSCI World Index determining vesting of 33 per cent of the Rights. For the period up to 24 May 2015, BHP Billiton TSR relative to the BHP Billiton comparator groups apply. From 25 May 2015, South32 TSR relative to the South32 comparator groups (see page 108) will apply. **Vesting:** Vesting requires the TSR to equal or exceed the TSR of the relevant comparator index over the performance period: ■ If the Company TSR over the vesting period is below the comparator index, 0 per cent of the rights vest ■ If the Company TSR is equal to the TSR of the comparator index, 25 per cent of the rights vest ■ If the Company TSR exceeds the comparator index by 5.5 per cent per annum cumulative (outperformance), 100 per cent of rights vest ■ If the Company TSR is between the TSR of the comparator index and Outperformance, vesting will be on a straight line between 25 – 100 per cent **Dividends:** Dividend Equivalent Payments will be made for any rights that vest at the end of the vesting period.
Replacement Transitional Awards and FY2015 Transitional Award	In addition to the Service Condition, the South32 Board will determine, whether any, all or some of the rights will vest having regard to (but not limited to): ■ Sector TSR over the Performance Period ■ Group outcomes ■ Individual performance For the period up to 24 May 2015, BHP Billiton performance outcomes will apply. From 25 May 2015, South32 performance outcomes will apply. Any rights that do not vest will immediately lapse.
Replacement MAP, STI and GSTIP Awards	Service conditions apply, whereby the Executive KMP is required to remain employed by the company for the full vesting period of the award. **Dividends:** Dividend Equivalent Payments will be made for the Replacement STI rights only that vest at the end of the vesting period.

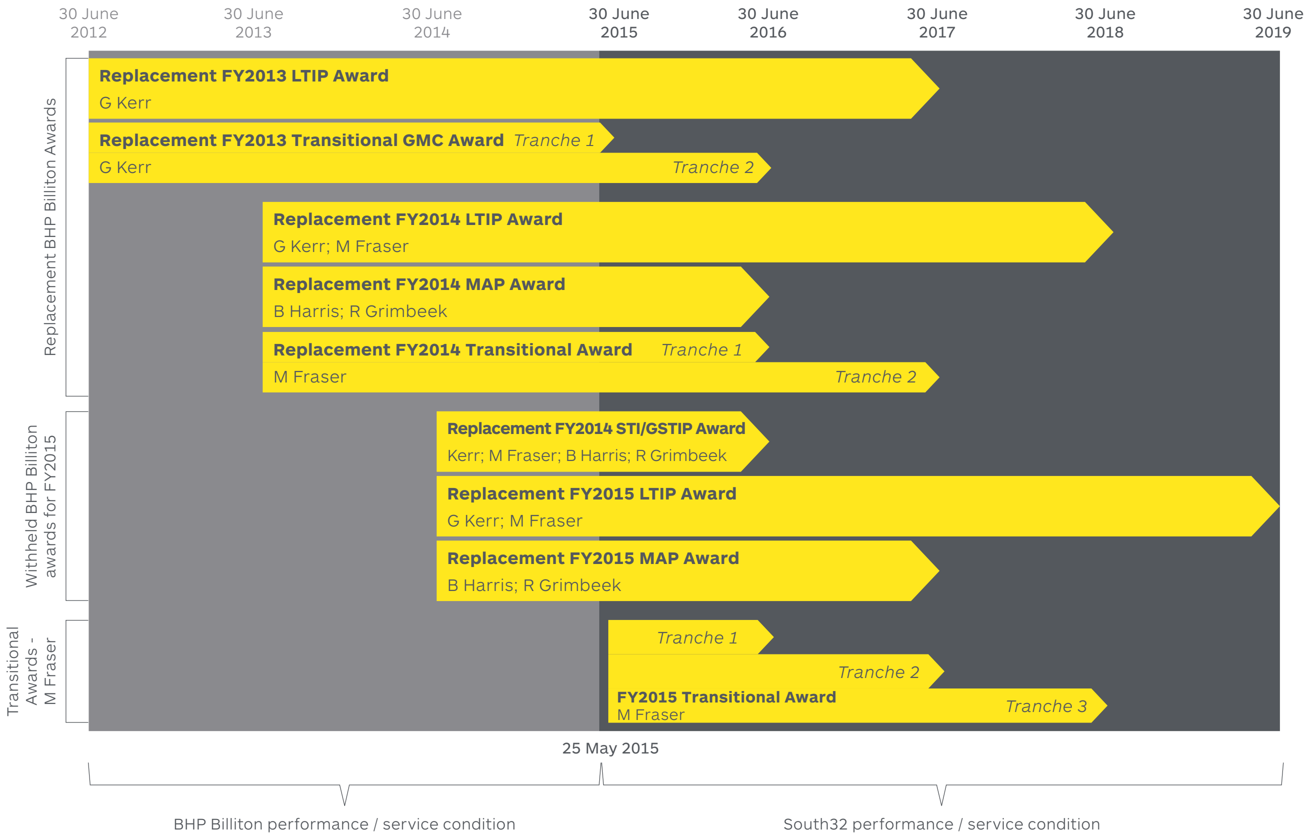
The granting of Replacement Awards is intended to support the transition to remuneration arrangements for Executive KMP that are aligned with South32 strategy. By granting Replacement Awards with performance conditions linked to South32 going forward, the transitional remuneration arrangements for Executives KMP will focus their attention on driving sustained South32 shareholder value creation.

As outlined in the Listing Document, South32 also granted Mike Fraser a transitional performance award under the EIP in order to bridge the gap between his target remuneration as a member of BHP Billiton's senior executive team and his remuneration at South32 for the first three years of his employment (Transitional Performance Award).

The diagram below illustrates the vesting periods for the Replacement Awards and Transitional Performance Awards. Further details of the replacement and transitional awards are outlined in the FY2015 Remuneration Report.

The diagram below illustrates the vesting periods for the Replacement Awards and Transitional Performance Awards.

Diagram 6.6 – BHP Billiton Replacement Awards



Awards will vest at the start of the first non-close period starting on or after 1 July in the relevant year. This is expected to be following the Company's results announcement in August of each year.

ADDITIONAL INFORMATION

Transactions with KMP

During FY2016, there were no transactions between KMP or their closely related parties and the South32 Group.

There are no amounts payable at 30 June 2016.

There are no loans with KMP.

A number of Directors of the Group hold or have held positions in other companies, where it is considered they control or influence the financial or operating policies of those entities. There have been no transactions with those entities and no amounts were owed by the South32 Group to personally related entities.

This Remuneration Report was approved by the Board on 6 September 2016.

DIRECTORS' REPORT

DIRECTORS' REPORT

The Directors present their report, together with the Consolidated Financial Report for the Group, for the financial year ended 30 June 2016.

The Directors' Report has been prepared in accordance with the requirements of the *Corporations Act 2001 (Cth)*. The information below forms part of this Directors' Report:

- Operating and Financial Review on pages 43 to 72
- Director biographical information on pages 13 to 15
- Remuneration Report on pages 97 to 119
- Notes 22, non-audit services and 25, employee share ownership plans to the financial statements
- Auditor's Independence Declaration on page 186
- Shareholder Information on pages 189 to 192
- Corporate Directory (inside back cover)

PRINCIPAL ACTIVITIES, STATE OF AFFAIRS AND REVIEW OF OPERATIONS

Principal Activities

The principal activities of the Group during FY2016 were mining and metal production from a portfolio of assets for the commodities of alumina, aluminium, bauxite, energy and metallurgical coal, manganese ore, manganese alloy, nickel, silver, lead and zinc.

There were no significant changes in the nature of the principal activities of the Group during the year.

State of affairs

There were no significant changes in the state of affairs of the Group during the year.

Review of operations

A review of the operations of the Group during FY2016, and the results of those operations, is set out in the Operating Financial Review on pages 43 to 72.

Matters since the end of the financial year

On 25 August 2016, the Directors resolved to pay a final dividend of US 1 cent per share (unfranked) for the year ended 30 June 2016 (record date 16 September 2016; payment date 6 October 2016).

The Directors are not aware of any other matter or circumstance that has arisen since 30 June 2016 up to the date of this Annual Report that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations or the Group's state of affairs in future financial years.

DIRECTORS AND MEETINGS

Our Directors in office as at the date of this report are:

David Crawford AO	Appointed 2 February 2015
Graham Kerr	Appointed 21 January 2015
Frank Cooper AO	Appointed 7 May 2015
Peter Kukielski	Appointed 7 May 2015
Xolani Mkhwanazi	Appointed 2 July 2015
Ntombifuthi (Futhi) Mtoba	Appointed 7 May 2015
Wayne Osborn	Appointed 7 May 2015
Keith Rumble	Appointed 27 February 2015

Further information about our current Directors is set out on pages 13 to 15 including qualifications, experience, special responsibilities and other directorships of each Director.

Board and Committee Meetings and Director Attendance

There are 10 scheduled Board meetings each year with additional meetings held as required. The number of Board and Committee meetings held during the financial year and the attendance of Directors at those meetings is provided in Table 7.1.

The Board meeting schedule provides for face-to-face Board and Committee meetings of two to three days duration seven times per year. During FY2016, three of these Board programmes were held in Australia, three in South Africa and one in Singapore. These were supplemented by teleconferences to deal with other business when necessary.

The Chairman, in conjunction with the CEO and the Company Secretary, sets the agenda for each meeting. The Board meeting agenda typically includes:

- Minutes of the previous meeting
- Matters arising
- Chairman's report
- CEO's report
- Finance report
- Marketing report
- Health, Safety and Environment and Community (HSEC) report
- Board Committee Chair reports
- Continuous disclosure checkpoint
- Reports on major projects and strategic matters
- Closed sessions with Directors only

Table 7.1 Board and Board Committee meeting attendance

Director	Board		Nomination & Governance Committee		Remuneration Committee		Risk and Audit Committee[1]		Sustainability Committee	
	Held[2]	Attended[3]	Held[2]	Attended[3]	Held[2]	Attended[3]	Held[2]	Attended[3]	Held[2]	Attended[3]
D Crawford[4]	10	10	6	6			10	9		
G Kerr (CEO)[4]	10	10								
F Cooper	10	10	6	6	6	6	10	10		
P Kukielski	10	9	6	6	6	6			7	7
X Mkhwanazi	10	10							6	6
N Mtoba	10	10	6	5			10	10		
W Osborn	10	10	6	6	6	6			7	6
K Rumble	10	10	6	6	6	6			7	7

Member   Chairman

(1) Risk and Audit Committee members also attended two Regional Risk and Audit Committees meetings during the year.
(2) "Held" indicates the number of meetings held during the period the Director was a member of the Board and/or Committee.
(3) "Attended" indicates the number of meetings attended during the period the Director was a member of the Board and/or Committee.
(4) The Chairman and CEO regularly attend all Committee meetings where appropriate.

REMUNERATION AND SHARE INTERESTS

Table 7.2 Directors' relevant interests in South32 Limited shares

Director	Number of shares in which a relevant interest is held as at the date of the Directors' Report
D Crawford	370,627
G Kerr[1]	9,633,175
F Cooper	122,866
P Kukielski[2]	72,500
X Mkhwanazi	28,887
N Mtoba	31,206
W Osborn	125,704
K Rumble	125,680

(1) At the date of this report, Mr Kerr's total interest includes 794,522 South32 ordinary shares and 8,838,653 Rights over South32 Limited ordinary shares held under the South32 Equity Incentive Plan.
(2) Mr Kukielski holds 14,500 American Depositary Shares, representing an interest in 72,500 ordinary shares in South32 Limited.

Rights and options over South32 Limited shares

No rights or options over shares in South32 Limited are held by any of the Non-Executive Directors. The Executive Director, Mr Graham Kerr, holds rights over South32 Limited shares that were granted under the South32 Equity Incentive Plan. Details of the rights granted to Mr Kerr and other Executive KMP are set out in the Remuneration Report from page 97. Note 25 "Employee share ownership plans" to the financial statements, on page 173, sets out the total number of rights over South32 Limited shares on issue as at 30 June 2016. The total number of rights over South32 Limited shares on issue as at the date of this Directors' Report is 71,907,188.

COMPANY SECRETARIES

Nicole Duncan BA (Hons), LLB, MAICD, FGIA, FCIS

Nicole Duncan is the Chief Legal Officer and Company Secretary of South32. Ms Duncan was appointed as Company Secretary on 21 January 2015. She previously held various legal and commercial roles with BHP Billiton, including Vice President, Company Secretariat, and Senior Manager Marketing Legal. Ms Duncan graduated from the Australian National University with a degree in Law and an Honours degree in History. For more information refer to page 16.

Sue Wilson LLB, BJuris, FGIA, FCIS, FAICD

Sue Wilson was Head of Secretariat of South32 until 1 July 2016. Ms Wilson was appointed a Company Secretary on 18 June 2015. She was previously General Counsel and Company Secretary at Bankwest and HBOS Australia and a partner of legal firm Parker & Parker (now part of Herbert Smith Freehills).

Ms Wilson is Pro Chancellor at Curtin University and Chairman of the WA Council of the Governance Institute of Australia (GIA).

Melanie Williams LLB, GCertCorpMgt

Melanie Williams is Head of Legal (Corporate) and Company Secretariat. She was appointed Company Secretary of South32 on 9 August 2016. Ms Williams was most recently Company Secretary and General Counsel at Tap Oil Limited. Ms Williams was previously Counsel with an international law firm, and has held legal and financial roles with Qatar Petroleum and Woodside Petroleum. She holds a Bachelor of Laws Degree from the University of Western Australia and a Graduate Certificate of Corporate Management, from Deakin University and the Finance and Treasury Association.

INDEMNITIES AND INSURANCE

We have a policy that we will, as a general rule, support and hold harmless Directors and employees, including employees appointed as Directors of a Group company, who incur personal liability to others (while acting in good faith) as a result of working for us, to the extent that we are able under law.

Rule 10.2 of the South32 Limited Constitution requires us to indemnify each Director and each Company Secretary on a full indemnity basis and to the extent permitted by law against liability incurred by them in their capacity as an Officer of any member of the Group. The Directors and the Company Secretaries named in this section of this Annual Report have the benefit of this indemnity (as do individuals who formerly held one of those positions).

As permitted by our Constitution, South32 Limited has entered into Deeds of Indemnity, Access and Insurance with each of our Directors, Company Secretaries and CFO. We have also insured against amounts that we may be liable to pay to Directors, Company Secretaries and Officers of the Company as defined within the *Corporations Act 2001 (Cth)* or that we otherwise agree to pay by way of indemnity. Our insurance policy also insures Directors, Company Secretaries and relevant employees against certain liabilities (including legal costs) they may incur in carrying out their duties for us. We paid premiums of US$625,000 for Directors' and Officers' insurance during FY2016 and up to the date of this Annual Report.

From time to time, we engage our External Auditor, KPMG, to conduct non-statutory audit work and provide other services in accordance with our policy on the provision of other services by the External Auditor. The terms of engagement typically include an indemnity in favour of KPMG:

- Against all liabilities incurred by KPMG in respect of third party claims arising from a breach of the engagement terms by the Group
- For all liabilities KPMG has to the Group or any third party as a result of reliance on information provided by the Group that is false, misleading or incomplete

No indemnity in favour of a current or former Director or Officer of South32, or in favour of the External Auditor, has been called on during FY2016 or as at the date of this Annual Report.

CORPORATE GOVERNANCE

The UK Financial Conduct Authority's Disclosure and Transparency Rules (DTR) require that certain information be included in a Corporate Governance Statement. For FY2016, South32 has adopted a practice of providing its Corporate Governance Statement as part of our Annual Report. A copy of the statement is available on our website at *www.south32.net*

The information required by Disclosure and Transparency Rules 7.2 is located from page 85 of this Annual Report.

AUDITOR

Our External Auditor, KPMG, has provided an independence declaration in accordance with the *Corporations Act 2001 (Cth).* The declaration is set out on page 185 and forms part of this report.

KPMG also provides South32 Limited with an independent assurance conclusion in respect of certain Sustainability information, in accordance with the International Standard on Assurance Engagements *ISAE 3000 Assurance Engagement other than the Audits and Reviews of Historical Financial Information* and *ISAE 3410 Assurance of Greenhouse Gas Statements.* A copy of KPMG's assurance report is on page 187.

NON-AUDIT SERVICES

Details of the non-audit services undertaken by, and amounts paid to, our External Auditor are detailed in Note 22 to the financial statements on page 166.

All non-audit services provided by our External Auditor were considered and approved in accordance with the process set out in South32's Provision of Non-Audit Services Policy, and no services were conducted in contravention of that policy.

The Directors have formed the view, based on advice from the Risk and Audit Committee, that the provision of non-audit services during FY2016 was compatible with, and did not compromise, the general standard of auditor independence for the following reasons:

- All non-audit services were subject to the corporate governance procedures and policies adopted by South32 and have been reviewed by the Risk and Audit Committee to ensure they do not affect the integrity and objectivity of the External Auditor
- The non-audit services provided do not involve reviewing or auditing the External Auditor's own work or acting in a management or decision-making capacity for South32

Visiting Illawarra Metallurgical Coal were (from left) South32 Head of Legal (Corporate) and Company Secretariat Melanie Williams, Board Members Peter Kukielski, Ntombifuthi (Futhi) Mtoba, (second right) Company Secretary Nicole Duncan and Director Xolani Mkhwanazi (right), with Samantha Knight and Tim Pratt.

POLITICAL DONATIONS AND COMMUNITY INVESTMENT

The South32 Code of Business Conduct sets out our approach to political donations and community investment.

We did not contribute funds to any politician, elected official or candidate for public office in any country during FY2016. South32 representatives attended political functions in Australia that charged an attendance fee. Attendance at these functions was approved in advance in accordance with our internal approval framework. Details of attendances and the relevant costs are recorded at a corporate level.

In FY2016, we contributed US$16.53 million for the purposes of supporting community programmes that comprised cash, in-kind support and administrative costs. For further information refer to page 31.

PROCEEDINGS ON BEHALF OF SOUTH32

No proceedings have been brought or intervened in on behalf of South32 Limited, nor any application made, under section 237 of the *Corporations Act 2001 (Cth)*.

ENVIRONMENTAL PERFORMANCE

Performance in relation to environmental regulation

We classify environmental incidents according to an internally agreed severity scale. An incident with a rating of four out of seven would be considered to have major impact/s to land, biodiversity, ecosystems, water resources or air, with effects lasting greater than one year. There were no significant environmental incidents reported at our operations in FY2016.

Fines and prosecutions

Hillside Aluminium has an agreement to receive and discharge water to Mhlathuze Water, which is listed as a statutory institution in terms of section (84)2 of the Water Services Act for South Africa. Mhlathuze Water has implemented a penalty system for non-compliance with this agreement. During FY2016, three fines to the total value of US$112 were levied against Hillside Aluminium for exceeding the discharge quality levels.

ROUNDING OF AMOUNTS

South32 Limited is a company to which Australian Securities and Investments Commission (ASIC) Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 applies and amounts in the Financial Statements and Directors' Report have been rounded off in accordance with the Instrument.

Responsibility Statement

The Directors state, that to the best of their knowledge:

a) The consolidated financial statements and notes that are set out on pages 125 to 183 prepared in accordance with applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit and loss of South32 and the undertakings included in the consolidation taken as a whole and

b) The Directors' Report includes a fair review of the development and performance of the business and the position of South32 and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face.

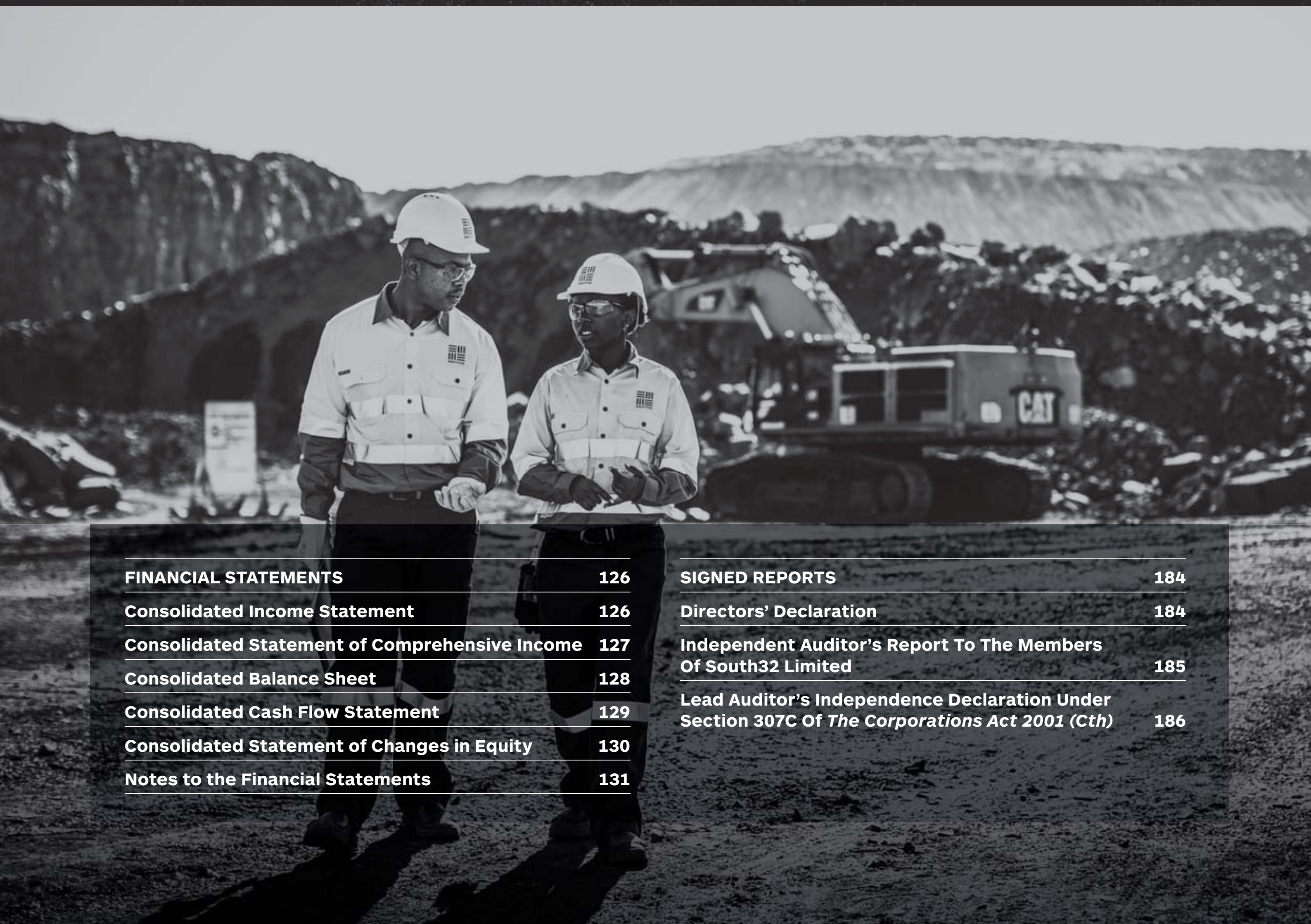
This Directors' Report is made in accordance with a resolution of the Board.

David Crawford AO
Chairman

Graham Kerr
Chief Executive Officer

Date: 6 September 2016

FINANCIAL REPORT



CONSOLIDATED INCOME STATEMENT

for the year ended 30 June 2016

US$M	Note	FY2016	FY2015
Continuing operations			
Revenue			
Group production		**5,227**	3,480
Third party products		**585**	363
		5,812	3,843
Other income	21	**324**	1,143
Expenses excluding net finance cost	6	**(7,247)**	(5,247)
Share of profit/(loss) of equity accounted investments	29	**(330)**	(70)
Profit/(loss) from continuing operations		**(1,441)**	(331)
Comprising:			
Group production		**(1,447)**	(338)
Third party products		**6**	7
Profit/(loss) from continuing operations		**(1,441)**	(331)
Finance expenses		**(132)**	(89)
Finance income		**28**	22
Net finance cost	18	**(104)**	(67)
Profit/(loss) before taxation		**(1,545)**	(398)
Income tax (expense)/benefit		**(70)**	(432)
Royalty-related taxation (net of income tax)		**–**	(96)
Total tax (expense)/benefit	7	**(70)**	(528)
Profit/(loss) after taxation from continuing operations		**(1,615)**	(926)
Discontinued operations			
Profit/(loss) from discontinued operations, net of taxation	4	**–**	7
Profit/(loss) for the year		**(1,615)**	(919)
Attributable to:			
Ordinary equity holders of South32 Limited		**(1,615)**	(919)
Profit/(loss) from continuing operations attributable to the ordinary equity holders of South32 Limited			
Basic earnings per ordinary share (cents)	8	**(30.3)**	(26.9)
Diluted earnings per ordinary share (cents)	8	**(30.3)**	(26.9)
Profit/(loss) for the year attributable to the ordinary equity holders of South32 Limited			
Basic earnings per ordinary share (cents)	8	**(30.3)**	(26.7)
Diluted earnings per ordinary share (cents)	8	**(30.3)**	(26.7)

The accompanying notes form part of the financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June 2016

US$M	Note	FY2016	FY2015
Profit/(loss) for the year		**(1,615)**	(919)
Other comprehensive income			
Items that may be reclassified subsequently to the income statement:			
Equity accounted investments – share of other comprehensive income/(loss)		**–**	–
Available for sale investments:			
Net gain/(loss) taken to equity	24	**(54)**	65
Net (gain)/loss transferred to the income statement		**23**	–
Taxation benefit/(expense) recognised within other comprehensive income	7, 24	**9**	(33)
Total items that may be reclassified subsequently to the income statement		**(22)**	32
Items not to be reclassified to the income statement:			
Equity accounted investments – share of other comprehensive income/(loss)		**1**	–
Actuarial gain/(loss) on pension and medical schemes	15, 23	**3**	3
Taxation benefit/(expense) recognised within other comprehensive income	7	**(1)**	(1)
Total items not to be reclassified to the income statement		**3**	2
Total other comprehensive income/(loss)		**(19)**	34
Total comprehensive income/(loss)		**(1,634)**	(885)
Attributable to:			
Ordinary equity holders of South32 Limited		**(1,634)**	(885)

The accompanying notes form part of the financial statements.

CONSOLIDATED BALANCE SHEET

as at 30 June 2016

US$M	Note	FY2016	FY2015
ASSETS			
Current assets			
Cash and cash equivalents	16	**1,225**	644
Trade and other receivables	9	**618**	1,162
Other financial assets	19	**32**	14
Inventories	10	**747**	953
Current tax assets		**61**	77
Other		**18**	18
Total current assets		**2,701**	2,868
Non-current assets			
Trade and other receivables	9	**445**	185
Other financial assets	19	**260**	417
Inventories	10	**55**	60
Property, plant and equipment	11	**8,651**	9,550
Intangible assets	12	**288**	306
Equity accounted investments	29	**570**	1,707
Deferred tax assets	7	**382**	376
Other		**22**	20
Total non-current assets		**10,673**	12,621
Total assets		**13,374**	15,489
LIABILITIES			
Current liabilities			
Trade and other payables	14	**676**	921
Interest bearing liabilities	17	**282**	364
Other financial liabilities	19	**1**	4
Current tax payable		**6**	11
Provisions	15	**408**	398
Deferred income		**4**	6
Total current liabilities		**1,377**	1,704
Non-current liabilities			
Trade and other payables	14	**5**	30
Interest bearing liabilities	17	**631**	682
Other financial liabilities	19	**16**	–
Deferred tax liabilities	7	**501**	554
Provisions	15	**1,410**	1,479
Deferred income		**12**	5
Total non-current liabilities		**2,575**	2,750
Total liabilities		**3,952**	4,454
Net assets		**9,422**	11,035
EQUITY			
Share capital	20	**14,958**	14,958
Treasury shares	20	**(3)**	-
Reserves	24	**(3,555)**	(3,557)
Retained earnings/(accumulated losses)		**(1,977)**	(365)
Total equity attributable to ordinary equity holders of South32 Limited		**9,423**	11,036
Non-controlling interests		**(1)**	(1)
Total equity		**9,422**	11,035

The accompanying notes form part of the financial statements.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 30 June 2016

US$M	Note	FY2016	FY2015
Operating activities			
Profit/(loss) before taxation from continuing operations		**(1,545)**	(398)
Adjustments for:			
Non-cash significant items		**(27)**	(921)
Depreciation and amortisation expense		**775**	477
Impairments of property, plant and equipment, financial assets, intangibles and equity accounted investments		**1,386**	1,389
Employee share awards expense		**23**	1
Net finance cost		**95**	67
Share of (profit)/loss of equity accounted investments		**330**	70
Other non-cash or non-operating items		**42**	90
Changes in assets and liabilities:			
Trade and other receivables		**163**	(327)
Inventories		**191**	85
Trade and other payables		**(244)**	161
Provisions and other liabilities		**(121)**	(29)
Cash generated from continuing operations		**1,068**	665
Interest received		**27**	23
Interest paid		**(46)**	(42)
Income tax (paid)/received		**(52)**	1
Dividends received		**14**	–
Dividends received from equity accounted investments		**19**	–
Net cash flows from continuing operating activities		**1,030**	647
Net cash flows from discontinued operating activities		**–**	23
Net cash flows from operating activities		**1,030**	670
Investing activities			
Purchases of property, plant and equipment		**(383)**	(454)
Exploration expenditure		**(13)**	(10)
Exploration expenditure expensed and included in operating cash flows		**9**	7
Purchase of intangibles		**(13)**	(9)
Investment in financial assets		**(53)**	(400)
Investment in subsidiaries, operations and joint operations, net of their cash as part of the BHP Billiton demerger		**–**	(12,734)
Investment in equity accounted investments		**(1)**	(1,565)
Cash outflows from investing activities		**(454)**	(15,165)
Proceeds from sale of financial assets, property, plant and equipment and intangibles		**112**	8
Proceeds from divestment of subsidiaries, operations and joint operations, net of their cash as part of the BHP Billiton demerger		**–**	171
Net cash flows from continuing investing activities		**(342)**	(14,986)
Net cash flows from discontinued investing activities		**–**	(9)
Net cash flows from investing activities		**(342)**	(14,995)
Financing activities			
Proceeds from interest bearing liabilities		**31**	72
Repayment of interest bearing liabilities		**(127)**	(6)
Proceeds from amounts received from BHP Billiton		**–**	1,224
Repayment of amounts owing to BHP Billiton		**–**	(831)
Purchase of shares by Employee Share Ownership Plan (ESOP) trusts		**(3)**	–
Proceeds from ordinary shares		**–**	14,397
Net cash flows from continuing financing activities		**(99)**	14,856
Net cash flows from financing activities		**(99)**	14,856
Net increase/(decrease) in cash and cash equivalents		**589**	531
Cash and cash equivalents, net of overdrafts, at the beginning of the financial year		**644**	145
Foreign currency exchange rate changes on cash and cash equivalents		**(8)**	(9)
Change in cash and cash equivalents on commencement of equity accounting		**–**	(23)
Cash and cash equivalents, net of overdrafts, at the end of the financial year	16	**1,225**	644

The accompanying notes form part of the financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2016

	Attributable to ordinary 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 2015	**14,958**	**–**	**(3,557)**	**(365)**	**11,036**	**(1)**	**11,035**
Profit/(loss) for the year	**–**	**–**	**–**	**(1,615)**	**(1,615)**	**–**	**(1,615)**
Other comprehensive income/(loss)	**–**	**–**	**(22)**	**3**	**(19)**	**–**	**(19)**
Total comprehensive income/(loss)	**–**	**–**	**(22)**	**(1,612)**	**(1,634)**	**–**	**(1,634)**
Transactions with owners:							
Accrued employee entitlement for unexercised awards	**–**	**–**	**24**	**–**	**24**	**–**	**24**
Purchase of shares by ESOP trusts	**–**	**(3)**	**–**	**–**	**(3)**	**–**	**(3)**
Balance as at 30 June 2016	**14,958**	**(3)**	**(3,555)**	**(1,977)**	**9,423**	**(1)**	**9,422**
Balance as at 1 July 2014	561	–	–	552	1,113	–	1,113
Profit/(loss) for the year	–	–	–	(919)	(919)	–	(919)
Other comprehensive income/(loss)	–	–	32	2	34	–	34
Total comprehensive income/(loss)	–	–	32	(917)	(885)	–	(885)
Transactions with owners:							
Proceeds from issue of shares	14,397	–	–	–	14,397	–	14,397
Accrued employee entitlement for unexercised awards	–	–	1	–	1	–	1
Acquisition and divestment of subsidiaries and operations	–	–	(3,569)	–	(3,569)	453	(3,116)
Disposal on change from control to joint control of South Africa Manganese and Samancor AG	–	–	–	–	–	(454)	(454)
Other movements	–	–	(21)	–	(21)	–	(21)
Balance as at 30 June 2015	14,958	–	(3,557)	(365)	11,036	(1)	11,035

The accompanying notes form part of the financial statements.

NOTES TO FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS – BASIS OF PREPARATION

This section sets out the accounting policies that relate to the financial statements of South32 Limited referred to as the "Company" and its subsidiaries and joint arrangements (collectively, the "South32 Group") as a whole. Where an accounting policy, critical accounting estimate, assumption and judgement is specific to a note, these are described within the note to which they relate. These policies have been consistently applied to all periods presented, except as described in note 3 New standards and interpretations.

The consolidated financial statements of the South32 Group for the year ended 30 June 2016 were authorised for issue in accordance with a resolution of the Directors on 6 September 2016.

1. Reporting entity

South32 Limited is a for-profit company limited by shares incorporated in Australia with a primary listing on the Australian Securities Exchange, a standard listing on the London Stock Exchange and a secondary listing on the Johannesburg Stock Exchange.

The nature of the operations and principal activities of the South32 Group are described in note 5 Segment information.

2. Basis of preparation

The consolidated financial statements are a general purpose financial report which:

- Have been prepared in accordance with the requirements of the *Corporations Act 2001 (Cth)*, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board (AASB), and International Financial Reporting Standards (IFRS) and other authoritative pronouncements of the International Accounting Standards Board (IASB)
- Have been prepared on a historical cost basis, except for derivative financial instruments and certain other financial assets and liabilities which are required to be measured at fair value
- Are presented in US dollars, which is the functional currency of the majority of the South32 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 year's presentation
- Adopt all new and amended Accounting Standards and Interpretations issued by the AASB that are relevant to the operations of the South32 Group and effective for reporting periods beginning on or after 1 July 2015. Refer to note 3 New standards and interpretations, for further details and
- Do not early adopt any Accounting Standards and Interpretations that have been issued or amended but are not yet effective except for those described in note 3 New standards and interpretations

NOTES TO FINANCIAL STATEMENTS – BASIS OF PREPARATION

2. Basis of preparation (continued)

(a) Basis of consolidation

The consolidated financial statements comprise the financial statements of the South32 Group. A list of significant controlled entities (subsidiaries) at year end is contained in note 28 Subsidiaries.

The financial statements of subsidiaries are prepared for the same reporting period as the parent entity, using consistent accounting policies.

Changes in the South32 Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

(b) Foreign currency translation

The functional currency of the majority of the South32 Group's operations is the US dollar as this is assessed to be the principal currency of the economic environments in which they operate.

Transactions denominated in foreign currencies are initially recorded in the functional currency using the exchange rate ruling at the date of the underlying transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange at year end. Exchange gains or losses on retranslation are included in the income statement, with the exception of foreign exchange gains or losses on foreign currency provisions for closure and rehabilitation which are capitalised in property, plant and equipment for operating sites.

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

	Average FY2016	Average FY2015	As at 30 June FY2016	As at 30 June FY2015
Australian dollar[1]	**0.73**	0.84	**0.74**	0.77
Brazilian real	**3.70**	2.68	**3.24**	3.14
Colombian peso	**3,060**	2,257	**2,916**	2,585
South African rand	**14.51**	11.45	**14.85**	12.28

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

3. New standards and interpretations

(a) New accounting standards and interpretations effective from 1 July 2015

The South32 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 2015. The affected policies and standards are:

AASB 2015-3 Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality

The removal of Australian guidance on materiality (AASB 1031 Materiality) from AASBs has resulted in the issue of the final amending standard to effect this withdrawal. Guidance on materiality is now located in AASB 101 Presentation of Financial Statements.

(b) New standards and interpretations

Certain new accounting standards and interpretations have been published that are not effective for the 30 June 2016 reporting period. The South32 Group's assessment of the impact of those new standards and interpretations considered relevant to the South32 Group is set out below. The South32 Group does not intend to early adopt any of the new standards or interpretations.

AASB 9 Financial Instruments (effective from 1 January 2018)

AASB 9 includes revised guidance on the classification and measurement of financial assets, including a new expected credit loss model for calculating impairment, and supplements the new general hedge accounting requirements. The South32 Group has not yet determined the extent of the impact of this standard.

AASB 15 Revenue from Contracts with Customers (effective from 1 January 2018)

AASB 15 establishes a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five step analysis of transactions to determine whether, how much and when revenue is recognised. The South32 Group has not yet determined the extent of the impact of this standard.

AASB 16 Leases (effective from 1 July 2019)

AASB 16 removes the classification of leases as either operating or finance leases resulting in the lessee effectively treating all leases as finance leases. Short term leases (less than 12 months) and leases of low value assets are exempt from the lease accounting requirements. Furthermore, there are changes in accounting over the life of the lease as a front-loaded pattern of expense will be recognised for most leases, even when a constant annual rental is paid. Lessor accounting remains similar to current practice. The South32 Group has not yet determined the extent of the impact of this standard.

NOTES TO FINANCIAL STATEMENTS – SOUTH32 LIMITED DEMERGER

4. South32 Limited demerger

Effective 15 May 2015, BHP Billiton shares ceased trading with an entitlement to South32 Limited shares. On 18 May 2015 South32 Limited was listed as a separate standalone entity on the Australian Securities Exchange on a deferred settlement basis, on the London Stock Exchange on a when-issued basis and on the Johannesburg Stock Exchange on a normal settlement basis. The demerger resulted in economic separation at the close of business London time on 22 May 2015 (being 23 May 2015 Melbourne time) with the settlement of intercompany balances between the South32 Group and the BHP Billiton Group. South32 Limited shares were transferred to eligible BHP Billiton Limited and BHP Billiton Plc shareholders on 24 May 2015 and 25 May 2015, respectively. Economic separation and distribution of South32 Limited shares to shareholders became effective from 25 May 2015.

Prior to the demerger, the South32 Group and BHP Billiton Group were required to undertake a number of internal share and asset transfers in connection with the corporate restructure ("Internal Restructure"). As a result of the Internal Restructure, several entities, assets and liabilities were transferred to the South32 Group and entities and assets and liabilities relating to the BHP Billiton Group were transferred out of the South32 Group during the year ended 30 June 2015. Under the Internal Restructure, the acquisition of the entities and net assets was for cash, which was funded through a share issue to BHP Billiton Limited.

The South32 Group has elected to account for the acquisition of the entities and net assets as common control transactions. As a consequence no acquisition accounting in the form of a purchase price allocation was undertaken and therefore the assets and liabilities have not been remeasured to fair value nor has any goodwill arisen. All the assets and liabilities acquired by the South32 Group as a result of the Internal Restructure were recognised at values consistent with the carrying value of those assets and liabilities in the BHP Billiton Group accounts immediately prior to the Internal Restructure. Certain deferred tax balances were subsequently adjusted in respect of those assets and liabilities acquired. The difference between the deemed consideration established under the Internal Restructure and the adjusted carrying value of the assets and liabilities acquired totalling US$3,569 million has been recognised in the common control transaction reserve.

As required for statutory reporting purposes, the comparative statutory financial information for the South32 Group only includes the results of the current South32 Group operations from the date of acquisition during the 2015 financial year under the Internal Restructure. The exception is Illawarra Metallurgical Coal which was part of the South32 Group at 1 July 2014. The South32 Group comparative statutory financial information also includes:

- The results of New Mexico Coal for the period from 1 July 2014 to 27 October 2014, being the date that it ceased to be part of the South32 Group as a result of the Internal Restructure and
- Finance charges on internal borrowings from the BHP Billiton Group in the period from 1 July 2014 and up to immediately prior to the demerger, that were settled as part of the demerger

(a) Businesses acquired

As part of the Internal Restructure undertaken by the South32 Group pursuant to the Separation Deed with the BHP Billiton Group in the 2015 financial year, several entities, assets and liabilities have been acquired and divested by the South32 Group. Details of the businesses acquired are included in note 28 Subsidiaries, note 29 Equity accounted investments, and note 30 Interests in joint operations.

The total carrying value of the assets and liabilities that were acquired by the South32 Group as part of the Internal Restructure that occurred prior to the demerger were as follows:

Carrying value of net assets acquired

US$M	2015
Cash and cash equivalents	269
Trade and other receivables	1,851
Other financial assets	522
Inventories	1,229
Current tax assets	52
Other	33
Property, plant and equipment	9,535
Intangible assets	404
Equity accounted investments	1,005
Deferred tax assets	707
Total assets	15,607
Trade and other payables	671
Interest bearing liabilities	961
Other financial liabilities	18
Current tax payable	32
Deferred tax liabilities	488
Provisions	2,011
Other liabilities	12
Total liabilities	4,193
Net assets acquired	11,414
Less net assets attributable to non-controlling interests	454
Net assets attributable to the ordinary equity holders of South32 Limited	10,960

(b) Business disposed

The business disposed of under the Internal Restructure, which occurred prior to the demerger, has been treated as a discontinued operation within this financial report. As a result of the Internal Restructure the New Mexico Coal operation was transferred to the BHP Billiton Group and resulted in the recognition of a loss on sale of US$42 million (tax impact: US$ nil) which was recorded directly in the common control transaction reserve.

NOTES TO FINANCIAL STATEMENTS – SOUTH32 LIMITED DEMERGER

4. South32 Limited demerger (continued)

(b) Business disposed (continued)

Results of New Mexico Coal

US$M	2015
Revenue - Group production	133
Other income	5
Expenses excluding net finance cost	(128)
Profit from operations	10
Finance expenses	–
Finance income	2
Net finance cost	2
Profit before taxation	12
Income tax expense	(5)
Total tax expense	(5)
Profit after taxation from discontinued operations attributable to the ordinary equity holders of South32 Limited	7
Profit per share from discontinued operations attributable to the ordinary equity holders of South32 Limited	
Basic earnings per ordinary share (US cents)	0.2
Diluted earnings per ordinary share (US cents)	0.2

Cash flows from/(used by) New Mexico Coal

US$M	2015
Operating cash flows	23
Investing cash flows	(9)
Net cash inflow/(outflow)	14

Carrying value of net assets derecognised

US$M	2015
Cash and cash equivalents	29
Trade and other receivables	268
Inventories	69
Current tax assets	1
Property, plant and equipment	323
Deferred tax assets	72
Other assets	9
Trade and other payables	(98)
Interest bearing liabilities	(1)
Deferred tax liabilities	(63)
Provisions	(351)
Deferred income	(16)
Net assets derecognised	242
Consideration received, satisfied in cash	200
Cash and cash equivalents disposed of	(29)
Net cash inflow	171

(c) Manganese operations

In contemplation of the demerger, BHP Billiton and Anglo American agreed to make certain changes to the agreement that governed their interests in the manganese operations (including South Africa Manganese, Australia Manganese and Samancor AG). The last of the approvals required for the new agreement was received on 2 March 2015. From that date BHP Billiton moved from control to joint control of the manganese operations. BHP Billiton discontinued consolidation of the manganese operations and accounted for its interest as an equity accounted joint venture.

The manganese operations were acquired by South32 Limited in two stages. South Africa Manganese and Samancor AG were acquired on 3 February 2015. Australia Manganese was acquired on 8 May 2015. For accounting purposes the South32 Group commenced equity accounting of South Africa Manganese and Samancor AG from 2 March 2015. The South32 Group derecognised the carrying amounts of all assets, liabilities and the non-controlling interest attributed to Anglo American and initially recorded its retained 60 per cent interest at fair value. At the date of acquisition of Australia Manganese, the Group's investment was recorded at carrying value.

NOTES TO FINANCIAL STATEMENTS – RESULTS FOR THE YEAR

This section focuses on the results and performance of the South32 Group. This covers both profitability and the resultant return to shareholders via earnings per share.

5. Segment information

(a) Description of segments

The operating segments (also referred to as "operations"), are organised and managed separately according to the nature of products produced. The members of the executive management team (the "chief operating decision maker") and the Board of Directors monitor the segment results regularly for the purpose of making decisions about resource allocation and performance assessment. The segment information for the manganese operations are presented on a proportional consolidation basis, which is the measure used by South32's management to assess their performance.

The principal activities of each operating segment as the South32 Group is currently structured are summarised as follows:

Operating segment	Principal activities
Worsley Alumina	Integrated bauxite mine and alumina refinery in Western Australia
South Africa Aluminium	Aluminium smelter in Richards Bay
Brazil Alumina	Alumina refinery in Brazil
Mozal Aluminium	Aluminium smelter in Mozambique
South Africa Energy Coal	Open-cut and underground energy coal mines and processing operations in South Africa
Illawarra Metallurgical Coal	Underground metallurgical coal mines in New South Wales
Australia Manganese	Integrated producer of manganese ore in the Northern Territory and manganese alloys in Tasmania
South Africa Manganese	Integrated producer of manganese ore and alloy in South Africa
Cerro Matoso	Integrated laterite ferronickel mining and smelting complex in Colombia
Cannington	Silver, lead and zinc mine in Queensland

All operations are operated or jointly operated by the South32 Group except Alumar (which forms part of 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, taxation and other earnings adjustment items including impairments. Underlying EBITDA is Underlying EBIT, before depreciation and amortisation. A reconciliation of Underlying EBIT, Underlying EBITDA and the South32 Group's consolidated profit after taxation from continuing operations is set out below. Segment revenue is measured on the same basis as in the consolidated income statement.

Revenue recognition

Revenue from the sale of goods and the disposal of other assets is recognised when persuasive evidence (usually in the form of an executed sales agreement) of an arrangement exists and:

- There has been a transfer of risks and rewards to the customer
- No further work or processing is required by the South32 Group
- The quantity and quality of the goods has been determined with reasonable accuracy
- The price is fixed or determinable and
- Collectability is reasonably assured

Revenue is therefore generally recognised when title passes. In the majority of sales for most commodities, sales agreements specify that title passes on the bill of lading date, which is the date the commodity is delivered to the shipping agent. For these sales, revenue is recognised on the bill of lading date. For certain sales (principally coal sales to adjoining power stations), title passes and revenue is recognised when the goods have been delivered.

In cases where the terms of the executed sales agreement allow for an adjustment to the sales price based on a survey of the goods by the customer (for instance an assay for mineral content), recognition of the sales revenue is based on the most recently determined estimate of product specifications.

For certain commodities, the sales price is determined on a provisional basis at the date of sale and adjustments to the sales price subsequently occurs based on movements in quoted market or contractual prices up to the date of final pricing. The period between provisional invoicing and final pricing is typically between 60 and 120 days. Revenue on provisionally priced sales is recognised based on the estimated fair value of the total consideration receivable. The revenue adjustment mechanism embedded within provisionally priced sales arrangements has the character of a commodity derivative. Accordingly, the fair value of the final sales price adjustment is re-estimated continuously and changes in fair value are recognised as an adjustment to revenue. In all cases, fair value is estimated by reference to forward market prices.

Revenue is not reduced for royalties and other taxes payable from group production.

The South32 Group separately discloses sales of group production from sales of third party products because of the significant difference in profit margin earned on these sales.

It is the South32 Group's policy that inter-segment transactions are made on a commercial basis.

Group and unallocated items/eliminations represent group centre functions and consolidation adjustments. Group financing (including finance expense and finance income) and income taxes are managed on a South32 Group basis and are not allocated to operating segments.

Total assets and liabilities for each operating segment represent operating assets and liabilities which predominately exclude the carrying amount of equity accounted investments, cash, interest bearing liabilities and tax balances. The carrying amount of investments accounted for using the equity method represents the balance of the South32 Group's investment in equity accounted investments, with no adjustment for cash, interest bearing liabilities and tax balances of the equity accounted investment.

NOTES TO FINANCIAL STATEMENTS – RESULTS FOR THE YEAR

5. Segment information (continued)

(b) Segment results (continued)

Year ended 30 June 2016 US$M	Worsley Alumina	South Africa Aluminium	Mozal Aluminium	Brazil Alumina	South Africa Energy Coal
Revenue					
Group production	542	1,161	431	323	1,009
Third party products[2]	–	–	–	–	–
Inter-segment revenue	469	–	–	23	–
Total revenue	**1,011**	**1,161**	**431**	**346**	**1,009**
Underlying EBITDA	**199**	**147**	**35**	**140**	**182**
Depreciation and amortisation	(157)	(65)	(35)	(62)	(87)
Underlying EBIT	**42**	**82**	**–**	**78**	**95**
Comprising:					
Group production	42	82	–	78	94
Third party products[2]	–	–	–	–	–
Share of profit/(loss) of equity accounted investments[3]	–	–	–	–	1
Underlying EBIT	**42**	**82**	**–**	**78**	**95**
Net finance cost					
Income tax (expense)/benefit					
Underlying earnings from continuing operations					
Earnings adjustments[4]					
Profit/(loss) after taxation					
Capital expenditure[5]	**44**	**19**	**7**	**12**	**63**
Equity accounted investments	**–**	**–**	**–**	**–**	**13**
Total assets[6]	**3,647**	**1,334**	**656**	**874**	**728**
Total liabilities[6]	**439**	**275**	**91**	**167**	**827**

(1) The segment information reflects South32's interest in the manganese operations and is presented on a proportional consolidation basis, which is the measure used by South32's management to assess their performance. The manganese operations are equity accounted in the consolidated financial statements. The statutory adjustment column reconciles the proportional consolidation to equity accounting position.

(2) Third party product sold comprise US$264 million for aluminium, US$59 million for alumina, US$72 million for coal, US$90 million for freight services and US$100 million for aluminium raw materials. Underlying EBIT on third party products comprise US$3 million for aluminium, (US$3) million for alumina, US$5 million for coal, US$1 million for freight services and US$ nil for aluminium raw materials.

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

(4) Refer to note 5(b)(i) Earnings adjustments.

(5) Capital expenditure excludes the purchase of intangibles and capitalised exploration expenditure.

(6) Total assets and liabilities for each operating segment represent operating assets and liabilities which predominately exclude the carrying amount of equity accounted investments, cash, interest bearing liabilities and tax balances.

Illawarra Metallurgical Coal	Australia Manganese[1]	South Africa Manganese[1]	Cerro Matoso	Cannington	Group and unallocated items/ elimination	Statutory adjustment[1]	Group
642	476	230	333	786	–	(706)	5,227
–	–	–	–	–	587	(2)	585
–	–	4	–	–	(492)	(4)	–
642	**476**	**234**	**333**	**786**	**95**	**(712)**	**5,812**
132	**154**	**(11)**	**2**	**330**	**(13)**	**(166)**	**1,131**
(193)	(89)	(36)	(90)	(56)	(30)	125	(775)
(61)	**65**	**(47)**	**(88)**	**274**	**(43)**	**(41)**	**356**
(60)	65	(47)	(88)	274	(49)	(18)	373
–	–	–	–	–	6	–	6
(1)	–	–	–	–	–	(23)	(23)
(61)	**65**	**(47)**	**(88)**	**274**	**(43)**	**(41)**	**356**
							(125)
							(93)
							138
							(1,753)
							(1,615)
185	**68**	**11**	**18**	**27**	**8**	**(79)**	**383**
–	**–**	**–**	**–**	**–**	**–**	**557**	**570**
1,745	**577**	**517**	**889**	**401**	**2,654**	**(648)**	**13,374**
229	**236**	**175**	**206**	**159**	**1,796**	**(648)**	**3,952**

NOTES TO FINANCIAL STATEMENTS – RESULTS FOR THE YEAR

5. Segment information (continued)

(b) Segment results (continued)

Year ended 30 June 2015 US$M	Worsley Alumina	South Africa Aluminium	Mozal Aluminium	Brazil Alumina	South Africa Energy Coal	Illawarra Metallurgical Coal
Revenue						
Group production	292	610	250	459	523	803
Third party products[3]	–	–	–	–	–	–
Inter-segment revenue	239	–	–	–	–	–
Total revenue	**531**	**610**	**250**	**459**	**523**	**803**
Underlying EBITDA	**67**	**91**	**21**	**240**	**165**	**156**
Depreciation and amortisation	(26)	(27)	(10)	(72)	(76)	(197)
Underlying EBIT	**41**	**64**	**11**	**168**	**89**	**(41)**
Comprising:						
Group production	41	64	11	168	89	(41)
Third party products[3]	–	–	–	–	–	–
Share of profit/(loss) of equity accounted investments[4]	–	–	–	–	–	–
Underlying EBIT	**41**	**64**	**11**	**168**	**89**	**(41)**
Underlying EBIT from discontinued operations						
Underlying EBIT from continuing operations						
Net finance cost						
Income tax (expense)/benefit						
Underlying earnings from continuing operations						
Earnings adjustments[5]						
Profit/(loss) after taxation from continuing operations						
Capital expenditure[6]	**15**	**23**	**6**	**7**	**29**	**308**
Equity accounted investments	**–**	**–**	**–**	**–**	**12**	**–**
Total assets[7]	**3,720**	**1,475**	**730**	**1,039**	**1,414**	**1,782**
Total liabilities[7]	**359**	**324**	**104**	**111**	**1,019**	**264**

(1) The New Mexico Coal segment was transferred from the South32 Group to the BHP Billiton Group as part of the demerger process. Refer to note 4 South32 Limited demerger for more details.

(2) The segment information reflects South32's interest in the manganese operations and is presented on a proportional consolidation basis, which is the measure used by South32's management to assess their performance. The manganese operations are equity accounted in the consolidated financial statements. The statutory adjustment column reconciles the proportional consolidation to equity accounting position.

(3) Third party product sold comprise US$141 million for aluminium, US$89 million for alumina, US$37 million for coal, US$40 million for freight services and US$56 million for aluminium raw materials. Underlying EBIT on third party products comprise (US$16) million for aluminium, US$19 million for alumina, US$4 million for coal, US$ nil for freight services and US$ nil for aluminium raw materials.

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

(5) Refer to note 5(b)(i) Earnings adjustments.

(6) 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 predominately exclude the carrying amount of equity accounted investments, cash, interest bearing liabilities and tax balances.

Australia Manganese[2]	South Africa Manganese[2]	Cerro Matoso	Cannington	New Mexico Coal[1] (discontinued)	Group and unallocated items/ elimination	Statutory adjustment[2]	Group
204	140	197	346	133	–	(344)	3,613
–	–	–	–	–	363	–	363
–	–	–	–	–	(239)	–	–
204	**140**	**197**	**346**	**133**	**124**	**(344)**	**3,976**
60	**(11)**	**17**	**137**	**22**	**(37)**	**(86)**	**842**
(27)	(33)	(40)	(22)	(12)	(5)	60	(487)
33	**(44)**	**(23)**	**115**	**10**	**(42)**	**(26)**	**355**
33	(44)	(23)	115	10	(49)	5	379
–	–	–	–	–	7	–	7
–	–	–	–	–	–	(31)	(31)
33	**(44)**	**(23)**	**115**	**10**	**(42)**	**(26)**	**355**
							(10)
							345
							(74)
							(192)
							79
							(1,005)
							(926)
22	**17**	**13**	**23**	**9**	**30**	**(39)**	**463**
–	**–**	**–**	**–**	**–**	**–**	**1,695**	**1,707**
1,649	**748**	**997**	**453**	**–**	**2,271**	**(789)**	**15,489**
265	**218**	**234**	**173**	**–**	**2,202**	**(819)**	**4,454**

NOTES TO FINANCIAL STATEMENTS – RESULTS FOR THE YEAR

5. Segment information (continued)

(b) Segment results (continued)

(i) Earnings adjustments

The following table shows earnings adjustments in determining Underlying earnings:

Earnings adjustments

US$M	FY2016	FY2015
Adjustments to Underlying EBIT		
Significant items[1]	**24**	(770)
Exchange rate (gains)/losses on restatement of monetary items[2]	**(43)**	(18)
Impairment losses[2][3]	**1,386**	1,389
Fair value gains on derivative instruments[2]	**60**	(12)
Major corporate restructures[2]	**63**	46
Impairment losses included in profit/(loss) of equity accounted investments[4][5]	**291**	–
Earnings adjustments included in profit/(loss) of equity accounted investments[5]	**16**	41
Total adjustments to Underlying EBIT	**1,797**	676
Adjustments to net finance cost		
Significant items[1]	**9**	–
Exchange rate variations on net debt	**(30)**	(7)
Total adjustments to net finance cost	**(21)**	(7)
Adjustments to income tax expense		
Significant items[1]	**31**	419
Tax effect of earnings adjustments to Underlying EBIT	**(187)**	(179)
Tax effect of earnings adjustments to net finance cost	**9**	2
Exchange rate variations on tax balances	**124**	94
Total adjustments to income tax expense	**(23)**	336
Total earnings adjustments	**1,753**	1,005

(1) Refer to note 5(b)(ii) Significant items.
(2) Recognised in “expenses excluding net finance cost” in the consolidated income statement.
(3) US$1,310 million (2015: US$1,389 million) relates to the impairment of non-financial assets. Refer to note 13 Impairment of non-financial assets.
(4) Refer to note 13 Impairment of non-financial assets.
(5) Recognised in “share of profit/(loss) of equity accounted investments” in the consolidated income statement.

Major corporate restructures

In February 2016 the South32 Group announced a number of major restructuring initiatives which included redundancy and related costs associated with a reduction in the number of employees and contractors across several operations. In the second half of the financial year additional major restructuring activities occurred within the functional support areas with further redundancy and related costs incurred.

NOTES TO FINANCIAL STATEMENTS – RESULTS FOR THE YEAR

5. Segment information (continued)

(b) Segment results (continued)

(i) Earnings adjustments (continued)

Impairments recognised

As a result of significant and continued weakening of commodity markets, the South32 Group recognised the following impairments and associated tax effect in the year ended 30 June 2016. The forecast weakening of commodity prices has also impacted the probability of generating longer term taxable income for certain operations and therefore resulted in the derecognition of specific deferred tax asset balances in the year ended 30 June 2016. An impairment at the Brazil Aluminium Smelter was as a result of the continued and indefinite suspension of smelting operations. The following table shows the categorisation of the amounts within earnings adjustments:

	Adjustments to Underlying EBIT				Adjustments to income tax expense	
Year ended 30 June 2016 **US$M**	**Impairments**	**Significant items**	**Earnings adjustments included in share of (profit)/ loss of equity accounted investments**	**Total**	**Significant items**	**Tax effect of earnings adjustments to Underlying EBIT**
Australia Manganese equity accounted investment[(1)(2)]	726	–	190	**916**	–	–
South Africa Manganese equity accounted investment[(1)(2)]	–	–	97	**97**	–	–
Manganese Marketing equity accounted investment[(1)(2)]	64	–	–	**64**	–	–
South Africa Energy Coal - Wolvekrans Middelburg Complex[(1)]	322	–	–	**322**	–	(89)
South Africa Energy Coal - Klipspruit[(1)]	120	–	–	**120**	–	(33)
Available for sale investments	76	–	–	**76**	–	(18)
South Africa Energy Coal deferred tax asset derecognition[(3)]	–	–	–	**–**	126	–
Brazil Aluminium Smelter[(1)(4)]	65	32	–	**97**	(11)	(22)
Other[(1)]	13	–	4	**17**	–	(2)
Total	**1,386**	**32**	**291**	**1,709**	**115**	**(164)**

(1) Refer to note 13 Impairment of non-financial assets.
(2) Refer to note 29 Equity accounted investments.
(3) Refer to note 7 Taxation.
(4) Refer to note 5(b)(ii) Significant items.

NOTES TO FINANCIAL STATEMENTS RESULTS FOR THE YEAR

5. Segment information (continued)

(b) Segment results (continued)

(ii) Significant items

Significant items are those items, not separately identified in note 5(b)(i) Earnings adjustments, where their nature and amount is considered material to the consolidated financial statements. Such items included within the South32 Group's (income)/expense for the year are detailed below:

Year ended 30 June 2016

US$M	Gross	Tax	Net
Set-up costs(1)	60	(17)	**43**
Adjustment to Australian tax balances post-demerger including reset of tax assets	–	(85)	**(85)**
Derecognition of deferred tax assets	–	126	**126**
Brazil Aluminium Smelter impairment(2)	32	(11)	**21**
Brazil Alumina tax accounting adjustments	–	20	**20**
Change in discount rate(3)	9	(1)	**8**
Closure and rehabilitation provisions(1)	(68)	(1)	**(69)**
Total significant items	**33**	**31**	**64**

(1) Recognised in "expenses excluding net finance cost" in the consolidated income statement. Refer to note 6 Expenses.

(2) Refer to note 5(b)(i) Earnings adjustments "Impairments recognised".

(3) Recognised in "net finance cost" in the consolidated income statement Refer to note 18 Net finance cost and note 15 Provisions.

Year ended 30 June 2015

US$M	Gross	Tax	Net
Set-up costs(1)	59	(17)	42
Adjustment to Australian tax balances post-demerger including reset of tax assets	–	221	221
Repeal of Minerals Resource Rent Tax Legislation	–	96	96
Fair value uplift on equity accounted investments(2)	(921)	–	(921)
Brazil Alumina tax accounting adjustments	–	103	103
Demerger related dividend withholding tax paid	–	16	16
Demerger related stamp duty paid(1)	92	–	92
Total significant items	**(770)**	**419**	**(351)**

(1) Recognised in "expenses excluding net finance cost" in the consolidated income statement. Refer to note 6 Expenses.

(2) Recognised in "other income" in the consolidated income statement. Refer to note 21 Other income.

Set-up costs

Set-up costs related to the ongoing establishment of the South32 Group's corporate and regional offices following the demerger. The costs primarily relate to transitionary contractor and consultant support, information technology infrastructure and system support. The amount recognised is inclusive of US$30 million (2015: US$12 million) paid to BHP Billiton under an agreement for information technology services. Those costs related to all operating segments. All remaining set-up costs relate to group and unallocated items.

Adjustment to Australian tax balances post-demerger including reset of tax assets

The tax basis of the South32 Group wholly owned Australian operations was reset on demerger from BHP Billiton. The net increase/(decrease) to tax assets is charged/(credited) to income tax expense in the consolidated income statement.

Derecognition of deferred tax assets

As a result of the significant and continued weakening of commodity markets, certain deferred tax assets associated with provisions for closure and rehabilitation were derecognised as utilisation is no longer probable.

Brazil Alumina tax accounting adjustments

The South32 Group's cash and profit repatriation practices result in a probable expectation that tax deferrals will ultimately unwind. This has resulted in the recognition of associated deferred tax balances at a rate closely aligned to the country statutory rate and the reassessment of future tax losses as a result of revised interpretation of the applicability of local tax laws.

Closure and rehabilitation provisions and Change in discount rate

Following a review of cash flow assumptions and discount rates, the South32 Group recognised a net decrease in closure and rehabilitation provisions of US$59 million. Where this related to closed sites, US$68 million was recognised as a benefit in expenses and US$9 million as a charge in net finance cost in the consolidated income statement. The benefit recognised in expenses included US$18 million related to South Africa Energy Coal and US$50 million related to the closed Bayside operation, formerly part of South Africa Aluminium.

Repeal of Minerals Resource Rent Tax Legislation

On 2 September 2014, legislation to repeal the Minerals Resource Rent Tax ("MRRT") in Australia received the support of both Houses of Parliament. The repeal took effect on 30 September 2014 and as a result, the South32 Group derecognised a MRRT deferred tax asset in relation to Illawarra Metallurgical Coal. The impact of this derecognition and all other MRRT related amounts resulted in an income tax expense of US$96 million.

Fair value uplift on equity accounted investments

South Africa Manganese and Samancor AG were acquired by South32 Limited on 3 February 2015. As a result of the renegotiation of the agreement between BHP Billiton and Anglo American on 2 March 2015, BHP Billiton Group moved from control to joint control of the manganese assets. The South32 Group derecognised the carrying amounts of all assets, liabilities and non-controlling interest attributed to Anglo American and recorded its retained 60 per cent interest at fair value. The uplift in fair value on the commencement of equity accounting was US$749 million for South Africa Manganese and US$172 million for Samancor AG (refer to note 4(c) Manganese operations).

NOTES TO FINANCIAL STATEMENTS RESULTS FOR THE YEAR

5. Segment information (continued)

(b) Segment results (continued)

(ii) Significant items (continued)

Demerger related dividend withholding tax paid

Dividend withholding tax incurred on repatriation of pre-demerger profits.

Demerger related stamp duty paid

Stamp duty paid by the South32 Group on the acquisition of Australia Manganese from the BHP Billiton Group as part of the demerger (refer to note 4 South32 Limited demerger).

(c) Geographical information

The geographical information below analyses the South32 Group revenue and non-current assets by location. Revenue is presented by the geographical location of customers and non-current assets are presented by the geographical location of the operations.

Revenue from external customers

US$M	FY2016	FY2015
Australia	**571**	379
Belgium	**170**	204
China	**251**	241
India	**248**	321
Italy	**254**	129
Japan	**370**	312
Middle East	**254**	174
Netherlands	**421**	184
North America	**199**	268
Other Asia	**155**	137
Rest of Europe	**323**	128
Singapore	**632**	352
South America	**–**	97
South Korea	**262**	140
Southern Africa	**907**	394
Switzerland	**559**	392
United Arab Emirates	**236**	124
Discontinued operations	**–**	(133)
Total revenue from continuing operations	**5,812**	3,843

Non-current assets

US$M	FY2016	FY2015
Australia	**5,933**	6,596
Southern Africa	**2,440**	3,313
South America	**1,505**	1,682
Rest of world	**154**	237
Unallocated assets[1]	**641**	793
Total non-current assets	**10,673**	12,621

(1) Unallocated assets primarily comprise deferred tax assets and other financial assets.

6. Expenses

US$M	Note	FY2016	FY2015
Changes in inventories of finished goods and work in progress		**84**	35
Raw materials and consumables used		**2,078**	1,472
Employee benefits expense[1]	6(a)	**948**	538
External services (including transportation)		**1,090**	691
Third party commodity purchases		**579**	356
Depreciation and amortisation	11,12	**775**	477
Net foreign exchange (gains)/ losses		**(43)**	(18)
Fair value (gain)/loss on derivatives		**60**	(12)
Government royalties paid and payable		**132**	107
Exploration and evaluation expenditure incurred and expensed in the current period		**9**	7
Impairment of property, plant and equipment	11,13	**514**	594
Impairment of goodwill and other intangible assets	12,13	**6**	25
Impairment of equity accounted investments	13,29	**790**	770
Impairment of available for sale financial assets		**76**	–
Operating lease rentals		**59**	33
Adjustment to closure and restoration provisions[2]	15	**(68)**	–
All other operating expenses		**158**	172
Total expenses		**7,247**	5,247

(1) Includes Underlying earnings adjustment of US$63 million (2015: US$46 million). Refer to note 5(b)(i) Earnings adjustments.

(2) Refer to note 5(b)(ii) Significant items.

(a) Employee benefits expense

US$M	Note	FY2016	FY2015
Wages, salaries and redundancies[1]		**850**	486
Employee share awards		**23**	10
Social security costs		**2**	2
Pensions and other post-retirement obligations[2]	23	**75**	41
		950	539
Less employee benefits expense classified as exploration and evaluation expenditure		**(2)**	(1)
Employee benefits expense		**948**	538

(1) Includes Underlying earnings adjustment of US$63 million (2015: US$46 million). Refer to note 5(b)(i) Earnings adjustments.

(2) Excludes the amounts for discontinued operations of US$ nil (2015: US$2 million).

NOTES TO FINANCIAL STATEMENTS – RESULTS FOR THE YEAR

7. Taxation

Income tax expense comprises current and deferred tax and is recognised in the consolidated income statement except to the extent that it relates to items recognised directly in consolidated other comprehensive income.

(a) Income tax expense

US$M	FY2016	FY2015
Current tax expense/(benefit)	**115**	156
Deferred tax expense/(benefit)	**(45)**	372
Total tax expense/(benefit) attributable to continuing operations	**70**	528
Australia	**(54)**	338
Southern Africa	**99**	(89)
Rest of world	**25**	279
Total tax expense/(benefit) attributable to the geographical jurisdiction	**70**	528

(i) Income tax expense/(benefit)

Income tax expense/(benefit) for the period is the tax payable on the current period's taxable income/(loss) based on the applicable income tax rate for each jurisdiction adjusted for changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses. Current tax is calculated using the tax rates enacted or substantively enacted at period end, and includes any adjustment to tax payable in respect of previous years.

(ii) Royalty taxation

Royalty taxes are treated as taxation arrangements when they have the characteristics of an income tax. This is considered to be the case when they are imposed under government authority and the amount payable is calculated by reference to revenue derived (net of any allowable deductions) after adjustment for temporary differences. For such arrangements, current and deferred tax is provided on the same basis as described below for other forms of taxation. Obligations arising from royalty arrangements that do not satisfy these criteria are recognised as current provisions and included in expenses.

(b) Reconciliation of prima facie tax expense to income tax expense

	FY2016		FY2015	
	%	US$M	%	US$M
(Profit)/loss before taxation from continuing operations		**1,545**		398
Tax on profit/(loss) at standard rate of 30 per cent	**(30.0)**	**(463)**	(30.0)	(119)
Tax rate differential on foreign income	**1.2**	**18**	2.3	9
Exchange variations and other translation adjustments	**8.0**	**124**	23.6	94
Tax effect of share of profit/(loss) of equity accounted investments	**6.2**	**96**	5.0	20
Withholding tax on distributed earnings	**0.3**	**5**	6.5	26
Adjustment to Australian tax balances post-demerger[1]	**(5.5)**	**(85)**	55.5	221
Brazil Alumina tax accounting adjustments[1]	**1.3**	**20**	25.9	103
Demerger related permanent differences	**–**	**–**	13.8	55
Non-deductible impairment expense	**14.5**	**224**	–	–
South Africa Energy Coal deferred tax asset derecognition[1]	**8.2**	**126**	–	–
Other	**0.3**	**5**	5.8	23
Income tax expense/(benefit)	**4.5**	**70**	108.4	432
Royalty-related taxation (net of income tax expense/(benefit))	**–**	**–**	24.2	96
Total tax expense/(benefit)	**4.5**	**70**	132.6	528

(1) Refer to note 5(b)(ii) Significant items.

NOTES TO FINANCIAL STATEMENTS – RESULTS FOR THE YEAR

7. Taxation (continued)

(c) Amounts recognised in consolidated other comprehensive income

US$M	FY2016	FY2015
Available for sale investments net valuation (gains)/losses taken to equity	**(9)**	33
Actuarial (gains)/losses on pension and medical schemes	**1**	1
Total income tax (benefit)/expense recognised within consolidated other comprehensive income	**(8)**	34

(d) Movement in deferred tax balances

The movement for the year in the South32 Group's net deferred tax position is as follows:

US$M	FY2016	FY2015
Net deferred tax (liability)/asset		
At the beginning of the financial year	**(178)**	32
Recognised in the consolidated income statement	**45**	(372)
Recognised in consolidated other comprehensive income	**8**	(34)
Acquisition of subsidiaries and operations[1]	**–**	219
Divestment of subsidiaries and operations[1]	**–**	(9)
Other movements	**6**	(14)
At the end of the financial year	**(119)**	(178)

(1) Refer to note 4 South32 Limited demerger.

The composition of the South32 Group's net deferred tax asset and liability recognised in the consolidated balance sheet and the deferred tax expense charged/(credited) to the consolidated income statement is as follows:

	Deferred tax assets		Deferred tax liabilities		Charged/(credited) to the consolidated income statement	
US$M	FY2016	FY2015	FY2016	FY2015	FY2016	FY2015
Type of temporary difference						
Depreciation	**321**	160	**(459)**	(506)	**205**	187
Employee benefits	**63**	73	**17**	21	**(13)**	2
Closure and rehabilitation	**90**	258	**31**	49	**(172)**	(5)
Resource rent tax	**–**	–	**–**	–	**–**	96
Other provisions	**22**	13	**21**	19	**9**	(9)
Deferred charges	**(181)**	(167)	**–**	–	**(13)**	3
Non tax-depreciable fair value adjustments, revaluations and mineral rights	**(124)**	(126)	**(85)**	(110)	**58**	43
Tax-effected losses	**49**	4	**97**	127	**15**	(72)
Brazil Alumina incentives[1]	**–**	–	**(99)**	(103)	**(1)**	103
Finance leases	**177**	201	**(1)**	–	**(25)**	–
Other	**(35)**	(40)	**(23)**	(51)	**(18)**	24
Total	**382**	376	**(501)**	(554)	**45**	372

(1) Refer to note 5(b)(ii) Significant items. Included in Brazil Alumina incentives is US$ nil (2015: US$87 million) that relates to prior periods.

NOTES TO FINANCIAL STATEMENTS – RESULTS FOR THE YEAR

7. Taxation (continued)

(d) Movement in deferred tax balances (continued)

Deferred tax is provided using the balance sheet liability method, providing for the tax effect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for tax assessment or deduction purposes. The tax effect of certain temporary differences is not recognised, principally with respect to:

- Temporary differences arising on the initial recognition of assets or liabilities (other than those arising in a business combination or in a manner that initially impacted accounting or taxable profit)
- Temporary differences relating to investments and undistributed earnings in subsidiaries, joint ventures and associates to the extent that the South32 Group is able to control its reversal and it is probable that it will not reverse in the foreseeable future and
- Goodwill

To the extent that an item's tax base is solely derived from the amount deductible under capital gains tax legislation, deferred tax is determined as if such amounts are not deductible in determining future assessable income.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each balance sheet date and amended to the extent that it is no longer probable that the related tax benefit will be realised. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the South32 Group has both the right and the intention to settle its current tax assets and liabilities on a net or simultaneous basis.

Key estimates, assumptions and judgements

Judgement is required in assessing whether deferred tax assets and certain deferred tax liabilities are recognised on the consolidated balance sheet. Deferred tax assets are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits. Deferred tax liabilities arising from temporary differences in investments, caused principally by retained earnings held in foreign taxation jurisdictions, are recognised unless repatriation of retained earnings can be controlled and are not expected to occur in the foreseeable future.

Assumptions about the generation of future taxable profits and repatriation of retained earnings depend on management's estimates of future cash flows. These depend on estimates of future production and sales volumes, commodity prices, reserves, operating costs, closure and rehabilitation costs, capital expenditure, dividends and other capital management transactions. Judgements are also required about the application of income tax legislation and its interaction with income tax accounting principles. These judgements and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and liabilities recognised and the amount of other tax losses and temporary differences not yet recognised. In such circumstances, some or the entire carrying amount of recognised deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to the consolidated income statement.

(e) Unrecognised deferred tax assets and liabilities

The composition of the South32 Group's unrecognised deferred tax assets and liabilities is as follows:

US$M	FY2016	FY2015
Unrecognised deferred tax assets		
Tax losses (i)	**25**	4
Other deductible temporary differences (ii)	**1,578**	1,271
Total unrecognised deferred tax assets	**1,603**	1,275
Unrecognised deferred tax liabilities		
Taxable temporary differences relating to investments in subsidiaries (iii)	**(43)**	(65)
Total unrecognised deferred tax liabilities	**(43)**	(65)

NOTES TO FINANCIAL STATEMENTS – RESULTS FOR THE YEAR

7. Taxation (continued)

(e) Unrecognised deferred tax assets and liabilities (continued)

(i) Tax losses

At 30 June 2016, the South32 Group had income and capital tax losses with a tax benefit of US$25 million (2015: US$4 million) which are not recognised as deferred tax assets. The South32 Group recognises the benefit of tax losses only to the extent of anticipated future taxable income or gains in relevant jurisdictions. The gross amount of tax losses carried forward that have not been tax effected expire as follows:

Year of expiry US$M	Australia	South Africa	Rest of world	Total
Income tax losses				
No expiry	–	–	–	–
Total income tax losses	**–**	**–**	**–**	**–**
Capital tax losses				
No expiry	83	–	–	83
Gross amount of tax losses not recognised	**83**	**–**	**–**	**83**
Tax effect of total losses not recognised	**25**	**–**	**–**	**25**

(ii) Other deductible temporary differences

At 30 June 2016, the South32 Group had deductible temporary differences for which deferred tax assets of US$1,578 million (2015: US$1,271 million) have not been recognised. The deductible temporary differences do not expire under current taxation legislation.

(iii) Taxable temporary differences associated with investments in subsidiaries

At 30 June 2016, deferred tax liabilities of US$43 million (2015: US$65 million) associated with undistributed earnings of subsidiaries have not been recognised.

(f) Tax consolidation

South32 Limited and its 100 per cent owned Australian resident subsidiaries have formed a tax consolidated group with effect from 25 May 2015. South32 Limited is the head entity of the tax consolidated group. Members of the group have entered into a taxation sharing agreement in order to allocate income tax expense to the wholly owned subsidiaries on a stand-alone basis. The taxation sharing arrangement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. The possibility of such a default is considered remote at the date of this report.

Members of the tax consolidated group have also entered into a taxation funding agreement. The group has applied the group allocation approach in determining the appropriate amount of current taxes to allocate to members of the tax consolidated group. The taxation funding agreement provides for each member of the tax consolidated group to pay or receive a tax equivalent amount to or from the head entity in accordance with their notional current tax liability or current tax asset. Such amounts are reflected in amounts receivable from or payable to the head entity in their accounts and are settled as soon as practicable after lodgement of the consolidated return and payment of the tax liability.

8. Earnings per share

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

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

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

Profit/(loss) attributable to ordinary equity holders US$M	FY2016	FY2015
Profit/(loss) attributable to ordinary equity holders of South32 Limited		
Continuing operations	**(1,615)**	(926)
Discontinued operations	**–**	7
Profit/(loss) attributable to ordinary equity holders of South32 Limited (basic)	**(1,615)**	(919)
Profit/(loss) attributable to ordinary equity holders of South32 Limited (diluted)	**(1,615)**	(919)

NOTES TO FINANCIAL STATEMENTS – RESULTS FOR THE YEAR

8. Earnings per share (continued)

Weighted average number of shares

Million	FY2016	FY2015
Basic earnings per ordinary share denominator[(1)(2)]	**5,324**	3,437
Shares and options contingently issuable under employee share ownership plans[(3)(4)]	**–**	–
Diluted earnings per ordinary share denominator	**5,324**	3,437

(1) The basic EPS denominator is the aggregate of the weighted average number of ordinary shares after deduction of the weighted average number of Treasury shares outstanding during the period.

(2) Due to the share split in May 2015, the number of ordinary shares outstanding during the year ended 30 June 2015 was retrospectively adjusted.

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

(4) Diluted EPS calculation excludes 74,710,141 (2015: 11,744,880) rights which are considered anti-dilutive and are subject to service and performance conditions.

Earnings per share

US cents	FY2016	FY2015
Earnings per share – continuing operations		
Basic earnings per ordinary share	**(30.3)**	(26.9)
Diluted earnings per ordinary share	**(30.3)**	(26.9)
Earnings per share – attributable to ordinary equity holders of South32 Limited		
Basic earnings per ordinary share	**(30.3)**	(26.7)
Diluted earnings per ordinary share	**(30.3)**	(26.7)

NOTES TO FINANCIAL STATEMENTS – OPERATING ASSETS AND LIABILITIES

This section shows the assets used to generate the South32 Group's trading performance and the liabilities incurred as a result. Liabilities relating to the South32 Group's financing activities are addressed in the capital structure and financing section, notes 16 to 20.

9. Trade and other receivables

US$M	FY2016	FY2015
Current		
Trade receivables[(1)]	**410**	554
Loans to equity accounted investments[(2)]	**17**	306
Interest bearing loans receivable	**2**	90
Other receivables	**189**	212
Total current trade and other receivables	**618**	1,162
Non-current		
Loans to equity accounted investments[(2)]	**335**	17
Interest bearing loans receivable from joint operations	**39**	58
Other receivables	**71**	110
Total non-current trade and other receivables	**445**	185

(1) There was no provision for doubtful debts as at 30 June 2016 (2015: US$ nil).

(2) Refer to note 32 Related party transactions.

Trade receivables generally have terms of up to 30 days. Trade and other receivables are recognised initially at fair value and subsequently at amortised cost using the effective interest rate method, less any provision for doubtful debts. A provision for doubtful debts is recognised in the consolidated income statement when there is objective evidence of non-collectability.

NOTES TO FINANCIAL STATEMENTS – OPERATING ASSETS AND LIABILITIES

10. Inventories

US$M		FY2016	FY2015
Current			
Raw materials and consumables	– at net realisable value[1]	**5**	31
	– at cost	**347**	443
		352	474
Work in progress	– at net realisable value[1]	**17**	9
	– at cost	**191**	229
		208	238
Finished goods	– at net realisable value[1]	**52**	115
	– at cost	**135**	126
		187	241
Total current inventories		**747**	953
Non-current			
Raw materials and consumables	– at cost	**18**	23
Work in progress	– at cost	**37**	37
Total non-current inventories		**55**	60

(1) Inventory write-downs of US$22 million (2015: US$1 million) were recognised during the year. Reversal of prior year inventory write-downs of US$7 million (2015: US$ nil) were recognised during the year.

Inventories, including work in progress, are valued at the lower of cost and net realisable value. Cost is determined primarily on the basis of average costs. For processed inventories, cost is derived on an absorption costing basis. Cost comprises the cost of purchasing raw materials and the cost of production, including attributable overheads. In respect of minerals inventory, quantities are assessed primarily through surveys and assays.

11. Property, plant and equipment

30 June 2016 US$M	Land and buildings	Plant and equipment	Other mineral assets	Assets under construction	Exploration and evaluation	Total
Cost						
At the beginning of the financial year	2,403	14,525	2,601	722	34	**20,285**
Additions[1]	1	147	107	251	4	**510**
Foreign exchange movements in closure and rehabilitation provisions[2]	–	(139)	–	–	–	**(139)**
Disposals	(3)	(114)	(181)	–	–	**(298)**
Transfers and other movements	221	508	40	(736)	(34)	**(1)**
At the end of the financial year	**2,622**	**14,927**	**2,567**	**237**	**4**	**20,357**
Accumulated depreciation and impairments						
At the beginning of the financial year	1,310	8,008	1,417	–	–	**10,735**
Depreciation charge for the year	107	526	116	–	–	**749**
Impairments for the year[3]	85	409	17	3	–	**514**
Disposals	(1)	(110)	(181)	–	–	**(292)**
Transfers and other movements	13	(32)	19	–	–	–
At the end of the financial year	**1,514**	**8,801**	**1,388**	**3**	**–**	**11,706**
Net book value at 30 June 2016[4][5]	**1,108**	**6,126**	**1,179**	**234**	**4**	**8,651**

(1) Additions of US$188 million (2015: US$ nil) relate to capitalised closure and rehabilitation amounts as a result of the change in discount rate, refer to note 15 Provisions.

(2) Refer to note 15 Provisions.

(3) Refer to note 13 Impairment of non-financial assets.

(4) During 2014, Mozal SARL joint operation repaid a bank loan which was secured by a US$20 million pledge over its assets. As at 30 June 2016, the pledge over the assets has not yet been released.

(5) Plant and equipment includes assets held under finance leases with a net book value of US$695 million (2015: US$728 million).

NOTES TO FINANCIAL STATEMENTS – OPERATING ASSETS AND LIABILITIES

11. Property, plant and equipment (continued)

30 June 2015 US$M	Land and buildings	Plant and equipment	Other mineral assets	Assets under construction	Exploration and evaluation	Total
Cost						
At the beginning of the financial year	236	1,800	998	377	–	3,411
Additions	–	36	122	268	3	429
Foreign exchange movements in closure and rehabilitation provisions	–	(77)	–	–	–	(77)
Disposals	(10)	(209)	(32)	–	–	(251)
Acquisitions of subsidiaries and operations	2,521	14,111	1,914	395	31	18,972
Divestment of subsidiaries and operations	(140)	(593)	(170)	(15)	–	(918)
Disposal on change from control to joint control of South Africa Manganese and Samancor AG	(201)	(776)	(231)	(73)	–	(1,281)
Transfers and other movements	(3)	233	–	(230)	–	–
At the end of the financial year	2,403	14,525	2,601	722	34	20,285
Accumulated depreciation and impairments						
At the beginning of the financial year	109	918	443	–	–	1,470
Depreciation charge for the year(1)	56	332	97	–	–	485
Impairments for the year	106	478	10	–	–	594
Disposals	(9)	(199)	(31)	–	–	(239)
Acquisitions of subsidiaries and operations	1,213	7,157	1,067	–	–	9,437
Divestment of subsidiaries and operations	(94)	(342)	(159)	–	–	(595)
Disposal on change from control to joint control of South Africa Manganese and Samancor AG	(71)	(336)	(10)	–	–	(417)
At the end of the financial year	1,310	8,008	1,417	–	–	10,735
Net book value at 30 June 2015	1,093	6,517	1,184	722	34	9,550

(1) Includes US$12 million of depreciation related to discontinued operations.

NOTES TO FINANCIAL STATEMENTS – OPERATING ASSETS AND LIABILITIES

11. Property, plant and equipment (continued)

(a) Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and impairment charges. Cost is the fair value of consideration given to acquire the asset at the time of its acquisition or construction and includes the direct cost of bringing the asset to the location and condition necessary for operation and its estimated future cost of closure and rehabilitation.

Finance leases

Assets held under lease, which result in the South32 Group receiving substantially all the risks and rewards of ownership of the asset (finance leases), are capitalised at the lower of the fair value of the property, plant and equipment or the estimated present value of the minimum lease payments.

The corresponding finance lease obligation is included within interest bearing liabilities. The interest component is charged to financial expenses over the lease term to reflect a constant rate of interest on the remaining balance of the obligation.

Leased assets are pledged as security for the related finance lease and hire purchase liabilities.

(b) Assets under construction

All assets included in assets under construction are reclassified to other categories in property, plant and equipment when the asset is available and ready for use in the location and condition necessary for it to be capable of operating in the manner intended.

(c) Exploration and evaluation expenditure

Exploration and evaluation expenditure (including amortisation of capitalised licence and lease costs) is charged to the consolidated income statement as incurred except in the following circumstances, in which case the expenditure may be capitalised where:

- The exploration and evaluation activity is within an area of interest which was previously acquired as an asset acquisition or in a business combination and measured at fair value on acquisition or
- The existence of a commercially viable mineral deposit has been established

Capitalised exploration and evaluation expenditure considered to be a tangible asset is recorded as a component of property, plant and equipment at cost less impairment charges. Otherwise, it is recorded as an intangible asset (such as certain licence and lease arrangements). In determining whether the purchase of an exploration licence or lease is an intangible asset or a component of property, plant and equipment, consideration is given to the substance of the item acquired and not its legal form. Licences or leases purchased which allow exploration over an extended period of time meet the definition of an intangible exploration lease asset where they cannot be reasonably associated with a known minerals resource.

(d) Other mineral assets

Other mineral assets comprise:

- Capitalised exploration, evaluation and development expenditure (including development stripping) for properties now in production
- Mineral rights acquired and
- Capitalised production stripping (as described below in 'overburden removal costs')

Overburden removal costs

The process of removing overburden and other mine waste materials to access mineral deposits is referred to as stripping. In open-pit mining, stripping costs are accounted for separately for each component of an ore body. A component is a specific section within an ore body that is made more accessible by the stripping activity. The identification of components is dependent on the mine plan and will often comprise a separate pushback or phase identified in the plan.

There are two types of stripping activity:

- Development stripping is the initial overburden removal during the development phase to obtain access to a mineral deposit that will be commercially produced and
- Production stripping is the interburden removal during the normal course of production activity. Production stripping commences after the first saleable minerals have been extracted from the component

Development stripping costs are capitalised as a development stripping asset when:

- It is probable that future economic benefits associated with the asset will flow to the entity and
- The costs can be measured reliably

Production stripping can give rise to two benefits, being the extraction of ore in the current period and improved access to the ore body component in future periods. To the extent that the benefit is the extraction of ore, the stripping costs are recognised as an inventory cost. To the extent the benefit is improved access to future ore, the stripping costs are recognised as a production stripping asset if the following criteria are met:

- It is probable that the future economic benefit (improved access to ore) will flow to the entity
- The component of the ore body for which access has been improved can be identified and
- The costs relating to the stripping activity can be measured reliably

Production stripping costs are allocated between the inventory produced and the production stripping asset using a life-of-component waste to ore (or mineral contained) strip ratio. When the current strip ratio is greater than the life-of-component ratio a portion of the stripping costs is capitalised to the production stripping asset.

The development and production stripping assets are depreciated on a units of production basis based on the proven and probable reserves of the relevant components.

NOTES TO FINANCIAL STATEMENTS – OPERATING ASSETS AND LIABILITIES

11. Property, plant and equipment (continued)

(e) Depreciation and amortisation

The carrying amounts of property, plant and equipment are depreciated to their estimated residual value over the estimated useful lives of the specific assets concerned, or the estimated life of the associated mine or lease, if shorter. Estimates of residual values and useful lives are reassessed annually and any change in estimate is taken into account in the determination of remaining depreciation charges. Depreciation commences on the date of commissioning. The major categories of property, plant and equipment are depreciated on a unit of production and/or straight-line basis using estimated lives indicated below. However, where assets are dedicated to a mine or lease and are not readily transferable, the below useful lives are subject to the lesser of the asset category's useful life and the life of the mine or lease:

Buildings	–	25 to 50 years
Land	–	not depreciated
Plant and equipment	–	3 to 30 years straight-line
Mineral rights	–	based on reserves on a unit of production basis
Capitalised exploration, evaluation and development expenditure	–	based on reserves on a unit of production basis

12. Intangible assets

30 June 2016 US$M	Goodwill	Other intangibles	Total
Cost			
At the beginning of the financial year	193	243	**436**
Additions	–	13	**13**
Transfers and other movements	–	1	**1**
At the end of the financial year	**193**	**257**	**450**
Accumulated amortisation and impairments			
At the beginning of the financial year	48	82	**130**
Amortisation charge for the year	–	26	**26**
Impairments for the year	6	–	**6**
At the end of the financial year	**54**	**108**	**162**
Net book value at 30 June 2016	**139**	**149**	**288**

30 June 2015 US$M	Goodwill	Other intangibles	Total
Cost			
At the beginning of the financial year	–	–	**–**
Additions	–	9	**9**
Disposals	–	(5)	**(5)**
Acquisitions of subsidiaries and operations	266	239	**505**
Disposal on change from control to joint control of South Africa Manganese and Samancor AG	(73)	–	**(73)**
At the end of the financial year	**193**	**243**	**436**
Accumulated amortisation and impairments			
At the beginning of the financial year	–	–	**–**
Amortisation charge for the year	–	4	**4**
Impairments for the year	–	25	**25**
Acquisitions of subsidiaries and operations	48	53	**101**
At the end of the financial year	**48**	**82**	**130**
Net book value at 30 June 2015	**145**	**161**	**306**

NOTES TO FINANCIAL STATEMENTS – OPERATING ASSETS AND LIABILITIES

12. Intangible assets (continued)

(a) Goodwill

Where the fair value of consideration paid for a business combination exceeds the fair value of the South32 Group's share of the identifiable net assets acquired, the difference is treated as purchased goodwill. Where the fair value of the South32 Group's share of the identifiable net assets acquired exceeds the cost of acquisition, the difference is immediately recognised in the consolidated income statement. Goodwill is not amortised, however, its carrying amount is assessed annually against its recoverable amount.

(b) Other intangible assets

Amounts paid for the acquisition of identifiable intangible assets, such as software and licences, are capitalised at the fair value of consideration paid and are recorded at cost less accumulated amortisation and impairment charges. Identifiable intangible assets with a finite life are amortised on a straight-line basis over their expected useful life. The useful life is as follows:

Software and licences – 5 years

The South32 Group has no identifiable intangible assets for which the expected useful life is indefinite.

13. Impairment of non-financial assets

The South32 Group recorded the following impairments for the year ended 30 June 2016:

US$M	Note	FY2016	FY2015
Property, plant and equipment	6,11	**514**	594
Goodwill and intangible assets	6,12	**6**	25
Investments accounted for using the equity method	6,29	**790**	770
Other[1]		**32**	–
Total impairment included in expenses		**1,342**	1,389
Impairment losses included in profit/(loss) of equity accounted investments	29	**291**	–
Total impairment		**1,633**	1,389

(1) Relates to Brazil Aluminium Smelter.

(a) Recognised impairment – 30 June 2016

During the year the following significant impairments were recognised:

(i) Wolvekrans Middelburg Complex

The South32 Group recognised an impairment of assets at its Wolvekrans Middelburg Complex cash generating unit (WMC CGU) of US$322 million as a result of changes in the macro-economic environment, primarily driven by lower forecast coal pricing assumptions. The WMC CGU consists of the Wolvekrans and Middelburg opencast collieries of South Africa Energy Coal. The recoverable amount of the WMC CGU was determined as -US$57 million based on its fair value less cost of disposal ("FVLCD") at the time of impairment.

(ii) Klipspruit Colliery

The South32 Group recognised an impairment of assets at its Klipspruit Colliery cash generating unit (Klipspruit CGU) of US$120 million as a result of changes in the macro-economic environment, primarily driven by lower forecast coal pricing assumptions. The Klipspruit CGU consists of the Klipspruit opencast colliery of South Africa Energy Coal. The recoverable amount of the Klipspruit CGU was determined as US$77 million based on its FVLCD at the time of impairment.

(iii) Brazil Aluminium Smelter

The South32 Group recognised an impairment of assets at its Brazil Aluminium Smelter cash generating unit (Brazil Smelter CGU) of US$97 million (including US$32 million relating to smelter consumables and indirect tax assets) as a result of the likelihood of restarting smelting operations. The Brazil Smelter CGU consists of the Alumar aluminium smelter. The recoverable amount of the Brazil Smelter CGU was determined as -US$11 million based on its FVLCD at the time of impairment.

(iv) Manganese Marketing

The South32 Group recognised an impairment of the fair value uplift in respect of its equity accounted investment in Manganese Marketing of US$64 million as a result of the continued decline in manganese ore and alloy prices. The Manganese Marketing CGU holds the marketing and distribution business for the South Africa Manganese and the Australia Manganese CGUs' export market products. The recoverable amount of the equity accounted investment was determined as US$81 million being its FVLCD at the time of impairment.

(v) Australia Manganese

The South32 Group recognised an impairment of its equity accounted investment in Australia Manganese of US$916 million as a result of the continued decline in manganese ore and alloy prices. This resulted in a full impairment of the remaining fair value uplift of US$726 million and impairment of the Group's share of after tax underlying assets of US$190 million. The Australia Manganese CGU consists of the Groote Eylandt Mining Company (GEMCO), a manganese mining operation and the Tasmanian Electro Metallurgical Company (TEMCO) manganese alloy plant. The recoverable amount of the equity accounted investment was determined as US$376 million being its FVLCD at the time of impairment.

(vi) South Africa Manganese

The South32 Group recognised an impairment of the Group's share of after tax underlying assets of US$97 million as a result of the continued decline in manganese ore and alloy prices. The South Africa Manganese CGU consists of the Wessels underground mine, Mamatwan open pit mine and the Metalloys smelter. The recoverable amount of the equity accounted investment was determined as US$321 million being its FVLCD at the time of impairment.

(b) Recognised impairment – 30 June 2015

During the prior year the following significant impairments were recognised:

(i) Wolvekrans Middelburg Complex

The South32 Group recognised an impairment of assets at its WMC CGU of US$551 million as a result of changes in the macro-economic environment, primarily driven by lower forecast coal pricing assumptions. The recoverable amount of the WMC CGU was determined as US$282 million based on its FVLCD at the time of impairment.

(ii) South Africa Manganese

The South32 Group recognised an impairment of the full fair value uplift in respect of its equity accounted investment in South Africa Manganese of US$740 million as a result of the continued decline in manganese ore and alloy prices. The recoverable amount of the equity accounted investment was determined as US$485 million being its FVLCD at the time of impairment.

NOTES TO FINANCIAL STATEMENTS – OPERATING ASSETS AND LIABILITIES

13. Impairment of non-financial assets (continued)

(c) Basis of fair value measurements

The fair value measurement is categorised as a Level 3 fair value based on the inputs in the valuation technique (refer to note 19 Financial assets and financial liabilities). In determining the FVLCD a real post tax discount rate of 8.5 per cent, and a country risk premium of up to 2 per cent, were applied to the post tax cash flows expressed in real terms. The key assumptions used for commodity prices are comparable to market consensus forecasts, and foreign exchange rates are aligned with forward market rates.

(d) Impairment test for CGUs containing goodwill

Formal impairment tests are carried out annually for goodwill. For the purpose of impairment testing, goodwill has been allocated to CGUs that are expected to benefit from the synergies of the business combination and which represent the level at which management will monitor and manage the goodwill.

The carrying amount of goodwill has been allocated to the following CGUs:

US$M	Note	FY2016	FY2015
South Africa Aluminium		**139**	139
South Africa Energy Coal		**–**	6
Total goodwill	12	**139**	145

(i) South Africa Aluminium

The goodwill arose from the acquisition of Alusaf in Hillside Aluminium (Pty) Ltd and has been allocated to the South Africa Aluminium CGU which comprises the Hillside Aluminium Smelter. The recoverable amount of the South Africa Aluminium CGU was determined based on FVLCD. The determination of FVLCD was most sensitive to:

- Production volumes
- Aluminium prices
- Exchange rates and
- Discount rate

Production volumes – estimated production volumes are based on the life of the smelter as determined by management as part of the long-term planning process. Production volumes are influenced by production input costs such as electricity prices and the selling price of aluminium.

Aluminium prices and exchange rates – key assumptions for aluminium prices were derived from forward price curves with long-term views of global supply and demand, together with past management experience of the industry. Aluminium prices are comparable to market consensus forecasts, and foreign exchange rates are aligned with forward market rates.

The aluminium prices and exchange rates used in the FVLCD determination were reasonable when compared with the following range of prices published by market commentators:

	FY2016	FY2015
Aluminium price (US$/tonne)	1,350 to 2,270	1,801 to 2,502
Exchange rate (ZAR to US$)	13.55 to 19.88	11.64 to 17.78

Discount rate – in determining the FVLCD, a real post-tax discount rate of 8.5 per cent and a country risk premium of up to 2 per cent, was applied to the post tax cash flows expressed in real terms.

The impairment test for the South Africa Aluminium CGU indicated that no impairment or reversal of prior impairments was required. The table below shows the key assumptions used in the FVLCD as well as the amount by which key assumptions must change in isolation (from the mid-point of the range) in order for the estimated recoverable amount to be equal to the carrying amount of the South Africa Aluminium CGU, including goodwill. Owing to the complexity of the analysis caused by relationships between each key assumption, such that a change in one would cause a change in several other inputs to the calculation, the analysis below was performed for each assumption individually.

	Assumptions used in FVLCD	Change required for the carrying amount to equal recoverable amount
Production volumes	Long-term plan	decrease of 9%
Aluminium prices (US$/tonne)	1,350 to 2,270	decrease of 8%
Exchange rates (ZAR to US$)	13.55 to 19.88	ZAR strengthening of 19%
Discount rate	8.5%-10.5%	increase greater than 500 basis points

NOTES TO FINANCIAL STATEMENTS – OPERATING ASSETS AND LIABILITIES

13. Impairment of non-financial assets (continued)

(d) Impairment test for CGU containing goodwill (continued)

Key estimates, assumptions and judgements

The determination of fair value and value in use requires management to make estimates and assumptions about expected production and sales volumes, commodity prices (considering current and historical prices, price trends and related factors), reserves, operating costs, closure and rehabilitation costs and future capital expenditure. These estimates and assumptions are subject to risk and uncertainty; hence there is a possibility that changes in circumstances will alter these projections, which may impact the recoverable amount of the assets. In such circumstances, some or all of the carrying amount of the assets may be further impaired or the impairment charge reversed with the impact recorded in the consolidated income statement.

In testing for indications of impairment and performing impairment calculations, assets are considered as collective groups and referred to as CGUs. CGUs are the smallest identifiable group of assets, liabilities and associated goodwill that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

The basis of key estimates and assumptions in the impairment assessments are as follows:

Future production	Proved and probable reserves, resource estimates, economic life of the smelters and, in certain cases, expansion projects, including future cost of production.
Commodity prices	Forward market, contract prices, and longer-term price protocol estimates.
Exchange rates	Current (forward) market exchange rates.
Discount rates	Cost of capital risk-adjusted and appropriate to the resource.

Reserves are estimates of the amount of product that can be economically and legally extracted from the South32 Group's properties. In order to estimate reserves, estimates are required for a range of geological, technical and economic factors, including quantities, grades, production techniques, recovery rates, production costs, transport costs, commodity demand, commodity prices and exchange rates.

Estimating the quantity and/or grade of reserves requires the size, shape and depth of ore bodies to be determined by analysing geological data such as drilling samples. This process may require complex and difficult geological judgements to interpret the data.

The South32 Group determines and reports ore reserves in Australia under the principles incorporated in the Australasian Code for Reporting Exploration Results of Mineral Resources and Ore Reserves December 2012 (the JORC Code), and the Australian Securities Exchange Listing Rules 2012 for minerals. The JORC Code requires the use of reasonable investment assumptions when reporting reserves. As a result, management will form a view of forecast sales prices, based on current and long-term historical average price trends.

Because the economic assumptions used to estimate reserves change from period to period, and because additional geological data is generated during the course of operations, estimates of reserves may change from period to period. Changes in reported reserves may affect the South32 Group's financial results and financial position in a number of ways, including the following:

- Asset recoverable amounts may be affected due to changes in estimated future cash flows
- Depreciation, depletion and amortisation charged in the consolidated income statement may change where such charges are determined on the units of production basis, or where the useful economic lives of assets change
- Overburden removal costs recorded on the consolidated balance sheet or charged to the consolidated income statement may change due to changes in stripping ratios or the units of production basis of depreciation and
- Decommissioning, closure and rehabilitation provisions may change where changes in estimated reserves affect expectations about the timing or cost of these activities

The carrying amount of associated deferred tax assets may change due to changes in estimates of the likely recovery of the tax benefits.

NOTES TO FINANCIAL STATEMENTS – OPERATING ASSETS AND LIABILITIES

14. Trade and other payables

US$M	FY2016	FY2015
Current		
Trade creditors	**577**	762
Other creditors	**99**	159
Total current trade and other payables	**676**	921
Non-current		
Other creditors	**5**	30
Total non-current trade and other payables	**5**	30

Trade and other payables represent liabilities for goods and services provided to the South32 Group prior to the end of the financial year which were unpaid at the end of the financial year. These amounts are unsecured. Trade and other payables are included in current liabilities, except for those liabilities where payment is not due within 12 months from the reporting date, which are classified as non-current liabilities.

Trade and other payables are stated at their amortised cost and are non-interest bearing. The carrying value of trade and other payables is considered to approximate its fair value due to the short term nature of the payables.

15. Provisions

US$M	Note	FY2016	FY2015
Current			
Employee benefits		**192**	217
Closure and rehabilitation		**99**	98
Other		**117**	83
Total current provisions		**408**	398
Non-current			
Employee benefits		**5**	6
Closure and rehabilitation		**1,315**	1,366
Post-retirement employee benefits	23	**88**	107
Other		**2**	-
Total non-current provisions		**1,410**	1,479

30 June 2016 US$M	Employee benefits	Closure and rehabilitation	Post-retirement employee benefits	Other	Total
At the beginning of the financial year	223	1,464	107	83	**1,877**
Charge/(credit) for the year:					
Underlying	167	–	4	135	**306**
Discounting	–	96	–	–	**96**
Change in discount rate[(1)]	–	9	–	–	**9**
Net interest expense	–	–	7	–	**7**
Exchange rate variations	(12)	(56)	(14)	(7)	**(89)**
Released during the year	(2)	(68)	–	(4)	**(74)**
Amounts capitalised	–	(21)	–	–	**(21)**
Foreign exchange amounts capitalised	–	(139)	–	–	**(139)**
Amounts capitalised from change in discount rate[(1)]	–	188	–	–	**188**
Actuarial gains taken to retained earnings	–	–	(3)	–	**(3)**
Utilisation	(182)	(59)	(11)	(87)	**(339)**
Transfers and other movements	3	–	(2)	(1)	**–**
At the end of the financial year	**197**	**1,414**	**88**	**119**	**1,818**

(1) The South32 Group has reviewed and updated its discount rate applied to closure and rehabilitation provisions. The corresponding increase in the amount is capitalised as an asset or charged to the consolidated income statement in the case of closed sites. The expected impact for the year ending 30 June 2017 is an increase in finance expenses of US$2 million. The remainder of the increase in closure and rehabilitation provisions will unwind over the life of the relevant operations.

NOTES TO FINANCIAL STATEMENTS – OPERATING ASSETS AND LIABILITIES

15. Provisions (continued)

30 June 2015 US$M	Employee benefits	Closure and rehabilitation	Post-retirement employee benefits	Other	Total
At the beginning of the financial year	72	346	34	17	469
Charge/(credit) for the year:					
Underlying	155	–	2	59	216
Discounting	–	47	–	–	47
Net interest expense	–	–	5	–	5
Exchange rate variations	(14)	(17)	(4)	(2)	(37)
Released during the year	(1)	(13)	–	(4)	(18)
Amounts capitalised	–	24	–	–	24
Foreign exchange amounts capitalised	–	(77)	–	–	(77)
Actuarial gains taken to retained earnings	–	–	(3)	–	(3)
Utilisation	(139)	(38)	(8)	(11)	(196)
Acquisitions of subsidiaries and operations	162	1,660	146	43	2,011
Divestments of subsidiaries and operations	(13)	(291)	(35)	(12)	(351)
Disposal on change from control to joint control of South Africa Manganese and Samancor AG	(12)	(177)	(30)	(7)	(226)
Transfers and other movements	13	–	–	–	13
At the end of the financial year	223	1,464	107	83	1,877

(a) Employee benefits

Liabilities for unpaid wages and salaries are recognised in sundry creditors. Current entitlements to annual leave and accumulating sick leave accrued for services up to the reporting date are recognised in the provision for employee benefits and are measured at the amounts expected to be paid. Entitlements to non-accumulating sick leave are recognised when the leave is taken.

The current liability for long service leave (for which settlement within 12 months of the reporting date cannot be deferred) is recognised in the current provision for employee benefits and is measured in accordance with annual leave described above. The non-current liability for long service leave is recognised in the non-current provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using corporate bond yields at the reporting date.

(b) Closure and rehabilitation

The mining, extraction and processing activities of the South32 Group normally give rise to obligations for site closure or rehabilitation. Closure and rehabilitation works can include facility decommissioning and dismantling, removal or treatment of waste materials, site and land rehabilitation.

Provisions for the cost of each closure and rehabilitation programme are recognised at the time that environmental disturbance occurs. When the extent of disturbance increases over the life of an operation, the provision is increased accordingly. Costs included in the provision encompass all closure and rehabilitation activity expected to occur progressively over the life of the operation and at, or after, the time of closure, for disturbance existing at the reporting date. Routine operating costs that may impact the ultimate closure and rehabilitation activities, such as waste material handling conducted as an integral part of a mining or production process, are not included in the provision. Costs arising from unforeseen circumstances, such as the contamination caused by unplanned discharges, are recognised as an expense and liability when the event gives rise to an obligation which is probable and capable of reliable estimation.

The timing of the actual closure and rehabilitation expenditure is dependent upon a number of factors such as the life and nature of the asset, the operating licence conditions and the environment in which the mine operates. Expenditure may occur before and after closure and can continue for an extended period of time dependent on closure and rehabilitation requirements.

Closure and rehabilitation provisions are measured at the expected value of future cash flows, discounted to their present value and determined according to the probability of alternative estimates of cash flows occurring for each operation. Discount rates used are risk free interest rates specific to the country in which the operations are located. Material changes in country specific risk free interest rates may affect the discount rates applied. Significant judgements and estimates are involved in forming expectations of future activities and the amount and timing of the associated cash flows.

When provisions for closure and rehabilitation are initially recognised, the corresponding cost is capitalised as an asset, representing part of the cost of acquiring the future economic benefits of the operation. The capitalised cost of closure and rehabilitation activities is recognised in property, plant and equipment and depreciated accordingly. The value of the provision is progressively increased over time due to the effect of discounting unwinds, creating an expense recognised in finance expenses.

NOTES TO FINANCIAL STATEMENTS – OPERATING ASSETS AND LIABILITIES

15. Provisions (continued)

(b) Closure and rehabilitation (continued)

Closure and rehabilitation provisions are also adjusted for changes in costs and estimates. Those adjustments are accounted for as a change in the corresponding capitalised cost, except where a reduction in the provision is greater than the undepreciated capitalised cost of the related assets, in which case the capitalised cost is reduced to nil and the remaining adjustment is recognised first against other items in property, plant and equipment, and subsequently to the consolidated income statement. In the case of closed sites, changes to estimated costs are recognised immediately in the consolidated income statement. Changes to the capitalised cost result in an adjustment to future depreciation. Adjustments to the estimated amount and timing of future closure and rehabilitation cash flows are a normal occurrence in light of the significant judgements and estimates involved.

Key estimates, assumptions and judgements

The recognition of closure and rehabilitation provisions requires significant estimates and assumptions such as: requirements of the relevant legal and regulatory framework, the magnitude of possible contamination and the timing, extent and costs of required closure and rehabilitation activity. These uncertainties may result in future actual expenditure differing from the amounts currently provided.

The provision recognised for each site is periodically reviewed and updated based on the facts and circumstances available at the time. Changes to the estimated future costs for operating sites are recognised in the consolidated balance sheet by adjusting both the closure and rehabilitation asset and provision. For closed sites, changes to estimated costs are recognised immediately in the consolidated income statement.

In addition to the uncertainties noted above, certain closure and rehabilitation activities may be subject to legal disputes and depending on the ultimate resolution of these issues, the final liability for such matters could vary.

(c) Post-retirement employee benefits

This relates to provision for post-employment defined benefit pension plans and medical plans. Refer to note 23 Pension and other post-retirement obligations.

NOTES TO FINANCIAL STATEMENTS – CAPITAL STRUCTURE AND FINANCING

This section outlines how the South32 Group manages its capital and related financing activities.

16. Cash and cash equivalents

Cash and cash equivalents include cash at bank and on hand as well as short-term deposits with original maturity of three months or less.

US$M	FY2016	FY2015
Cash and cash equivalents comprise:		
Cash	**383**	370
Short-term deposits	**842**	274
Total cash and cash equivalents[1][2]	**1,225**	644

(1) Cash and cash equivalents include US$13 million (2015: US$14 million) which is restricted by legal or contractual arrangements.

(2) Cash and cash equivalents include US$269 million (2015: US$250 million) consisting of short-term deposits and cash managed by the South32 Group. The corresponding amount payable is included in note 17 Interest bearing liabilities.

17. Interest bearing liabilities

US$M	FY2016	FY2015
Current		
Unsecured bank loans	**–**	104
Finance leases	**10**	9
Unsecured loans from equity accounted investments[1]	**269**	250
Unsecured other	**3**	1
Total current interest bearing liabilities	**282**	364
Non-current		
Finance leases	**592**	622
Unsecured other	**39**	60
Total non-current interest bearing liabilities	**631**	682

(1) Refer to note 16 Cash and cash equivalents and note 32 Related party transactions.

Bank overdrafts, bank loans and other borrowings are initially recognised at their fair value net of directly attributable transaction costs. Subsequent to initial recognition, interest bearing liabilities are measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the consolidated income statement when the liabilities are derecognised. Interest bearing liabilities are classified as current liabilities, except when the South32 Group has an unconditional right to defer settlement for at least 12 months after the reporting date in which case the liabilities are classified as non-current.

NOTES TO FINANCIAL STATEMENTS – CAPITAL STRUCTURE AND FINANCING

18. Net finance cost

US$M	FY2016	FY2015
Finance expenses		
Interest on borrowings	**10**	32
Finance lease interest	**37**	10
Discounting on provisions and other liabilities	**96**	47
Change in discount rate on closure and rehabilitation provisions	**9**	-
Net interest expense on post-retirement employee benefits	**7**	5
Fair value change on financial asset	**3**	2
Exchange rate variations on net debt	**(30)**	(7)
	132	89
Finance income		
Interest income	**28**	22
Net finance cost	**104**	67

Interest income or expense is recognised using the effective interest rate method.

19. Financial assets and financial liabilities

Other financial assets and liabilities

US$M	FY2016	FY2015
Current assets		
Derivative contracts	**32**	14
Total current other financial assets	**32**	14
Non-current assets		
Derivative contracts	**1**	57
Shares – available for sale	**144**	229
Other investments – available for sale	**115**	131
Total non-current other financial assets	**260**	417
Current liabilities		
Derivative contracts	**1**	4
Total current other financial liabilities	**1**	4
Non-current liabilities		
Derivative contracts	**16**	–
Total non-current other financial liabilities	**16**	–

(a) Financial risk management objectives and policies

The South32 Group is exposed to market, liquidity and credit risk. These risks are managed in accordance with South32 Group's portfolio risk management strategy which supports the delivery of the South32 Group's financial targets while protecting its future financial security and flexibility by taking advantage of the natural diversification of the South32 Group's operations and activities.

A Cash Flow at Risk (CFaR) framework is used to capture the benefits of diversification and to measure the aggregate impact of financial risks on those financial targets. CFaR is measured on a portfolio basis and is defined as the expected reduction from projected business plan cash flows over a one-year horizon in a pessimistic case. Day to day financial risk management is delegated to the Chief Financial Officer.

(i) Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises interest rate risk, currency risk and other price risk, such as equity price risk and commodity price risk. Financial instruments affected by market risk include loans and borrowings, deposits, available-for-sale investments and derivative financial instruments.

South32 Group activities expose it to market risks associated with movements in interest rates, foreign currencies and commodity prices. The South32 Group manages financing costs, currency impacts, input costs and commodity prices on a floating or index basis. This strategy gives rise to a risk of variability in earnings which is measured under the CFaR framework.

In executing the strategy, financial instruments may be employed for risk mitigation purposes on an exception basis, or to align the total South32 Group exposure to the relevant index target in the case of commodity sales, operating costs or debt issuances.

Interest rate risk

The South32 Group is exposed to interest rate risk on its outstanding borrowings, embedded derivatives and investments from the possibility that changes in interest rates will affect future cash flows or the fair value of financial instruments.

The South32 Group had the following exposure to interest rate risk:

US$M	FY2016	FY2015
Financial assets		
Cash and cash equivalents	**1,159**	644
Trade and other receivables	**350**	457
Derivative contracts	**33**	71
Financial liabilities		
Interest bearing liabilities	**(310)**	(412)
Derivative contracts	**(1)**	(4)
Net exposure	**1,231**	756

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on that portion of borrowings and investments affected. With all other variables held constant, the South32 Group's profit before taxation is affected through the impact on floating rate borrowings and investments, as follows:

Increase/ decrease in basis points	Impact on profit before taxation US$M	Impact on profit before taxation US$M
	FY2016	FY2015
+100	**13**	8
–100	**(8)**	(1)

NOTES TO FINANCIAL STATEMENTS – CAPITAL STRUCTURE AND FINANCING

19. Financial assets and financial liabilities (continued)

(a) Financial risk management objectives and policies (continued)

(i) Market risk (continued)

The sensitivity analysis assumes that the change in interest rates is effective from the beginning of the financial year and the fixed/floating mix and balances are constant over the year. For the purpose of the sensitivity analysis, the decrease of 100 basis points is applied to the extent that the underlying interest rates do not fall below zero per cent. However, interest rates and the net debt profile of the South32 Group may not remain constant over the coming financial year and therefore such sensitivity analysis should be used with care.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The functional currency of the majority of operations of the South32 Group is the US dollar. The South32 Group's potential currency exposures comprise:

- Translational exposure in respect of non-functional currency monetary items and
- Transactional exposure in respect of non-functional currency expenditure and revenues

Certain operating and capital expenditure is incurred by some operations in currencies other than their functional currency. To a lesser extent, certain sales revenue is earned in currencies other than the functional currency of operations, and certain exchange control restrictions may require funds be maintained in currencies other than the functional currency of the operation. When required the South32 Group may enter into forward exchange contracts.

The principal non-functional currencies to which the South32 Group is exposed to are the Australian dollar, South African rand, Brazilian real and Colombian peso. The following table shows the foreign currency risk arising from financial assets and liabilities, which are denominated in currencies other than the US dollar:

Net financial assets/(liabilities) – by currency of denomination

US$M	FY2016	FY2015
Australian dollar	**(729)**	(941)
Brazilian real	**40**	(21)
Colombian peso	**(36)**	(34)
South African rand	**85**	121
Other	**(2)**	5
Total	**(642)**	(870)

Based on the South32 Group's net financial assets and liabilities as at 30 June, a weakening of the US dollar against these currencies as illustrated in the table below, with all other variables held constant, would increase/(decrease) profit before taxation and equity as follows:

30 June 2016 Currency movement US$M	Profit before taxation	Equity
10% movement in Australian dollar	**(73)**	**(51)**
10% movement in Brazilian real	**4**	**4**
10% movement in Colombian peso	**(4)**	**(4)**
10% movement in South African rand	**(3)**	**8**

30 June 2015 Currency movement US$M	Profit before taxation	Equity
10% movement in Australian dollar	(94)	(66)
10% movement in Brazilian real	(2)	(2)
10% movement in Colombian peso	(3)	(3)
10% movement in South African rand	(1)	10

Commodity price risk

Contracts for the sale and physical delivery of commodities are executed whenever possible on a pricing basis intended to achieve a relevant index target. Where pricing terms deviate from the index, the South32 Group may choose to use derivative commodity contracts to realise the index price. Contracts for the physical delivery of commodities are not typically financial instruments and are carried in the consolidated balance sheet at cost (typically at US$ nil). The fair value of embedded derivatives will change in response to changes in commodity prices. Refer to note 19(b) Accounting classification and fair value for the commodity price sensitivity analysis on financial instruments subject to commodity price risk.

(ii) Liquidity risk

The South32 Group's liquidity risk arises from the possibility that it may not be able to settle or meet its obligations as they fall due. Operational, capital and regulatory requirements are considered in the management of liquidity risk, in conjunction with short and long-term forecast information.

The South32 Group's policy on counterparty credit exposure ensures that only counterparties of a high credit standing are used for the investment of any excess cash.

Standby arrangements and unused credit facilities

The South32 Group is funded by a combination of cash generated by the South32 Group's operations, working capital facilities and intercompany loans provided by South32. Intercompany loans may be funded by a combination of cash, short and long term debt and equity market raisings.

Details of major standby and support arrangements are as follows:

30 June 2016 US$M	Available	Used	Unused
Commercial paper programme[1]	1,500	–	1,500

(1) The South32 Group has an undrawn US$1.5 billion revolving credit facility which is a standby arrangement to the US$1.5 billion US commercial paper programme. The multi-currency revolving credit facility is due to expire in February 2021 and has a one-year extension option.

NOTES TO FINANCIAL STATEMENTS – CAPITAL STRUCTURE AND FINANCING

19. Financial assets and financial liabilities (continued)

(a) Financial risk management objectives and policies (continued)

(ii) Liquidity risk (continued)

Maturity profile of financial liabilities

The maturity profiles of financial liabilities, based on the contractual amounts, are as follows:

30 June 2016 US$M	Carrying amount	Total	On demand or less than 1 year	1 to 5 years	More than 5 years
Trade and other payables[1]	648	648	643	3	2
Interest bearing loans and borrowings	311	342	276	25	41
Finance leases	602	1,336	59	254	1,023
Other financial liabilities	17	17	1	16	–
Total	**1,578**	**2,343**	**979**	**298**	**1,066**

(1) Excludes input taxes of US$33 million included in other payables. Refer to note 14 Trade and other payables.

30 June 2015 US$M	Carrying amount	Total	On demand or less than 1 year	1 to 5 years	More than 5 years
Trade and other payables[1]	927	927	897	28	2
Interest bearing loans and borrowings	415	450	359	40	51
Finance leases	631	1,448	64	262	1,122
Other financial liabilities	4	4	4	–	–
Total	1,977	2,829	1,324	330	1,175

(1) Excludes input taxes of US$24 million included in other payables. Refer to note 14 Trade and other payables.

(iii) Credit risk

The South32 Group has credit risk management policies in place covering the credit analysis, approvals and monitoring of counterparty exposures. As part of these processes the ongoing creditworthiness of counterparties is regularly assessed.

Mitigation methods are defined and implemented for higher-risk counterparties to protect revenues, with approximately half of the South32 Group's sales of physical commodities occurring via secured payment terms including prepayments, letters of credit, guarantees and other risk mitigation instruments.

There are no material concentrations of credit risk, either with individual counterparties or groups of counterparties, by industry or geographically.

The following table sets out the aging of trade and other receivables that were not impaired:

US$M	FY2016	FY2015
Neither past due nor impaired	**982**	1,240
Past due 1-30 days	**29**	65
Past due 31-90 days	**10**	9
Past due over 91 days	**40**	29
Total	**1,061**	1,343

Receivables are deemed to be past due or impaired with reference to the South32 Group's normal terms and conditions of business. These terms and conditions are determined on a case-by-case basis with reference to the customer's credit quality and prevailing market conditions. Receivables that are classified as 'past due' are those that have not been settled within the terms and conditions agreed with that customer.

The credit quality of the South32 Group's customers is monitored on an ongoing basis and assessed for impairment where indicators of such impairment exist. The solvency of each debtor and their ability to repay the receivable is considered in assessing receivables for impairment. In certain circumstances the South32 Group may seek collateral as security for the receivable. Where receivables have been impaired, the South32 Group actively seeks to recover the amounts.

NOTES TO FINANCIAL STATEMENTS – CAPITAL STRUCTURE AND FINANCING

19. Financial assets and financial liabilities (continued)

(b) Accounting classification and fair value

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

30 June 2016 US$M	Note	Loans and receivables	Available for sale securities	Held at fair value through profit or loss	Other financial assets and liabilities at amortised cost	Total
Financial assets						
Cash and cash equivalents	16	1,225	–	–	–	**1,225**
Trade and other receivables[1]	9	493	–	58	–	**551**
Derivative contracts		–	–	33	–	**33**
Loans to equity accounted investments	9	352	–	–	–	**352**
Interest bearing loans receivable	9	41	–	–	–	**41**
Other investments		–	259	–	–	**259**
Total		**2,111**	**259**	**91**	**–**	**2,461**
Financial liabilities						
Trade and other payables[2]	14	–	–	6	642	**648**
Derivative contracts		–	–	17	–	**17**
Unsecured bank loans	17	–	–	–	–	**–**
Finance leases	17	–	–	–	602	**602**
Unsecured other	17	–	–	–	311	**311**
Total		**–**	**–**	**23**	**1,555**	**1,578**

(1) Excludes input taxes of US$119 million included in other receivables. Refer to note 9 Trade and other receivables.
(2) Excludes input taxes of US$33 million included in other payables. Refer to note 14 Trade and other payables.

30 June 2015 US$M	Note	Loans and receivables	Available for sale securities	Held at fair value through profit or loss	Other financial assets and liabilities at amortised cost	Total
Financial assets						
Cash and cash equivalents	16	644	–	–	–	644
Trade and other receivables[1]	9	725	–	25	–	750
Derivative contracts		–	–	71	–	71
Loans to equity accounted investments	9	323	–	–	–	323
Interest bearing loans receivable	9	148	–	–	–	148
Other investments		–	360	–	–	360
Total		1,840	360	96	–	2,296
Financial liabilities						
Trade and other payables[2]	14	–	–	9	918	927
Derivative contracts		–	–	4	–	4
Unsecured bank loans	17	–	–	–	104	104
Finance leases	17	–	–	–	631	631
Unsecured other	17	–	–	–	311	311
Total		–	–	13	1,964	1,977

(1) Excludes input taxes of US$126 million included in other receivables. Refer to note 9 Trade and other receivables.
(2) Excludes input taxes of US$24 million included in other payables. Refer to note 14 Trade and other payables.

NOTES TO FINANCIAL STATEMENTS – CAPITAL STRUCTURE AND FINANCING

19. Financial assets and financial liabilities (continued)

(b) Accounting classification and fair value (continued)

All financial assets are initially recognised at the fair value of consideration paid. Subsequently, financial assets are carried at fair value or amortised cost less impairment. Where non-derivative financial assets are carried at fair value, gains and losses on re-measurement are recognised directly in equity unless the financial assets have been designated as being held at fair value through profit or loss, in which case the gains and losses are recognised directly in the consolidated income statement. Financial assets are designated as being held at fair value through profit or loss where this is necessary to reduce measurement inconsistencies for related assets and liabilities.

The South32 Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognised financial assets that is created or retained by the South32 Group is reported as a separate asset or liability.

All financial liabilities other than derivatives are initially recognised at fair value of consideration received net of transaction costs as appropriate (initial cost) and, with the exception of financial liabilities which have been designated in fair value hedging relationships, are subsequently carried at amortised cost. The South32 Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

Financial assets and liabilities are offset and the net amount presented in the consolidated balance sheet when, and only when, the South32 Group has a legal right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Derivatives, including those embedded in other contractual arrangements but separated for accounting purposes because they are not clearly and closely related to the host contract, are initially recognised at fair value on the date the contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss on re-measurement depends on whether the derivative is designated as a hedging instrument, and, if so, the nature of the item being hedged.

The measurement of fair value of financial assets and liabilities is based on quoted market prices in active markets for identical assets or liabilities. Where no price information is available from a quoted market source, alternative market mechanisms or recent comparable transactions, fair value is estimated based on the South32 Group's views on relevant future prices, net of valuation allowances to accommodate liquidity, modelling, credit and other risks implicit in such estimates.

Forward exchange contracts and interest rate swaps held for hedging purposes are accounted for as either cash flow or fair value hedges. Derivatives embedded within other contractual arrangements and the majority of commodity-based transactions executed through derivative contracts do not qualify for hedge accounting. Any derivative instrument fair value change that does not qualify for hedge accounting is recognised immediately in the consolidated income statement.

Movements in the fair value of financial assets and liabilities may be recognised through the consolidated income statement or in consolidated other comprehensive income.

Available for sale and trading investments

Available for sale and trading investments are measured at fair value. Gains and losses on the re-measurement of trading investments are recognised directly in the consolidated income statement. Gains and losses on the re-measurement of available for sale investments are recognised directly in equity and subsequently recognised in the consolidated income statement when realised by sale or redemption, or when a reduction in fair value represents an impairment.

Fair value of financial assets and liabilities based on nature of valuation inputs

The following table shows the South32 Group's financial assets and liabilities carried at fair value with reference to the nature of valuation inputs used:

Level 1 Valuation is based on unadjusted quoted prices in active markets for identical financial assets and liabilities.

Level 2 Valuation is based on inputs (other than quoted prices included in Level 1) that are observable for the financial asset or liability, either directly (i.e. as unquoted prices) or indirectly (i.e. derived from prices).

Level 3 Valuation is based on inputs that are not based on observable market data.

NOTES TO FINANCIAL STATEMENTS – CAPITAL STRUCTURE AND FINANCING

19. Financial assets and financial liabilities (continued)

(b) Accounting classification and fair value (continued)

Fair value of financial assets and liabilities based on nature of valuation inputs (continued)

30 June 2016

US$M	Level 1	Level 2	Level 3	Total
Financial assets and liabilities				
Trade and other receivables	–	58	–	58
Trade and other payables	–	(6)	–	(6)
Derivative contracts	–	–	16	16
Investments – available for sale	–	114	145	259
Total	**–**	**166**	**161**	**327**

30 June 2015

US$M	Level 1	Level 2	Level 3	Total
Financial assets and liabilities				
Trade and other receivables	–	25	–	25
Trade and other payables	–	(9)	–	(9)
Derivative contracts	–	–	67	67
Investments – available for sale	–	131	229	360
Total	**–**	**147**	**296**	**443**

Level 3 financial assets and liabilities

US$M	FY2016	FY2015
At the beginning of the financial year	**296**	–
Acquisition of subsidiaries and operations(1)	**–**	353
Disposal on change from control to joint control of South Africa Manganese and Samancor AG(1)	**–**	(143)
Additions	**–**	2
Realised gains/(losses) recognised in the consolidated income statement(2)	**(7)**	–
Unrealised gains/(losses) recognised in the consolidated income statement(3)	**(77)**	8
Unrealised gains/(losses) recognised in consolidated other comprehensive income(4)	**(51)**	76
At the end of the financial year	**161**	296

(1) Refer to note 4 South32 Limited demerger.
(2) Realised 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 income statement are recorded in expenses excluding net finance cost.
(4) Unrealised gains and losses recognised in consolidated other comprehensive income are recorded in the financial assets reserve.

NOTES TO FINANCIAL STATEMENTS – CAPITAL STRUCTURE AND FINANCING

19. Financial assets and financial liabilities (continued)

(b) Accounting classification and fair value (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 a change in the most significant input by 10 per cent while holding all other variables constant, is shown in the following table.

30 June 2016			**Profit before taxation**		**Equity**	
US$M	**Carrying amount**	**Significant input**	**10% increase in input**	**10% decrease in input**	**10% increase in input**	**10% decrease in input**
Financial assets and liabilities						
Derivative contracts	16	Aluminium price as quoted on the LME	(113)	113	81	(81)
Investments – available for sale[1]	145	Aluminium price as quoted on the LME Foreign exchange rate	–	–	44	(48)
Total	**161**		**(113)**	**113**	**125**	**(129)**

30 June 2015			**Profit before taxation**		**Equity**	
US$M	**Carrying amount**	**Significant input**	**10% increase in input**	**10% decrease in input**	**10% increase in input**	**10% decrease in input**
Financial assets and liabilities						
Derivative contracts	67	Aluminium price as quoted on the LME	(64)	64	(43)	43
Investments – available for sale	229	Aluminium price as quoted on the LME Foreign exchange rate	–	–	60	(69)
Total	**296**		**(64)**	**64**	**17**	**(26)**

(1) When a decrease in fair value recognised in equity reflects an impairment, such amounts are recognised in profit before taxation.

(c) Offsetting financial assets and liabilities

There was no offsetting of financial assets or financial liabilities during the reporting period (2015: US$ nil).

(d) Capital management

The South32 Group will invest capital in assets where they fit its strategy. The South32 Group's priorities for cash flow are:

- Maintain safe and reliable operations and an investment grade credit rating through the cycle and
- Distribute a minimum of 40 per cent of Underlying earnings as dividends to shareholders following each six month reporting period
- Consistent with South32's priorities for cash flow and commitment to maximise total shareholder returns, other alternatives including special dividends, share buy-backs and high return investment opportunities will compete for excess capital

NOTES TO FINANCIAL STATEMENTS – CAPITAL STRUCTURE AND FINANCING

20. Share capital

	FY2016		FY2015	
	Ordinary shares	**US$M**	**Ordinary shares**	**US$M**
Share capital				
At the beginning of the financial year	**5,323,762,901**	**14,958**	450,000,003	561
Share split[1][2]	**–**	**–**	2,761,691,100	–
Proceeds from the issue of shares[1]	**–**	**–**	2,112,071,798	14,397
At the end of the financial year	**5,323,762,901**	**14,958**	5,323,762,901	14,958
Treasury shares				
At the beginning of the financial year	**–**	**–**	–	–
Purchase of shares by ESOP trusts	**(2,240,000)**	**(3)**	–	–
Employee share awards exercised following vesting	**–**	**–**	–	–
At the end of the financial year	**(2,240,000)**	**(3)**	–	–

(1) Prior to the demerger a number of internal share transfers occurred in connection with the Internal Restructure. Refer to note 4 South32 Limited demerger.

(2) In order to facilitate the demerger South32 Limited undertook a share split. As a result South32 Limited's shares were issued to the relevant BHP Billiton Limited and BHP Billiton Plc shareholders on a one for one basis.

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the South32 Group in proportion to the number of shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

Incremental costs directly attributable to the issue of ordinary shares, net of any income tax effects, are recognised as a deduction from equity.

The South32 Group does not have authorised capital or par value in respect of its issued shares.

NOTES TO FINANCIAL STATEMENTS – OTHER NOTES

21. Other income

US$M	**FY2016**	**FY2015**
Dividend income	**12**	2
Royalties	**2**	–
Gains/(losses) on sale of property, plant and equipment	**(2)**	(10)
Gains/(losses) on sale of investments	**1**	–
Rental income	**6**	1
Fair value uplift on equity accounted investment	**–**	921
Electricity sales	**180**	206
Other[1]	**125**	23
Total other income	**324**	1,143

(1) Other includes management fees from equity accounted investments and joint venture partners.

22. Auditor's remuneration

The auditor of the South32 Group is KPMG.

US$'000	**FY2016**	**FY2015**
Fees payable to the Group's auditor for assurance services		
Audit and review of financial statements	**3,813**	4,459
Other assurance services[1]	**474**	271
Fees payable to the Group's auditor for other services		
All other services[2]	**338**	220
Total auditor's remuneration	**4,625**	4,950

(1) Mainly comprises assurance in respect of the Group's sustainability reporting.

(2) Mainly comprises services in connection with consulting and advice on accounting matters.

NOTES TO FINANCIAL STATEMENTS – OTHER NOTES

23. Pension and other post-retirement obligations

The South32 Group operates or participates in a number of pension (including superannuation) schemes throughout the world. The funding of the schemes complies with local regulations. The assets of the schemes are generally held separately from those of the South32 Group and are administered by trustees or management boards.

For defined contribution schemes or schemes operated on an industry-wide basis where it is not possible to identify assets attributable to the participation by the South32 Group's employees, the pension charge is calculated on the basis of contributions payable.

For defined benefit schemes, the cost of providing pensions is charged to the consolidated income statement for current and past service costs, interest cost on defined benefit obligations, and the effect of any curtailments or settlements, net of returns on plan assets. Actuarial gains and losses are recognised directly in equity. An asset or liability is recognised based on the present value of defined benefit obligations less the fair value of plan assets, except that any such asset cannot exceed the present value of expected refunds from, and reductions in, future contributions to the plan. Defined benefit obligations are estimated by discounting expected future payments using market yields at the reporting date based on high-quality corporate bonds in countries that have developed corporate bond markets. However, where developed corporate bond markets do not exist, the discount rates are selected by reference to national government bonds. In both instances, the bonds are selected with terms to maturity and currency that match, as closely as possible, the estimated future cash flows.

Certain South32 Group companies provide post-retirement medical benefits to qualifying retirees. These schemes are recognised on the same basis as described above for defined benefit pension schemes.

Key estimates, assumptions and judgements

The South32 Group's accounting policy for defined benefit pension schemes requires management to make judgements as to the nature of benefits provided by each scheme and thereby determine the classification of each scheme. For defined benefit schemes, management is required to make annual estimates and assumptions about future returns on classes of scheme assets, future remuneration changes, employee attrition rates, administration costs, changes in benefits, inflation rates, exchange rates, life expectancy and expected remaining periods of service of employees. In making these estimates and assumptions, management considers advice provided by external advisers, such as actuaries. Where actual experience differs to these estimates, actuarial gains and losses are recognised directly in equity.

The South32 Group operates the following pension and post-retirement medical schemes:

Defined contribution schemes

The South32 Group contributed US$71 million (2015: US$41 million) to defined contribution plans and multi-employer defined contribution plans. These contributions are expensed as incurred.

Defined benefit pension schemes

The South32 Group has closed all defined benefit pension schemes to new entrants. Defined benefit pension schemes operate in Australia, South America and South Africa for existing members. Full actuarial valuations are prepared and updated annually to 30 June for all schemes. The Projected Unit Credit valuation method is used. The South32 Group operates final salary schemes that provide final salary benefits only, non-salary related schemes that provide flat dollar benefits and mixed benefit schemes that consist of a final salary defined benefit portion and a defined contribution portion.

The South32 Group follows a coordinated strategy for the funding and investment of its defined benefit pension schemes (subject to meeting all local requirements). The South32 Group's aim is for the value of defined benefit pension scheme assets to be maintained at close to the value of the corresponding obligations, allowing for some short-term volatility.

Defined benefit post-retirement medical schemes

The South32 Group operates two post-retirement medical schemes in South Africa. Full actuarial valuations are prepared for the schemes. The post-retirement medical schemes are unfunded.

The South32 Group's defined benefit pension and post-retirement medical schemes expose the South32 Group to risks:

Risk	Description
Volatility in asset values	The South32 Group is exposed to changes in the value of assets held in funded pension schemes to meet future benefit payments.
Uncertainty in benefit payments	The cost to the South32 Group of meeting future benefit obligations will depend on the value of the benefits paid in the future. To the extent these payments are dependent on future experience, there is some uncertainty. Some of the schemes' benefit obligations are linked to inflation or to salaries, and some schemes provide benefits that are paid for the life of the member. If future experience varies from the assumptions used to value these obligations, the cost of meeting the obligations will vary.
Uncertainty in future funding requirements	Movement in the value of benefit obligations and scheme assets will impact the contributions that the South32 Group will be required to make to the schemes in the future. In many cases, pension schemes are managed under trust, and the South32 Group does not have full control over the rate of funding or investment policy for scheme assets. In addition, the South32 Group is exposed to changes in the regulations applicable to the schemes.

NOTES TO FINANCIAL STATEMENTS – OTHER NOTES

23. Pension and other post-retirement obligations (continued)

The following tables set out details of the South32 Group's defined benefit pension and post-retirement medical schemes.

(a) Balance sheet disclosures

The amounts recognised in the consolidated balance sheet are as follows:

	Defined benefit pension schemes		Post-retirement medical schemes	
US$M	**FY2016**	**FY2015**	**FY2016**	**FY2015**
Present value of funded defined benefit obligation	**109**	129	**–**	–
Present value of unfunded defined benefit obligation	**16**	26	**88**	103
Fair value of defined benefit scheme assets	**(125)**	(151)	**–**	–
Net liability recognised in the consolidated balance sheet	**–**	4	**88**	103

The South32 Group has no legal obligation to settle these liabilities with any immediate contributions or additional one-off contributions. The South32 Group intends to continue to contribute to each defined benefit pension and post-retirement medical scheme in accordance with the latest recommendations of each scheme actuary.

(b) Income statement disclosures

The amounts recognised in the consolidated income statement are as follows:

	Defined benefit pension schemes		Post-retirement medical schemes	
US$M	**FY2016**	**FY2015**	**FY2016**	**FY2015**
Current service cost	**4**	3	**–**	–
Net interest (income)/expense on net defined benefit balance	**(1)**	1	**8**	4
Curtailment and settlement gains and other adjustments	**–**	(1)	**–**	–
Total expense recognised in the consolidated income statement	**3**	3	**8**	4
– Recognised in employee benefits expense	**4**	2	**–**	–
– Recognised in net finance cost	**(1)**	1	**8**	4

(c) Statement of comprehensive income disclosures

The amounts recognised in the consolidated statement of comprehensive income are as follows:

	Defined benefit pension schemes		Post-retirement medical schemes	
US$M	**FY2016**	**FY2015**	**FY2016**	**FY2015**
Actuarial gains	**(3)**	(3)	**–**	–
Total amount recognised in the consolidated statement of comprehensive income[1]	**(3)**	(3)	**–**	–

(1) This total excludes actuarial (gain)/loss of equity accounted investments which are reported on the consolidated statement of comprehensive income within 'Equity accounted investments – share of other comprehensive income/(loss)'.

NOTES TO FINANCIAL STATEMENTS – OTHER NOTES

23. Pension and other post-retirement obligations (continued)

(d) Movements in net asset/liability

The change in the net liability is as follows:

	Defined benefit pension schemes		Post-retirement medical schemes	
US$M	**FY2016**	**FY2015**	**FY2016**	**FY2015**
Net liability at the beginning of the financial year	**4**	–	**103**	34
Acquisition of subsidiaries and operations[1]	**–**	(5)	**–**	151
Divestment of subsidiaries and operations[1]	**–**	–	**–**	(35)
Disposal on change from control to joint control of South Africa Manganese and Samancor AG[1]	**–**	17	**–**	(47)
Amount recognised in the consolidated income statement	**3**	3	**8**	4
Remeasurement gain recognised in consolidated other comprehensive income	**(3)**	(3)	**–**	–
Disbursements and settlements paid to participants	**(3)**	(1)	**(5)**	(2)
Employer contributions	**(3)**	(5)	**–**	–
Foreign exchange (gains)/losses	**4**	(2)	**(18)**	(2)
Transfer and other movements	**(2)**	–	**–**	–
Net liability at the end of the financial year	**–**	4	**88**	103

(1) Refer to note 4 South32 Limited demerger.

The change in the present value of the defined benefit liability is as follows:

	Defined benefit pension schemes		Post-retirement medical schemes	
US$M	**FY2016**	**FY2015**	**FY2016**	**FY2015**
Defined benefit liability at the beginning of the financial year	**155**	191	**103**	34
Acquisition of subsidiaries and operations[1]	**–**	239	**–**	151
Divestment of subsidiaries and operations[1]	**–**	(159)	**–**	(35)
Disposal on change from control to joint control of South Africa Manganese and Samancor AG[1]	**–**	(99)	**–**	(47)
Current service cost	**4**	3	**–**	–
Settlement gains	**–**	(1)	**–**	–
Interest cost	**7**	9	**8**	4
Actuarial gains due to experience	**(2)**	(2)	**(1)**	–
Actuarial losses due to demographic assumptions	**2**	–	**1**	–
Actuarial (gains)/losses due to changes in financial assumptions	**(5)**	4	**–**	–
Benefits paid to participants	**(23)**	(16)	**(5)**	(2)
Foreign exchange (gains)/losses	**(11)**	(14)	**(18)**	(2)
Transfer and other movements	**(2)**	–	**–**	–
Defined benefit liability at the end of the financial year	**125**	155	**88**	103

(1) Refer to note 4 South32 Limited demerger.

NOTES TO FINANCIAL STATEMENTS – OTHER NOTES

23. Pension and other post-retirement obligations (continued)

(d) Movements in net asset/liability (continued)

Weighted average maturity profile of schemes:

Years	Defined benefit pension schemes FY2016	Defined benefit pension schemes FY2015	Post-retirement medical schemes FY2016	Post-retirement medical schemes FY2015
Weighted average duration of defined benefit obligation (years)	**9**	9	**13**	14

The change in the fair value of scheme assets is as follows:

US$M	Defined benefit pension schemes FY2016	Defined benefit pension schemes FY2015
Fair value of scheme assets at the beginning of the financial year	**151**	191
Acquisition of subsidiaries and operations(1)	**–**	244
Divestment of subsidiaries and operations(1)	**–**	(159)
Disposal on change from control to joint control of South Africa Manganese and Samancor AG(1)	**–**	(116)
Interest income on scheme assets	**8**	8
Return on scheme assets (less)/greater than the discount rate	**(2)**	5
Employer contributions	**3**	5
Benefits paid to participants	**(20)**	(15)
Foreign exchange (losses)/gains	**(15)**	(12)
Fair value of scheme assets at the end of the financial year	**125**	151

(1) Refer to note 4 South32 Limited demerger.

(e) Plan assets

The fair value of scheme assets by major asset class is as follows:

Asset class US$M	Fair value FY2016	Fair value FY2015
Bonds(1)	**66**	78
Equities	**11**	15
Cash and cash equivalents	**5**	7
Other(2)	**43**	51
Total	**125**	151

(1) Comprises Fixed Interest Government bonds of US$35 million (2015: US$33 million) and Index Linked Government bonds of US$31 million (2015: US$45 million).

(2) Primarily comprises of insurance contracts in South Africa.

The fair value of scheme assets does not include amounts relating to any of the South32 Group's own financial instruments or any of the property occupied by, or other assets used by, the South32 Group.

Scheme assets are invested in a diversified range of asset classes, predominantly comprising bonds and equities. In some locations, scheme trustees and other bodies have legal responsibility for the investment of scheme assets and decisions on investment strategy are taken in consultation with the South32 Group.

The South32 Group monitors its exposure to changes in equity markets, interest rates and inflation, and measures its balance sheet pension risk using a risk-based approach. Asset-liability studies are carried out periodically for the major pension schemes and the suitability of investment strategies for all defined benefit pension schemes are also reviewed periodically.

The South32 Group's aim is to progressively shift defined benefit pension scheme assets towards investments that match the anticipated profile of the benefit obligations, as funding levels improve, and as benefit obligations mature. Over time, this is expected to result in a further reduction in the total exposure of pension scheme assets to equity markets. For pension schemes that pay lifetime benefits, the South32 Group may consider and support the purchase of annuities.

NOTES TO FINANCIAL STATEMENTS – OTHER NOTES

23. Pension and other post-retirement obligations (continued)

(e) Plan assets (continued)

Estimated contributions for the defined benefit pension and post-retirement medical schemes are as follows:

US$M	Defined benefit pension schemes	Post-retirement medical schemes
Estimated employer contributions for the year ending 30 June 2017	**2**	**–**
Estimated benefits paid to participants directly by employer for the year ending 30 June 2017	**2**	**5**

(f) Actuarial assumptions

The principal actuarial assumptions at the reporting date (expressed as weighted averages) for defined benefit pension schemes are as follows:

	Australia		South Africa		South America	
%	FY2016	FY2015	FY2016	FY2015	FY2016	2015
Discount rate	**3.6**	3.6	**9.9**	8.8	**9.5**	8.9
Pension increase rate	**n/a**	n/a	**8.0**	7.2	**4.9**	3.8
Future salary increases	**2.9**	3.6	**9.5**	8.7	**4.5**	4.5

The principal actuarial assumptions at the reporting date (expressed as weighted averages) for post-retirement medical schemes are as follows:

	South Africa	
%	FY2016	FY2015
Discount rate	**10.0**	9.3
Medical cost trend rate (ultimate)	**9.5**	8.9

Assumptions regarding future mortality can be material depending upon the size and nature of the post-retirement medical schemes' liabilities. Post-retirement mortality assumptions in South Africa are based on post-retirement mortality tables that are standard in the region.

For the main post-retirement medical schemes, these tables imply the following expected future lifetimes (in years) for employees aged 65 as at the balance sheet date: South African males 19.4 (2015: 19.2), South African females 23.9 (2015: 23.7).

NOTES TO FINANCIAL STATEMENTS – OTHER NOTES

23. Pension and other post-retirement obligations (continued)

(f) Actuarial assumptions (continued)

Sensitivity of assumptions

The South32 Group's defined benefit liability at the reporting date has been determined using actuarial calculations that require assumptions about future events. The estimated sensitivity to each significant assumption shown below has been determined at an individual scheme level if each assumption were changed in isolation. In practice, the schemes are subject to multiple external experience items which may vary the liability over time.

The estimated effects of variations in the principal actuarial assumptions at the reporting date are as follows:

	Increase/(decrease) in liability	
US$M	Defined benefit pension schemes	Post-retirement medical schemes
Discount rate		
Increase of 1%	(10)	(10)
Decrease of 1%	12	12
Future salary increases		
Increase of 1%	3	n/a
Decrease of 1%	(2)	n/a
Mortality		
Increase in life expectancy at age 65 of 1 year	2	4
Decrease in life expectancy at age 65 of 1 year	(2)	(4)
Medical cost trend rate (initial and ultimate)		
Increase of 1%	n/a	12
Decrease of 1%	n/a	(10)
Pension increase rate		
Increase of 1%	5	n/a
Decrease of 1%	(5)	n/a

24. Other equity

(a) Movements of reserves

US$M	FY2016	FY2015
Employee share awards reserve		
At the beginning of the financial year	**1**	–
Accrued employee entitlement for unexercised awards	**24**	1
Share awards vested and transferred to retained earnings	**–**	–
At the end of the financial year	**25**	1
Financial assets reserve		
At the beginning of the financial year	**32**	–
Net valuation (gains)/losses on available for sale investments taken to profit and loss	**23**	–
Deferred tax relating to revaluation losses taken to profit and loss	**(5)**	–
Net valuation gains/(losses) on available for sale investments taken to equity	**(54)**	65
Deferred tax relating to revaluation gains and losses	**14**	(33)
At the end of the financial year	**10**	32
Other reserves		
At the beginning of the financial year	**(3,590)**	–
Acquisition and divestment of subsidiaries and operations	**–**	(3,569)
Other movements	**–**	(21)
At the end of the financial year	**(3,590)**	(3,590)
Total reserves	**(3,555)**	(3,557)

(b) Nature and purpose of reserves

Employee share awards reserve

The employee share awards reserve represents the accrued employee entitlements to share awards that have been charged to the consolidated income statement and have not yet been exercised.

Financial assets reserve

The financial assets reserve represents the revaluation of available for sale financial assets. Where a revalued financial asset is sold or impaired, the relevant portion of the reserve is transferred to the consolidated income statement.

Other reserves

Other reserves primarily consist of the common control transaction reserve of US$3,569 million which reflects the difference between consideration paid and the carrying value of assets and liabilities acquired, as well as the gain/loss on disposal of entities as part of the demerger of South32 Limited from the BHP Billiton Group. Refer to note 4 South32 Limited demerger.

NOTES TO FINANCIAL STATEMENTS – OTHER NOTES

25. Employee share ownership plans

At 30 June 2016, the South32 Group had the following employee share ownership arrangements:

- Awards granted to Executive Committee members on 4 December 2015:
  - the FY2016 Long Term Incentive Plan
  - the FY2015 Deferred Short Term Incentive Plan and
  - the FY2016 Executive Transitional Award Plan
- Awards granted to eligible employees on 30 October 2015 or 13 May 2016:
  - the FY2016 Management Share Plan
  - the 2015 AllShare Plan
  - the FY2016 Advance Award Plan
  - the FY2016 Management Transitional Award Plan
  - the FY2015 Deferred Shares Plan and
  - the FY2015 MAP Replacement Plan
- Share ownership plans in existence at 30 June 2015:
  - the Replacement BHP Billiton Long Term Incentive Plan
  - the Replacement BHP Billiton Management Award Plan
  - the Replacement BHP Billiton Short Term Incentive Plan
  - the Replacement BHP Billiton Group Short Term Incentive Plan
  - the Replacement BHP Billiton Transitional Award Plan and
  - the FY2015 Transitional Award Plan

All awards take the form of rights to receive one ordinary share in South32 Limited for each right granted, subject to performance or service conditions being met. A portion of the 2015 AllShare Plan awards (participants located in Colombia and Mozambique) take the form of rights to receive a cash payment equivalent to the value of South32 Limited ordinary shares at the time of payment. African employees are granted rights on the Johannesburg Stock Exchange (JSE) and all other employees are granted rights on the Australian Stock Exchange (ASX).

Performance conditions are based on the South32 Group's Total Shareholder Return (TSR) measured separately against two comparator indexes over the performance period as follows:

- One third of performance rights are measured against the Morgan Stanley Capital Index World and
- Two thirds of performance rights are measured against the Euromoney Global Mining Index

Performance rights vest when South32's TSR equals or outperforms the comparator index. Full vesting of performance rights occur if the South32 Group's TSR outperforms both indexes by at least 5.5% per annum. To the extent that the performance conditions are not met, awards are forfeited and no retesting is performed.

Awards do not confer any dividend or voting rights until they convert into ordinary shares at vesting. In addition, the awards do not confer any rights to participate in a share issue, however, there is discretion under the plans to adjust the awards in response to a variation in South32 Limited's share capital.

The Replacement BHP Billiton Long Term Incentive Plan and Replacement BHP Billiton Short Term Incentive Plan are eligible to receive a payment equal to the dividend amount that would have been earned on the underlying shares awarded to those participants (Dividend Equivalent Payment). The Dividend Equivalent Payment is made to participants once the underlying shares are issued or transferred to them. No Dividend Equivalent Payment is made in respect of awards that lapse. No other awards are eligible for a Dividend Equivalent Payment.

(a) Description of share-based payment arrangements

(i) Recurring share-based payment plans

The awards listed below are subject to the general conditions noted above and may be granted annually subject to approval by shareholders at the annual general meeting for awards to the CEO and by the Board of Directors for all other awards.

FY2016 Long Term Incentive Plan

The FY2016 Long Term Incentive Plan is the South32 Group's long term incentive plan for Executive Committee members. Awards have a four year performance period from 1 July 2015 to 30 June 2019.

FY2015 Deferred Short Term Incentive Plan

The FY2015 Deferred Short Term Incentive Plan is the South32 Group's short term incentive plan for Executive Committee members. Awards vest on August 2017 provided participants remain employed by South32.

FY2016 Management Share Plan

The FY2016 Management Share Plan is the South32 Group's long term incentive plan for eligible employees below the Executive Committee. The FY2016 Management Share Plan comprises two elements:

- Retention Rights vesting in August 2018 provided participants remain employed by the South32 Group and
- Performance Rights vesting in August 2019 subject to performance conditions

2015 AllShare Plan

The 2015 AllShare Plan is the South32 Group's employee share plan for employees not eligible to participate in the other employee share plans. Awards to the value of at least US$1,250 per employee will be granted annually. Awards will vest provided participants remain employed by the South32 Group. The vesting period depends on the participants' location at the grant date:

- Participants in Africa: August 2018 and
- Participants elsewhere: August 2017

(ii) Transitional share-based payment plans

The awards listed below are subject to the general conditions noted above and will not be granted on an ongoing basis.

FY2016 Advance Award Plan

The FY2016 Advance Award Plan is a one-off grant made to all FY2016 Management Share Plan participants in recognition of the different vesting periods under the FY2016 Management Share Plan retention rights and FY2016 Management Share Plan performance rights. The awards have a three year performance period from 1 July 2015 to 30 June 2018.

The following awards were made to former BHP Billiton employees, to compensate for BHP Billiton awards that were unvested at the time of demerger. On 25 May 2015, participants received a one-time award of rights in South32 Limited shares at an equivalent value, on equivalent terms and conditions and with the same vesting date.

NOTES TO FINANCIAL STATEMENTS – OTHER NOTES

25. Employee share ownership plans (continued)

(a) Description of share-based payment arrangements (continued)

(ii) Transitional share-based payment plans (continued)

FY2016 Executive Transitional Award Plan

The FY2016 Executive Transitional Award Plan is a one-off grant made to Executive Committee members in recognition of their adjustment from a three year long term incentive plan under the BHP Billiton incentive structure to a four year plan at South32. Awards have a three year performance period from 1 July 2015 to 30 June 2018.

FY2016 Management Transitional Award Plan

The FY2016 Management Transitional Award Plan is a grant made to certain eligible employees to bridge the gap between their total target reward at BHP Billiton and their total target reward at the South32 Group. Transition awards will be made for a maximum of five years until FY2020. The FY2016 Management Transitional Award Plan has the same conditions as the FY2016 Management Share Plan and comprises both service and performance conditions.

FY2015 Deferred Shares Plan

The FY2015 Deferred Shares Plan is a one-off grant made to individuals who were participating in the BHP Billiton Group Short Term Incentive Plan prior to demerger. Since the BHP Billiton Short Term Incentive Plan was in place for FY2015, the short term incentive outcomes for participants who have joined the South32 Group have been delivered in accordance with the BHP Billiton plan (i.e. 50% of the outcome in cash, 50% in share awards) except the awards are rights to South32 Limited ordinary shares, not BHP Billiton ordinary shares. There are no performance conditions attached to the FY2015 Deferred Shares Plan awards. Awards vest in August 2017 provided participants remain employed by South32.

FY2015 MAP Replacement Plan

The FY2015 MAP Replacement Plan is a one-off grant which has been made to eligible employees to replace the BHP Billiton Management Award Plan awards they would have received in March 2015 had they remained employed by BHP Billiton. Awards are made at an equivalent value, on equivalent terms and conditions and with the same vesting date as for the BHP Billiton Management Award Plan. There are no performance conditions attached to the awards. Awards will vest at the end of the vesting period (three years from grant of the original BHP Billiton award) provided participants remain employed by the South32 Group.

Replacement BHP Billiton Long Term Incentive Plan

The Replacement BHP Billiton Long Term Incentive Plan awards have a five year performance period from grant of the original BHP Billiton award. The performance hurdle testing for the awards is split into two periods: the BHP Billiton period (from grant up to 24 May 2015) and the South32 Group period (from 25 May 2015 to the date of vesting). During the BHP Billiton period, performance was based on BHP Billiton's TSR relative to a combination of the Peer Group TSR (a specified group of peer companies) for two thirds of the award and the MSCI World Index for one third.

Replacement BHP Billiton Management Award Plan

There are no performance conditions attached to these awards. Awards will vest at the end of the vesting period (three years from grant of the original BHP Billiton award) provided participants remain employed by the South32 Group.

Replacement BHP Billiton Short Term Incentive Plan

There are no performance conditions attached to these awards. Awards will vest at the end of the vesting period (two years from grant of the original BHP Billiton award) provided participants remain employed by the South32 Group.

Replacement BHP Billiton Group Short Term Incentive Plan

There are no performance conditions attached to the awards. Awards will vest at the end of the vesting period (two years from grant of the original BHP Billiton award) provided participants remain employed by the South32 Group.

Replacement BHP Billiton Transitional Plan

The Replacement BHP Billiton Transitional Plan awards have two tranches. The first tranche has a three year service and performance condition from grant of the original BHP Billiton award. The second tranche has a four year service and performance condition from grant of the original BHP Billiton award. The performance hurdle testing for the awards is split into two periods: the BHP Billiton period (from grant up to 24 May 2015) and the South32 Group period (from 25 May 2015 to the date of vesting). The South32 Remuneration Committee has absolute discretion to determine whether the performance conditions have been met, having regard to: (1) TSR over the period, (2) the participant's contribution to company outcomes, and (3) the participant's personal performance. For each measure, the relevant performance outcomes for BHP Billiton or South32 are applied.

FY2015 Transitional Award Plan

The FY2015 Transitional Award Plan award is a one-off grant which has been made to one Executive Committee member to bridge the gap between the total remuneration package whilst employed by BHP Billiton and the total remuneration package for the first three year's employment with the South32 Group.

The award has three equal tranches, vesting in 2016, 2017 and 2018 respectively. Service and performance conditions apply for each period from grant. The South32 Remuneration Committee has absolute discretion to determine whether the performance conditions have been met, having regard to: (1) South32 Limited's TSR over the period, (2) the participant's contribution to South32 Limited's outcomes, and (3) the participant's personal performance.

(b) Employee Share Ownership Plan Trusts

The South32 Limited Employee Incentive Plans Trust is a discretionary trust for the benefit of employees of South32 Limited and its subsidiaries.

The trustee (CPU Share Plans Pty Ltd) is an independent company, resident in Australia. The Trust uses funds provided by South32 Limited and/or its subsidiaries to acquire ordinary shares to enable awards to be made or satisfied under the South32 employee share ownership arrangements.

The ordinary shares may be acquired by purchase in the market or by subscription at not less than nominal value.

NOTES TO FINANCIAL STATEMENTS – OTHER NOTES

25. Employee share ownership plans (continued)

(c) Measurement of fair values

The fair value at grant date of equity-settled share awards is charged to the consolidated income statement over the period for which the benefits of employee services are expected to be derived. The corresponding accrued employee entitlement is recorded in the employee share awards reserve.

Where awards are forfeited because non-market based vesting conditions are not satisfied, the expense previously recognised is proportionately reversed. Where shares in South32 Limited are acquired by on-market purchases prior to settling the vested entitlement, the cost of the acquired shares is carried as treasury shares and deducted from equity. Where awards are satisfied by delivery of acquired shares, any difference between their acquisition cost and the remuneration expense recognised is charged directly to retained earnings. The tax effect of awards granted is recognised in income tax expense, except to the extent that the total tax deductions are expected to exceed the cumulative remuneration expense. In this situation, the excess of the associated current or deferred tax is recognised in consolidated other comprehensive income and forms part of the employee share awards reserve.

The fair value of performance rights is measured using a Monte Carlo methodology. This model considers the following:

- Expected life of the award
- Current market price of the underlying shares
- Expected volatility (of the individual company and of each peer group)
- Expected dividends
- Risk-free interest rate and
- Market-based performance hurdles

The fair value of retention rights is measured using a Black Scholes methodology. This model considers the following:

- Expected life of the award
- Current market price of the underlying shares
- Expected dividends and
- Risk-free interest rate

The inputs used in the measurement of the fair values at grant date of the equity settled share based payments plans were as follows:

Year ended 30 June 2016	Fair value at grant date (US$)(1)	Share price at grant date (US$)(1)	Expected volatility (%)(2)	Expected life (in years)(1)	Risk-free interest rate based on government bonds (%)(1)
Recurring plans					
FY2016 Long Term Incentive Plan(3)	0.41	0.86	40	4.00	2.45
FY2015 Deferred Short Term Incentive Plan(3)	0.83	0.86	40	2.00	n/a
FY2016 Management Share Plan - Retention Rights(4)	0.99	1.05 - 1.23	40	3.00	n/a
FY2016 Management Share Plan - Performance Rights(4)	0.56 - 0.59	1.05 - 1.23	40	4.00	1.92 - 7.87
2015 AllShare Plan(4)	0.99 - 1.02	1.05 - 1.23	40	2.00 - 3.00	n/a
Transitional plans					
FY2016 Executive Transitional Award Plan(3)	0.39	0.86	40	3.00	2.20
FY2016 Advance Award Plan(4)	0.55 - 0.58	1.05 - 1.23	40	3.00	1.82 - 7.87
FY2016 Management Transitional Award Plan(4)(5)	0.56 - 1.03	1.05 - 1.23	40	1.00 - 4.00	1.92 - 7.87
FY2015 Deferred Shares Plan(4)	0.99 - 1.02	1.05 - 1.06	40	2.00 - 3.00	n/a
FY2015 MAP Replacement Plan(4)	0.99	1.06	40	3.00	n/a

(1) Represents the range of grant date fair values, share price, expected life, and risk-free interest rates based on the amount of rights granted on the ASX or the JSE during the year, and the variations in offer terms and grant dates of each plan where applicable.

(2) Expected volatility is based on the historical South32 Limited share price volatility at the grant date.

(3) Grant date 4 December 2015.

(4) Grant date 30 October 2015 or 13 May 2016.

(5) The range for performance based awards is 1.92% - 7.87%, there is no risk-free rate applicable to service based awards.

NOTES TO FINANCIAL STATEMENTS – OTHER NOTES

25. Employee share ownership plans (continued)

(c) Measurement of fair values (continued)

Year ended 30 June 2015	Fair value at grant date (US$)[1]	Share price at grant date (US$)[1]	Expected volatility (%)[4]	Expected life (in years)[1]	Risk-free interest rate based on government bonds (%)[1]
Transitional plans					
Replacement BHP Billiton Long Term Incentive Plan[2]	0.70 - 0.88	1.76	35	2.28 - 4.28	2.13 - 2.28
Replacement BHP Billiton Management Award Plan[2]	1.67 - 1.71	1.76	35	1.28 - 2.28	n/a
Replacement BHP Billiton Short Term Incentive Plan[2]	1.76	1.76	35	1.28	n/a
Replacement BHP Billiton Group Short Term Incentive Plan[2]	1.71	1.76	35	1.28	n/a
Replacement BHP Billiton Transitional Award Plan[2]	1.69 - 1.74	1.76	35	0.28 - 2.28	n/a
FY2015 Transitional Award Plan[3]	1.32	1.45	35	1.18 - 3.18	n/a

(1) Represents the range of grant date fair values, share price, expected life, and risk-free interest rates based on the amount of rights granted on the ASX or the JSE during the year, and the variations in offer terms and grant dates of each plan where applicable.

(2) Grant date 25 May 2015.

(3) Grant date 29 June 2015.

(4) Expected volatility has been based on an evaluation of the volatility of 13 companies which collectively represent a similar business operation, commodity mix and market capitalisation to the South32 Group.

(d) Reconciliation of outstanding share awards

None of the awards listed below have an exercise price or are exercisable at 30 June 2016.

Year ended 30 June 2016	Rights at beginning of period	Granted during the period	Vested during the period	Forfeited during the period	Rights at end of the period
Recurring plans					
FY2016 Long Term Incentive Plan	–	7,220,731	–	–	7,220,731
FY2015 Deferred Short Term Incentive Plan	–	2,415,867	–	–	2,415,867
FY2016 Management Share Plan - Retention Rights	–	5,566,687	(128,466)	(423,602)	5,014,619
FY2016 Management Share Plan - Performance Rights	–	13,805,523	–	(1,139,248)	12,666,275
2015 AllShare Plan	–	17,722,200	(1,362,000)	(361,800)	15,998,400
Transitional plans					
FY2016 Executive Transitional Award Plan	–	1,423,506	–	–	1,423,506
FY2016 Advance Award Plan	–	13,557,290	–	(1,130,665)	12,426,625
FY2016 Management Transitional Award Plan	–	5,343,248	(44,489)	(827,168)	4,471,591
FY2015 Deferred Shares Plan	–	4,508,436	(671,819)	–	3,836,617
FY2015 MAP Replacement Plan	–	75,339	–	–	75,339
Replacement BHP Billiton Long Term Incentive Plan	7,286,350	–	–	–	7,286,350
Replacement BHP Billiton Management Award Plan	703,746	–	–	–	703,746
Replacement BHP Billiton Short Term Incentive Plan	1,018,425	–	–	–	1,018,425
Replacement BHP Billiton Group Short Term Incentive Plan	325,909	–	–	–	325,909
Replacement BHP Billiton Transitional Award Plan	941,908	–	(221,856)	(30,253)	689,799
FY2015 Transitional Award Plan	1,616,241	–	–	–	1,616,241
Total awards	**11,892,579**	**71,638,827**	**(2,428,630)**	**(3,912,736)**	**77,190,040**

NOTES TO FINANCIAL STATEMENTS – OTHER NOTES

25. Employee share ownership plans (continued)

(d) Reconciliation of outstanding share awards (continued)

Year ended 30 June 2015	Rights at beginning of period	Granted during the period	Vested during the period	Forfeited during the period	Rights at end of the period
Transitional plans					
Replacement BHP Billiton Long Term Incentive Plan	–	7,286,350	–	–	7,286,350
Replacement BHP Billiton Management Award Plan	–	703,746	–	–	703,746
Replacement BHP Billiton Short Term Incentive Plan	–	1,018,425	–	–	1,018,425
Replacement BHP Billiton Group Short Term Incentive Plan	–	325,909	–	–	325,909
Replacement BHP Billiton Transitional Award Plan	–	941,908	–	–	941,908
FY2015 Transitional Award Plan	–	1,616,241	–	–	1,616,241
Total awards	**–**	**11,892,579**	**–**	**–**	**11,892,579**

26. Contingent liabilities

Contingent liabilities not otherwise provided for in the financial statements are categorised as arising from:

US$M	FY2016	FY2015
Subsidiaries and joint operations		
Actual or potential litigation(1)	**203**	198
Total contingent liabilities	**203**	198

(1) Excludes amounts indemnified by the BHP Billiton Group, as per the Separation Deed.

The actual or potential litigation primarily relates to numerous tax assessments or matters arising from tax audits relating to transactions in prior years in Brazil, Colombia and South Africa. Additionally, there are a number of legal claims or potential claims against the South32 Group, the outcome of which cannot be foreseen at present, and for which no amounts have been included.

27. Commitments

US$M	FY2016	FY2015
Capital expenditure commitments	**63**	51
Lease expenditure commitments		
Finance leases		
Within one year	**62**	64
After one year but not more than five years	**252**	262
More than five years	**1,026**	1,122
Total minimum lease payments under finance leases	**1,340**	1,448
Less amounts representing finance charges	**(738)**	(817)
Finance lease liability	**602**	631
Operating leases		
Within one year	**36**	32
After one year but not more than five years	**118**	112
More than five years	**33**	46
Total commitments for operating leases	**187**	190
Other expenditure commitments		
Within one year	**111**	40
After one year but not more than five years	**17**	10
More than five years	**21**	22
Total commitments for other expenditure	**149**	72

NOTES TO FINANCIAL STATEMENTS – OTHER NOTES

27. Commitments (continued)

Operating lease assets are not capitalised and rental payments are included in the consolidated income statement on a straight-line basis over the lease term. Provision is made for the present value of future operating lease payments in relation to surplus lease space, when it is first determined that the space will not be of probable future benefit. Operating lease incentives are recognised as a liability when received and subsequently reduced by allocating lease payments between rental expense and reduction of the liability.

28. Subsidiaries

Significant subsidiaries of the South32 Group, which are those with the most significant contribution to the South32 Group's net profit/(loss) or net assets, are as follows:

			Effective interest	
			FY2016	FY2015
Significant subsidiaries	**Country of incorporation**	**Principal activity**	**%**	**%**
Cerro Matoso SA	Colombia	Nickel mining and ferronickel smelting	**99.9**	99.9
Dendrobium Coal Pty Ltd	Australia	Coal mining	**100**	100
Endeavour Coal Pty Ltd	Australia	Coal mining	**100**	100
Hillside Aluminium Proprietary Limited	South Africa	Aluminium smelting	**100**	100
Illawarra Services Pty Ltd	Australia	Coal preparation plant	**100**	100
South32 Aluminium (Holdings) Pty Ltd	Australia	Investment holding company	**100**	100
South32 Aluminium (RAA) Pty Ltd	Australia	Bauxite mining and alumina refining	**100**	100
South32 Aluminium (Worsley) Pty Ltd	Australia	Bauxite mining and alumina refining	**100**	100
South32 Cannington Pty Ltd	Australia	Silver, lead and zinc mining	**100**	100
South32 Group Operations Pty Ltd	Australia	Administrative services	**100**	100
African Metals Pty Ltd	South Africa	Investment holding company	**100**	100
South32 Investment 12 B.V.	Netherlands	Investment holding company	**100**	100
South32 Marketing Pte Ltd	Singapore	Commodity marketing and trading	**100**	100
South32 Minerals SA	Brazil	Alumina refining and aluminium smelting	**100**	100
South32 SA Coal Holdings Proprietary Limited(1)	South Africa	Coal mining	**100**	100
South32 SA Investments Limited	United Kingdom	Investment holding company	**100**	100
South32 SA Limited	South Africa	Administrative services	**100**	100
South32 Treasury Limited	Australia	Financing company	**100**	100

(1) The South32 Group's effective interest in South32 SA Coal Holdings Proprietary Limited will reduce to 92 per cent pursuant to Broad-Based Black Economic Empowerment transactions in South Africa. The South32 Group's voting rights in South32 SA Coal Holdings Proprietary Limited is 92 per cent.

Subsidiaries are entities controlled by the parent entity. Control exists where the parent entity is exposed, or has rights to, variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. A parent entity has power over the subsidiary, when it has existing rights to direct the relevant activities of the subsidiary which are those which significantly affect the subsidiary's returns. The financial statements of subsidiaries are included in the consolidated financial statements for the period they are controlled.

Country of tax residency

The South32 Group comprises a number of subsidiaries where the tax residency differs to their country of incorporation. Summarised below are the number of subsidiaries incorporated and tax resident in each country.

Country	Number of subsidiaries incorporated	Number of subsidiaries tax resident
Australia	18	22
Brazil	1	1
British Virgin Islands(1)	4	–
Colombia	2	2
Jersey(2)	1	–
Mozambique	1	1
Netherlands	3	3
Singapore	2	2
South Africa	29	29
United Kingdom	1	2
Total	**62**	**62**

(1) 3 subsidiaries incorporated in the British Virgin Islands are residents of Australia for tax purposes. The remaining subsidiary is a resident of the United Kingdom for tax purposes.

(2) The subsidiary incorporated in Jersey is a resident of Australia for tax purposes.

NOTES TO FINANCIAL STATEMENTS – OTHER NOTES

29. Equity accounted investments

The South32 Group's interests in equity accounted investments with the most significant contribution to the South32 Group's net profit/(loss) or net assets are as follows:

Significant joint ventures	Country of incorporation/ principal place of business	Principal activity	Reporting date	Acquisition date	Ownership Interest FY2016 %	FY2015 %
Australia Manganese[(1)(2)]	Australia	Integrated producer of manganese ore and alloy	30 Jun 2016	8 May 2015[(4)]	**60**	60
South Africa Manganese[(1)(3)]	South Africa	Integrated producer of manganese ore and alloy	30 Jun 2016	3 Feb 2015[(4)]	**60**	60

(1) The joint ventures were acquired under the Internal Restructure. Whilst the South32 Group holds a greater than 50 per cent interest in the joint ventures, joint control is contractually achieved as joint venture parties unanimously consent on decisions over the joint venture's relevant activities. Refer to note 4 South32 Limited demerger.

(2) Australia Manganese consists of an investment in Groote Eylandt Mining Company Pty Limited.

(3) South Africa Manganese consists of an investment in Samancor Holdings (Proprietary) Limited.

(4) Refer to note 4(c) Manganese operations.

A reconciliation of the carrying amount of the equity accounted investments is set out below.

Investment in joint ventures

US$M	FY2016	FY2015
At the beginning of the financial year	**1,707**	–
Acquisitions	**1**	1,626
Fair value uplift on change to joint control[(1)]	**–**	921
Share of profit/(loss)	**(330)**	(70)
Other comprehensive income/(loss)	**1**	–
Dividends received from equity accounted investments	**(19)**	–
Impairments[(2)]	**(790)**	(770)
At the end of the financial year	**570**	1,707

(1) Refer to note 5(b)(ii) Significant items.

(2) Refer to note 13 Impairment of non-financial assets.

Share of profit/(loss) of investments accounted for using equity method

US$M	FY2016	FY2015
Australia Manganese and South Africa Manganese	**(339)**	(72)
Individually immaterial[(1)]	**9**	2
Total	**(330)**	(70)

(1) Individually immaterial consists of investments in Samancor AG (60 per cent), Samancor Marketing Pte Ltd (60 per cent), Richards Bay Coal Terminal Proprietary Limited (21.1 per cent) and Port Kembla Coal Terminal Limited (16.7 per cent).

Carrying amount of investments accounted for using equity method

US$M	FY2016	FY2015
Australia Manganese and South Africa Manganese	**409**	1,474
Individually immaterial[(1)]	**161**	233
Total	**570**	1,707

(1) Individually immaterial consists of investments in Samancor AG (60 per cent), Samancor Marketing Pte Ltd (60 per cent), Richards Bay Coal Terminal Proprietary Limited (21.1 per cent) and Port Kembla Coal Terminal Limited (16.7 per cent).

NOTES TO FINANCIAL STATEMENTS – OTHER NOTES

29. Equity accounted investments (continued)

The following table summarises the financial information relating to each significant equity accounted investment.

	Joint ventures			
US$M	**Australia Manganese**	**South Africa Manganese[1]**	**Australia Manganese**	**South Africa Manganese[1]**
	FY2016		**FY2015**	
Reconciliation of carrying amount of equity accounted investments				
Current assets	271	219	251	308
Non-current assets	766	739	1,115	1,232
Current liabilities	(626)	(70)	(678)	(113)
Non-current liabilities	(273)	(336)	(288)	(587)
Net assets – 100%	**138**	**552**	**400**	**840**
Net assets – the South32 Group's share	83	329	240	489
Fair value uplift	751	749	751	749
Impairment	(726)	(740)	–	(740)
Amortisation on fair value uplift	(28)	(10)	(6)	(10)
Elimination of gain/(loss) on intragroup sales	3	(2)	3	(2)
Carrying amount of equity accounted investments	**83**	**326**	**988**	**486**
Reconciliation of share of profit/(loss) of equity accounted investments				
Revenue – 100%	718	347	126	217
Profit/(loss) after taxation from continuing operations – 100%	(261)	(266)	(1)	(94)
Profit/(loss) after taxation from continuing operations – the South32 Group's share[2]	(157)	(160)	(1)	(56)
Amortisation of fair value uplift	(22)	–	(6)	(10)
Elimination of gain/(loss) on intragroup sales	–	–	3	(2)
Share of profit/(loss) of equity accounted investments	**(179)**	**(160)**	**(4)**	**(68)**
Cash and cash equivalents[3]	1	10	1	18
Current financial liabilities (excluding trade and other payables and provisions)[3]	(500)	(4)	(490)	–
Non-current financial liabilities (excluding trade and other payables and provisions)[3]	–	(100)	–	(125)
Depreciation and amortisation[3]	(129)	(56)	(34)	(44)
Interest income[3]	–	3	–	1
Interest expense[3]	(32)	(2)	(9)	(3)
Income tax (expense)/benefit (excluding royalty related taxation)[3]	(2)	26	(28)	12

(1) South Africa Manganese includes a 60 per cent interest in Samancor Manganese (Proprietary) Limited and 54.6 per cent in Hotazel Manganese Mines (Proprietary) Limited.

(2) Includes impairment of Australia Manganese US$190 million and South Africa Manganese US$97 million.

(3) Balances presented on a 100 per cent basis.

The following table summarises the South32 Group's share of contingent liabilities and commitments of significant equity accounted investments as at 30 June 2016.

US$M	FY2016	FY2015
Share of contingent liabilities relating to joint ventures	**2**	–
Share of commitments relating to joint ventures[1][2]	**38**	43
Total	**40**	43

(1) Australia Manganese: Commitments with a maturity of less than a year includes capital commitments of US$6 million (2015: US$31 million) and other commitments of US$16 million (2015: US$ nil).

(2) South Africa Manganese: Commitments with a maturity of less than a year includes capital commitments of US$2 million (2015: US$5 million), other commitments of US$10 million (2015: US$ nil) and finance leases of US$2 million (2015: US$2 million). Commitments with a maturity of 1 to 2 years include finance leases of US$2 million (2015: US$4 million). Commitments with a maturity of 2 to 3 years include finance leases of US$ nil (2015: US$1 million).

NOTES TO FINANCIAL STATEMENTS – OTHER NOTES

29. Equity accounted investments (continued)

The South32 Group uses the term 'equity accounted investments' to refer to associates and joint ventures collectively.

Associates are entities in which the South32 Group holds significant influence. If the South32 Group holds 20 per cent or more of the voting power of an entity, it is presumed that the South32 Group has significant influence, unless it can be clearly demonstrated that this is not the case. Significant influence can also arise when the South32 Group has less than 20 per cent of voting power but it can be demonstrated that the South32 Group has the power to participate in the financial and operating policy decisions of the associate. Investments in associates are accounted for using the equity method.

Joint ventures are joint arrangements in which the parties with joint control of the arrangement have rights to the net assets of the arrangement. Joint arrangements exist when two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. A separate vehicle, not the parties, will have the rights to the assets and obligations to the liabilities, relating to the arrangement. More than an insignificant share of output from a joint venture is sold to third parties which indicates that the joint venture is not dependent on the parties to the arrangement for funding and that the parties to the arrangement have no obligation for the liabilities of the arrangement. Joint ventures are accounted for using the equity method.

Equity accounted investments are initially recorded at cost, including the value of any goodwill on acquisition. In subsequent periods, the carrying amount of the investment is adjusted to reflect the share of post-acquisition profit or loss and other comprehensive income. After application of the equity method, including recognising the South32 Group's share of the joint ventures' results, the value of the investment will be assessed for impairment if there is objective evidence that an impairment of the investment may have occurred. Where the carrying value of an equity accounted investment is reduced to nil after having applied equity accounting principles (and the South32 Group has no legal or constructive obligation to make further payments, nor has made payments on behalf of the associate or joint venture), dividends received from the associate or joint venture will be recognised as a 'Share of operating profit/(loss) of equity accounted investments'.

30. Interests in joint operations

Significant joint operations of the South32 Group, which are those with the most significant contributions to the South32 Group's net profit/(loss) or net assets, are as follows:

				Effective interest	
Significant joint operations	Country of operation	Principal activity	Acquisition date	FY2016 %	FY2015 %
Alumar(1)	Brazil	Alumina refining	3 Jul 2014	**36**	36
		Aluminium smelting	3 Jul 2014	**40**	40
Mozal SARL(1)(2)	Mozambique	Aluminium smelting	27 Mar 2015	**47.1**	47.1
Worsley(1)(3)	Australia	Bauxite mining and alumina refining	8 May 2015	**86**	86

(1) These joint operations were acquired under the Internal Restructure. Refer to note 4 South32 Limited demerger.
(2) This joint arrangement is an incorporated entity. However it is classified as a joint operation as the participants are entitled to receive output, not dividends, from the arrangement.
(3) Whilst the South32 Group holds a greater than 50 per cent interest in Worsley, all the participants approve the operating and capital budgets and therefore the South32 Group is deemed to have joint control over the relevant activities of Worsley.

Joint operations are joint arrangements in which the parties with joint control have rights to the assets and obligations for the liabilities relating to the arrangement. The activities of a joint operation are primarily designed for the provision of output to the parties to the arrangement, indicating that:

- The parties have the rights to substantially all the economic benefits of the assets of the arrangement and
- All liabilities are satisfied by the joint participants through their purchases of that output. This indicates that, in substance, the joint participants have an obligation for the liabilities of the arrangement

The consolidated financial statements of the South32 Group include its share of the assets and liabilities, revenues and expenses arising jointly or otherwise from those operations and its revenue derived from the sale of its share of output from the joint operation. All such amounts are measured in accordance with the terms of each arrangement, which are usually in proportion to the Group's interest in the joint operation.

31. Key management personnel

(a) Key management personnel compensation

US$'000	FY2016	FY2015
Short-term employee benefits	**7,225**	1,754
Post-employment benefits	**108**	44
Other long-term benefits	**310**	36
Share-based payments	**8,464**	1,320
Total	**16,107**	3,154

NOTES TO FINANCIAL STATEMENTS – OTHER NOTES

31. Key management personnel (continued)

(b) Transactions with key management personnel

There were no transactions with key management personnel during the year ended 30 June 2016 (2015: US$ nil).

(c) Loans to key management personnel

There were no loans with key management personnel during the financial year and as at 30 June 2016 (2015: US$ nil).

(d) Transactions with key management personnel's personally related entities

There were no transactions with entities controlled or jointly controlled by key management personnel and there were no outstanding amounts with those entities as at 30 June 2016 (2015: US$ nil).

32. Related party transactions

(a) Parent entity

The ultimate parent entity of the South32 Group is South32 Limited, which is domiciled and incorporated in Australia.

(b) Subsidiaries

The percentage of ordinary shares held in significant subsidiaries is disclosed in note 28 Subsidiaries.

(c) Joint ventures

The percentage interest held in significant joint ventures is disclosed in note 29 Equity accounted investments.

(d) Joint operations

The percentage interest held in significant joint operations is disclosed in note 30 Interests in joint operations.

(e) Associates

The percentage interest held in associates is disclosed in note 29 Equity accounted investments.

(f) Key management personnel

Disclosures relating to key management personnel are set out in note 31 Key management personnel.

(g) Transactions with related parties

Transactions with related parties

	Joint ventures		Associates	
US$'000	**FY2016**	**FY2015**	**FY2016**	**FY2015**
Sales of goods and services	**143,502**	65,154	**2,838**	3,682
Purchases of goods and services	**–**	–	**33,162**	50,081
Interest income	**9,892**	3,907	**33**	16
Dividend income	**18,685**	–	**–**	–
Interest expense	**2,647**	697	**–**	–
Short term financing arrangements to/(from) related parties	**(19,319)**	–	**–**	–
Loans made to/(from) related parties	**–**	300,000	**28,374**	5,613

Outstanding balances with related parties

	Joint ventures		Associates	
US$'000	**FY2016**	**FY2015**	**FY2016**	**FY2015**
Trade amounts owing to related parties	**–**	–	**583**	2,343
Other amounts owing to related parties(1)	**269,126**	249,807	**–**	–
Trade amounts owing from related parties	**31,216**	1,406	**–**	–
Loan amounts owing from related parties	**300,000(2)**	300,000(2)	**52,314**	23,940

(1) Amount owing relates to short-term deposits and cash managed by the South32 Group. Interest is paid based on the three month LIBOR and the one month JIBAR.

(2) The loan was made on commercial terms, with interest charged at market rates and is due to be repaid in December 2016 (subject to refinancing).

Terms and conditions

Sales to, and purchases from, related parties of goods and services are transactions at market prices and on commercial terms.

Outstanding balances at year-end are unsecured and settlement mostly occurs in cash.

No guarantees are provided or received for any related party receivables or payables.

No provision for doubtful debts has been recognised in relation to any outstanding balances and no expense has been recognised in respect of bad or doubtful debts due from related parties.

Transactions with BHP Billiton Group

Transactions between members of the South32 Group whilst they were wholly-owned subsidiaries of BHP Billiton Limited and the BHP Billiton Group for the year ended 30 June 2015 included:

- Advancement and repayment of loans
- Provision of management and administrative assistance
- Purchases and sales of products and services
- Interest expense and income, paid or received by controlled entities of South32 Limited for money borrowed
- Transfer of tax related balances for tax consolidation purposes and
- Acquisition and disposal of businesses and operations whilst under common control

Prior to the demerger the South32 Group entered into a Separation Deed with the BHP Billiton Group. The Separation Deed deals with matters arising in connection with the demerger of the South32 Group from the BHP Billiton Group. Refer to note 4 South32 Limited demerger.

The Separation Deed principally covers the following key terms: assumption of liabilities, limitations and exclusions from indemnities and claims, contracts, financial support, demerger costs and litigation.

NOTES TO FINANCIAL STATEMENTS – OTHER NOTES

33. Parent entity information

(a) Summary financial information

The individual financial statements for the parent entity, South32 Limited, show the following aggregate amounts:

US$M	FY2016	FY2015
Result of parent entity		
Profit/(loss) after taxation for the year	**(1,852)**	(3,067)
Other comprehensive income	**–**	–
Total comprehensive income	**(1,852)**	(3,067)
Financial position of parent entity at year end		
Current assets	**77**	39
Total assets	**10,554**	12,314
Current liabilities	**94**	32
Total liabilities	**131**	62
Net assets	**10,423**	12,252
Total equity of the parent entity comprising		
Share capital	**14,958**	14,958
Reserves	**4**	(19)
Retained earnings/(accumulated losses)	**(4,539)**	(2,687)
Total equity	**10,423**	12,252

(b) Parent company guarantees

The parent entity has guaranteed a US commercial paper programme of US$1,500 million. The parent entity has also guaranteed a Group Revolving Credit Facility of US$1,500 million, which backs the US commercial paper programme and remains undrawn as at 30 June 2016.

The parent entity is party to a Deed of Support with the effect that the Company guarantees debts in respect of South32 Group Operations Pty Ltd.

(c) Contingent liabilities

The parent entity did not have any contingent liabilities at 30 June 2016 (2015: US$ nil).

(d) Commitments

The parent entity did not have any contractual commitments at 30 June 2016 (2015: US$ nil).

34. Subsequent events

On 25 August 2016, the Directors resolved to pay an unfranked final dividend of US 1 cent per share (US$53 million) in respect of the 2016 financial year. The dividend will be paid on 6 October 2016. The dividend has not been provided for in the financial statements and will be recognised in the financial statements for the 2017 financial year.

No other matters or circumstances have arisen since the end of the financial year that have significantly affected, or may significantly affect, the operations, results of operations or state of affairs of the South32 Group in subsequent accounting periods.

DIRECTORS' DECLARATION

In accordance with a resolution of the Directors of the South32 Group, we state that:

1. In the opinion of the directors:
   (a) The consolidated financial statements and notes that are set out on pages 126 to 183 and the Remuneration Report in section 6 of the Annual Report are in accordance with the *Corporations Act 2001*, including:
      (i) Giving a true and fair view of the South32 Group's financial position as at 30 June 2016 and of its performance for the year ended on that date and
      (ii) Complying with Australian Accounting Standards and *Corporations Regulations 2001.*
   (b) There are reasonable grounds to believe that the South32 Group will be able to pay its debts as and when they become due and payable.
2. The directors have been given the declarations required by Section 295A of the *Corporations Act 2001* from the Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2016.
3. The directors draw attention to note 2 to the financial statements, which includes a statement of compliance with International Financial Reporting Standards.

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

David Crawford AO
Chairman

Graham Kerr
Chief Executive Officer

Dated: 6 September 2016

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOUTH32 LIMITED

Report on the financial report

We have audited the accompanying financial report of South32 Limited (the company), which comprises the consolidated balance sheet as at 30 June 2016, and consolidated income statement and consolidated statement of comprehensive income, consolidated cash flow statement and consolidated statement of changes in equity for the year ended on that date, notes 1 to 34 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In note 2, the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Group comply with International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB).

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Group's financial position and of its performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

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

Auditor's opinion

In our opinion:

(a) the financial report of the Group is in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the Group's financial position as at 30 June 2016 and of its performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

(b) the financial report also complies with International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB) as disclosed in note 2.

KPMG

Report on the remuneration report

We have audited the Remuneration Report included in section 6 of the Annual Report for the year ended 30 June 2016. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion

In our opinion, the remuneration report of South32 Limited for the year ended 30 June 2016, complies with Section 300A of the *Corporations Act 2001*.

KPMG

Denise McComish
Partner

Perth
6 September 2016

KPMG

LEAD AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

To: the Directors of South32 Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2016 there have been:

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

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

KPMG

Denise McComish
Partner

Perth
6 September 2016

INDEPENDENT ASSURANCE REPORT TO THE DIRECTORS AND MANAGEMENT OF SOUTH32 LIMITED

Our conclusions:

1) Assured sustainability information – Limited assurance

Based on the procedures performed, and evidence obtained, we are not aware of any material misstatements in the Assured Sustainability Information, as described below, which is prepared in accordance with the GRI G4 Sustainability Reporting Guidelines, the ICMM Sustainable Development Framework and the basis of preparation as disclosed in the South32 Limited Annual Report for the year ended 30 June 2016 ('Annual Report 2016').

2) GHG Emissions – Reasonable assurance

In our opinion, in all material respects, South32 Limited's reported greenhouse gas (GHG) emissions of 23.5 Mt CO2-e (Scope 1 and 2) for the year ended 30 June 2016, are prepared in accordance with the World Resources Institute/World Business Council for Sustainability Development (WRI/WBCSD) GHG Protocol (market-based method) and the basis of preparation as disclosed in the Annual Report 2016.

Assured Sustainability Information

The Assured Sustainability Information, as presented in the Annual Report 2016 and available on South32 Limited's (South32's) website, comprised the following:

Section	**Selected data and text statements**
Safety	Entire section
Health	Entire section
Environment	Biodiversity, Energy, Emissions, Air quality, Water
Society	Our community contribution, Understanding local communities, Grievances and complaints, Community contributions in our Africa region
Sustainability data tables	Website: *https://www.south32.net/sustainability/getattachment/sustainability/Sustainability-Reporting/MaterialityFY2016.pdf*
Materiality	Website: *https://www.south32.net/investors-media/getattachment/Investors-Media/annual-reporting-suite/SustainabilityDataTablesFY2016.pdf*

Criteria used as the basis of reporting

The criteria used as the basis of reporting includes the GRI G4 Sustainability Reporting Guidelines published by the Global Reporting Initiative (GRI), the ICMM Sustainable Development Framework published by the International Council on Mining and Metals (ICMM), the GHG Protocol published by the WRI/WBCSD, and the basis of preparation disclosed in the Annual Report 2016 prepared by the Directors and Management of South32.

Basis of conclusions

We conducted our work in accordance with International Standard on Assurance Engagements ISAE 3000 *Assurance Engagements other than Audits or Reviews of Historical Financial Information* and ISAE 3410 *Assurance on Greenhouse Gas Statements* (Standards). In gathering evidence for our conclusions our assurance procedures comprised:

- interviews with senior management and relevant staff at corporate and 7 operating sites;
- assessment of the suitability and application of the criteria in respect of the Assured Sustainability Information and GHG emissions;
- evaluation of the design and implementation of the key systems, processes and controls for collecting, managing and reporting the Assured Sustainability Information, and testing of certain controls for collecting, managing and reporting the GHG emissions;
- risk analysis, including print and social media searches, to validate the completeness of South32's own materiality assessment and to determine the scope of assurance testing at corporate and operating sites;
- assessment of the reasonableness of the assumptions underlying the forward-looking statements set out in the Assured Sustainability Information;
- agreeing the Assured Sustainability Information to relevant underlying sources on a sample basis;

KPMG

- agreeing the GHG emissions data to relevant underlying sources in accordance with the International Standard on Auditing ISA 530 *Audit Sampling and Other Means of Testing*;
- an assessment that the indicators reported were in accordance with the GRI G4 Core level of disclosures.

GHG emissions quantification is subject to inherent uncertainty because of incomplete scientific knowledge used to determine emissions factors and the values needed to combine emissions of different gases.

In accordance with the Standards we have:

- used our professional judgement to plan and perform the engagement to obtain assurance that the Assured Sustainability Information and GHG emissions are free from material misstatement, whether due to fraud or error;
- considered relevant internal controls when designing our assurance procedures, however we do not express a conclusion on their effectiveness;
- ensured that the engagement team possesses the appropriate knowledge, skills and professional competencies.

How we define limited and reasonable assurance

Limited assurance consists primarily of enquiries and analytical procedures as described above. The procedures performed in a limited assurance engagement vary in nature and timing, and are less in extent than for a reasonable assurance engagement. Consequently the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

Reasonable assurance is a high level of assurance but, due to the use of sampling techniques, it is not a guarantee that it will always detect a material misstatement when it exists.

Use of this Assurance Report

This report has been prepared for South32. We disclaim any assumption of responsibility for any reliance on this report, to any person other than South32, or for any other purpose than that for which it was prepared.

South32's responsibility

South32 is responsible for:

- determining that the criteria is appropriate to meet their needs;
- preparing and presenting the Assured Sustainability Information and GHG emissions in accordance with the criteria;
- determination of South32's GRI level of disclosures in accordance with the GRI guidelines;
- establishing internal controls that enable the preparation and presentation of the Assured Sustainability Information and GHG emissions that are free from material misstatement, whether due to fraud or error;
- maintaining integrity of the website.

Our responsibility

Our responsibility is to perform limited assurance in respect of the Assured Sustainability Information, including Subject Matters 1 to 4 of the ICMM Sustainable Development Framework and reasonable assurance in respect of GHG emissions, and to issue an assurance report that includes our conclusions.

Our independence and quality control

We have complied with the independence and other relevant ethical requirements of the *Code of Ethics for Professional Accountants* of the International Federation of Accountants, and the applicable requirements of the International Standard on Quality Control 1 to maintain a comprehensive system of quality control.

KPMG

KPMG

Perth
6 September 2016

KPMG, an Australian partnership and member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ('KPMG International'), a Swiss entity.

Liability limited by a scheme approved under Professional Standards Legislation.

SHAREHOLDER INFORMATION

SHAREHOLDER INFORMATION

References in this Shareholder Information section to "South32", "the Company" are references to South32 Limited.

Voting rights

South32 ordinary shares carry voting rights of one vote per share.

Shareholders may hold a beneficial entitlement to dematerialised ordinary shares, Depositary Interests (DI) and American Depositary Shares (ADS) through the Central Securities Depositories of Strate, CREST and Depository Trust Company respectively. Each share held dematerialised in Strate, or as DIs held in CREST, entitles the holder to one vote. Each ADS is represented by five ordinary shares, with ADS voting managed by South32's ADS Depositary Bank.

Substantial shareholders

As at 19 August 2016, South32 has substantial shareholders who, together with their associates, held five per cent or more of the voting rights in South32, as notified to the Company under the *Corporations Act 2001 (Cth)* and the UK Disclosure and Transparency Rules.

Name	Date of Notice	Number shares	Percentage of capital
Schroder Investment Management Australia Limited	17/08/2016	277,622,788	5.21%
Blackrock Group	20/07/2016	266,224,654(1)	5.00%

(1) The number of shares includes 206 American Depositary Shares, representing an interest in 1,030 ordinary shares in South32 Limited.

20 largest shareholders

The following table sets out the 20 largest shareholders of fully paid ordinary shares listed on the register of shareholders of South32 and details of their shareholding as at 19 August 2016.

	Name	Number of fully paid shares	Percentage of capital
1	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	1,090,066,039	20.48
2	J P MORGAN NOMINEES AUSTRALIA LIMITED	894,395,057	16.80
3	NATIONAL NOMINEES LIMITED	368,454,317	6.92
4	CITICORP NOMINEES PTY LTD	292,908,257	5.50
5	STRATE DEMATERIALISED SHARES(1)	259,674,129	4.88
6	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	120,658,253	2.27
7	CITICORP NOMINEES PTY LIMITED <CITIBANK NY ADR DEP A/C>	108,063,045	2.03
8	BNP PARIBAS NOMS PTY LTD <DRP>	95,878,995	1.80
9	CHASE NOMINEES LIMITED <ELUCIT>	86,050,950	1.62
10	NORTRUST NOMINEES LIMITED <TDS>	79,905,005	1.50
11	CHASE NOMINEES LIMITED	60,005,921	1.13
12	STATE STREET NOMINEES LIMITED <OM04>	38,772,612	0.73
13	BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C>	31,877,916	0.60
14	STATE STREET NOMINEES LIMITED <OM02>	29,836,502	0.56
15	KAS NOMINEES LIMITED <28983223>	24,639,230	0.46
16	BBHISL NOMINEES LIMITED <128347>	22,200,000	0.42
17	NORTRUST NOMINEES LIMITED	21,898,152	0.41
18	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED <NT-COMNWLTH SUPER CORP A/C>	21,866,142	0.41
19	AMP LIFE LIMITED	21,785,334	0.41
20	THE BANK OF NEW YORK (NOMINEES) LIMITED <RZB>	18,442,782	0.35

(1) The largest holder on South32's South African register is the STRATE nominee, which holds the majority of shares in South Africa (including for some of the shareholders listed above) in a dematerialised form.

The Top 20 report looks through the UK Depositary, which holds the South32 Shares underlying the Depositary Interest Structure.

Distribution of shareholdings and number of shareholders

The following table shows the distribution of shareholders by size of shareholding and the number of shareholders as at 19 August 2016.

Size of holding	Number of Shareholders	Percentage of capital	Number of Shares
1 – 1,000	290,827	2.03	108,009,160
1,001 – 5,000	123,230	5.32	283,452,350
5,001 – 10,000	25,439	3.46	183,945,096
10,001 – 100,000	21,560	9.08	483,370,891
100,001 and over	700	80.11	4,264,985,404
Total	**461,756**	**100.00**	**5,323,762,901**

Shareholders with less than a marketable parcel

As at 19 August 2016, there were 125,739 shareholders holding less than a marketable parcel (A$500) based on the closing market price of A$2.04.

Small shareholding sale facility

On 25 August 2016, South32 established a small shareholding sale facility (Sale Facility) for shareholders on its Australian register with holdings valued at less than A$500 and whose registered address is in Australia or New Zealand. The Sale Facility enables eligible shareholders to sell their shares in South32 without incurring any brokerage or handling costs. Eligible shareholders have been sent a letter providing details of the Sale Facility. Further information is available on our website.

On-market purchases of South32 securities

During the FY2016, 2,240,000 shares were purchased on-market by the South32 Limited Employee Incentive Plans Trust for the purposes of South32's employee incentive schemes. The average price at which the securities were purchased was A$1.60.

Restricted and escrowed securities and on-market buy-backs

As at 19 August 2016, South32 does not have any:

- restricted securities or securities subject to voluntary escrow on issue
- current on-market buy-backs of South32 securities

Rights holdings in South32

The following table shows the distribution of rights holders by size of rights holdings as at 19 August 2016.

Size of holding	Number of Rights holders	Number of Rights
1 – 1,000	228	136,800
1,001 – 5,000	13,032	15,643,694
5,001 – 10,000	-	-
10,001 – 100,000	126	7,579,248
100,001 and over	89	52,512,752
Total	**13,475**	**75,872,494**

Dividend policy

Our dividend policy is determined by the Board at its discretion, having regard to our first two priorities for cash flow, being a commitment to maintain safe and reliable operations and an investment grade credit rating through the cycle.

South32 intends to distribute a minimum 40 per cent of Underlying Earnings as dividends to our shareholders following each six month reporting period. South32 will distribute dividends with the maximum practicable franking credits for the purposes of the Australian dividend imputation system.

Annual General Meeting

South32's AGM is scheduled to be held on Thursday 24 November 2016 at 2pm Australian Western Standard Time (AWST), in the Golden Ballroom at the Pan Pacific Hotel, 207 Adelaide Terrace, Perth, Western Australia 6000, Australia. If there is a change to the date, time or location of the AGM, then all relevant stock exchanges will be notified.

Announcements delivered at the AGM will be given to all stock exchanges and will be available on our website.

Stock exchanges

As at 19 August 2016, South32 has a primary listing on the Australian Securities Exchange (ASX), a secondary listing on the Johannesburg Stock Exchange (JSE), is admitted to the standard segment of the Official List of the UK Listing Authority and its ordinary shares are traded on the London Stock Exchange (LSE). South32 also has a Level 1 American Depositary Receipt (ADR) programme, which trades in the Unites States over the counter market.

Shareholder enquiries

Shareholders can access their current holding details as well as their transaction history, view dividend statements and payments made, download statements and documents, change their address, update their communication preferences and banking details, and check their tax details online via Computershare Investor Centre (*www.computershare.com*). Alternatively, refer to the relevant Investor Centre noted below if you have queries about your shareholdings:

Share registries

Australia

Computershare Investor Services Pty Limited
Yarra Falls 452 Johnston Street
Abbotsford Victoria 3067

Telephone

Australia: 1800 019 953
International: +61 3 9415 4169
Facsimile: +61 3 9473 2500

South Africa

Computershare Investor Services (Pty) Limited
70 Marshall Street
Johannesburg 2001

Telephone: +27 (0) 11 373 0033
Facsimile: +27 (0) 11 688 5217

Email enquiries: *web.queries@computershare.co.za*

Holders of shares dematerialised into STRATE should contact their CSDP or stockbroker.

United Kingdom

Computershare Investor Services PLC
The Pavilions, Bridgwater Road
Bristol BS99 6ZZ

Telephone: +44 (0) 370 873 5884
Facsimile: +44 (0) 370 703 6101
Email enquiries: *web.queries@computershare.co.uk*

American Depositary Receipts (ADR)

ADR holders should deal directly with Citibank Shareholder Services.

Citibank Shareholder Services
PO Box 43077
Providence, Rhode Island 02940-3077

Telephone: +1 781 575 4555 (outside of US)
+1 877 248 4237 (+1-877-CITIADR) (toll-free within US)
Facsimile: +1 201 324 3284

Email enquiries: *citibank@shareholders-online.com*
Website: *www.citi.com/dr*

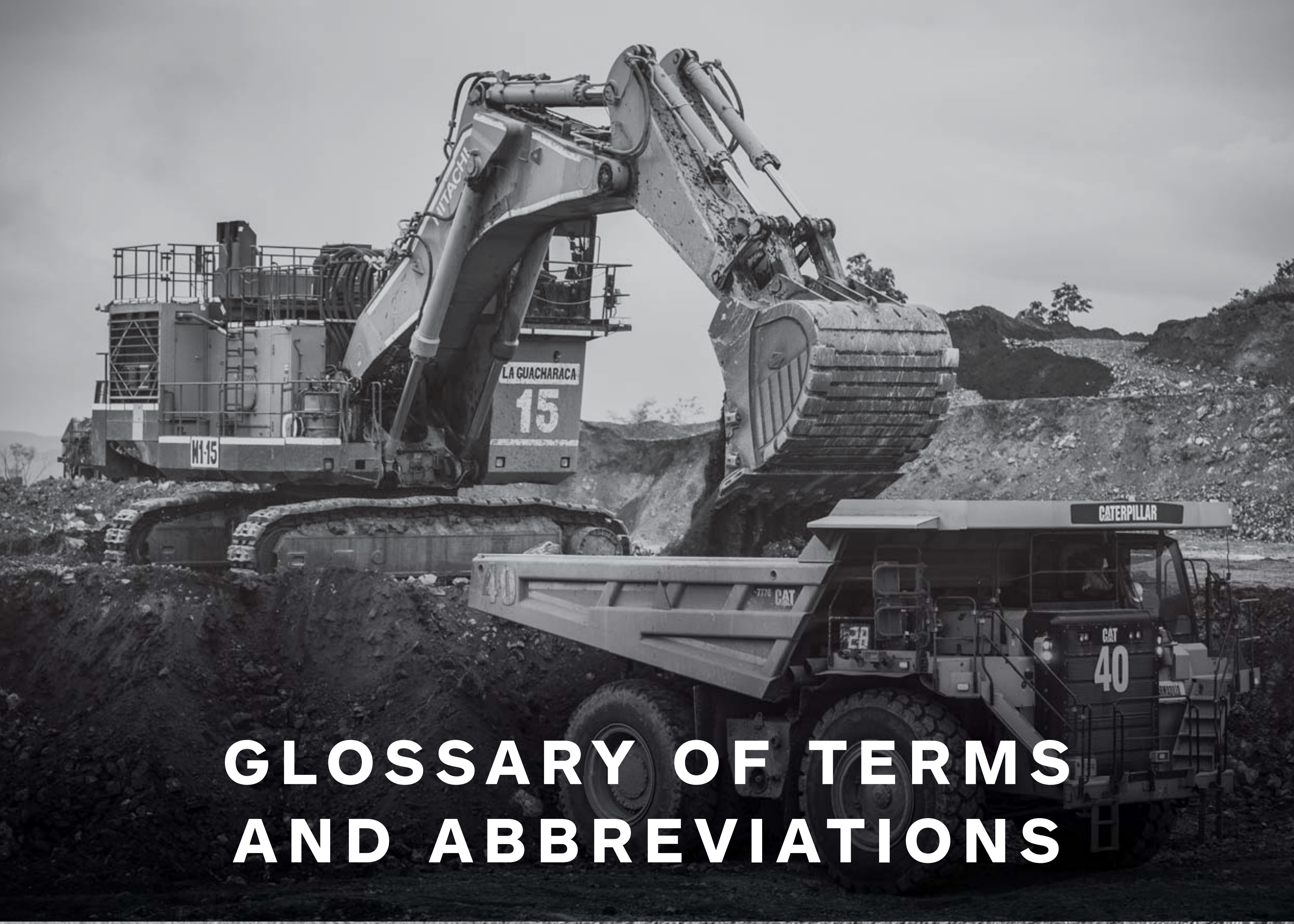
Branches

In accordance with UK requirement DTR 4.1.11R(5) South32, through various subsidiaries, has established branches in a number of different jurisdictions in which the business operates.

Registered office

Information regarding South32's office is included in the Corporate Directory on the inside back cover.

Shareholders are strongly encouraged to access all South32 communications electronically at *www.south32.net*. Shareholders that wish to receive electronic communications can update their preferences online or telephone the relevant Computershare Investor Centre.



GLOSSARY OF TERMS AND ABBREVIATIONS

MINING RELATED TERMS

2D
Two dimensional.

3D
Three dimensional.

Alumina
Aluminium oxide (Al_2O_3). Alumina is produced from bauxite in the Bayer refining process. Alumina is then converted (reduced) in an electrolysis cell to produce aluminium metal.

Ash
Inorganic material remaining after combustion of coal.

ASX Listing Rules (Chapter 5): Additional reporting on mining and oil and gas production and exploration activities.
This chapter sets out additional reporting and disclosure requirements for mining entities and oil and gas entities, and other entities reporting on mining and oil and gas activities.

AusIMM
The Australasian Institute of Mining and Metallurgy.

Bauxite
Principal commercial ore of aluminium.

Beneficiation
The process of physically separating ore from gangue to produce a higher grade concentrate prior to subsequent processing.

Brownfield
An exploration or development project located within an existing mineral province, which can share infrastructure and management with an existing operation.

Coal Reserves
The same meaning as Ore Reserves, but specifically concerning coal.

Coal Resources
The same meaning as Mineral Resources, but specifically concerning coal.

Coking coal
Used in the manufacture of coke, which is used in the steelmaking process by virtue of its carbonisation properties. Coking coal may also be referred to as metallurgical coal.

Competent Person
A Competent Person must have a minimum of five years' relevant experience in the style of mineralisation or type of deposit under consideration and in the activity that the person is undertaking (JORC Code 2012).

A minerals industry professional who is a Member or Fellow of The Australasian Institute of Mining and Metallurgy, or of the Australian Institute of Geoscientists, or of a 'Recognised Professional Organisation' (RPO), as included in a list available on the JORC and ASX websites. These organisations have enforceable disciplinary processes, including the powers to suspend or expel a member.

Cut-off grade
A nominated grade above which is defined some mineral aspect of the reserve or resource. For example, the lowest grade of mineralised material that qualifies as economic for estimating an Ore Reserve.

Energy coal
Used as a fuel source in electrical power generation, cement manufacture and various industrial applications. Energy coal may also be referred to as steaming or thermal coal.

Fall of Ground / Rock Fall
A fall of ground, such as rock or fill falling from the walls or face of an underground or surface mine, but does not include controlled falls occurring as part of mining, blasting or scaling operations.

FAusIMM
Fellow of the Australasian Institute of Mining and Metallurgy.

Flotation
A method of selectively recovering minerals from finely ground ore using a froth created in water by specific reagents. In the flotation process, certain mineral particles are induced to float by becoming attached to bubbles of froth and the unwanted mineral particles sink.

Grade
The relative quantity, or the percentage, of metal or mineral content in an orebody.

Greenfield
The development or exploration located outside the area of influence of existing mine operations/infrastructure.

Indicated Mineral Resource
That part of a Mineral Resource for which quantity, grade (or quality), densities, shape and physical characteristics are estimated with sufficient confidence to allow the application of modifying factors in sufficient detail to support mine planning and evaluation of the economic viability of the deposit.

Inferred Mineral Resource
That part of a Mineral Resource for which quantity and grade (or quality) are estimated on the basis of limited geological evidence and sampling. Geological evidence is sufficient to imply but not verify geological and grade (or quality) continuity.

JORC Code
A set of minimum standards, recommendations and guidelines for public reporting in Australasia of Exploration Results, Mineral Resources and Ore Reserves. The guidelines are defined by the Australasian Joint Ore Reserves Committee (JORC), which is sponsored by the Australian mining industry and its professional organisations.

Leaching
The process by which a soluble metal can be economically recovered from minerals in ore by dissolution.

Marketable Coal Reserves
Represents beneficiated or otherwise enhanced coal product where modifications due to mining, dilution and processing have been considered, must be publicly reported in conjunction with, but not instead of, reports of Coal Reserves.

MAusIMM
Member of the Australasian Institute of Mining and Metallurgy.

MAusIMM (CP)
Accredited Chartered Professional status of members of the Australasian Institute of Mining and Metallurgy that have undergone an assessment of their competencies and which are maintained through continuing professional development activities.

Measured Mineral Resource
That part of a Mineral Resource for which quantity, grade (or quality), densities, shape and physical characteristics are estimated with confidence sufficient to allow the application of modifying factors to support detailed mine planning and final evaluation of the economic viability of the deposit.

Metallurgical coal
A broader term than coking coal, which includes all coals used in steelmaking, such as coal used for the pulverised coal injection process.

Modifying Factors
Considerations used to convert Mineral Resources to Ore Reserves. These include, but are not restricted to, mining, processing, metallurgical, infrastructure, economic, marketing, legal, environmental, social and governmental factors.

Mineral Resource
A concentration or occurrence of solid material of economic interest in or on the Earth's crust in such form, grade (quality) and quantity that there are reasonable prospects for eventual economic extraction. The location, quantity, grade (or quality), continuity and other geological characteristics of a Mineral Resource are known, estimated or interpreted from specific geological evidence and knowledge, including sampling (JORC Code 2012).

Mineralisation
Any single mineral or combination of minerals occurring in a mass, or deposit, of economic interest.

MSAIMM
Member of the Southern African Institute of Mining and Metallurgy.

Net Smelter Return (NSR)
NSR is an estimate of the gross value of in situ metal once metallurgical recovery, royalties, concentrate transport, refining cost and other deductions are considered. All metal used in the NSR calculation are assumed to be recovered into concentrate and sold.

OC/OP (Open-cut/open-pit/open-cast)
Surface working in which the working area is kept open to the sky.

Ore Reserves
The economically mineable part of a Measured and/or Indicated Mineral Resource. It includes diluting materials and allowances for losses, which may occur when the material is mined or extracted and is defined by studies at pre-feasibility or feasibility level as appropriate that include application of modifying factors. Such studies demonstrate that, at the time of reporting, extraction could reasonably be justified.

Probable Ore Reserves
The economically mineable part of an Indicated and, in some circumstances, a Measured Mineral Resource. The confidence in the Modifying Factors applying to a Probable Ore Reserve is lower than that applying to a Proved Ore Reserve. Consideration of the confidence level of the Modifying Factors is important in conversion of Mineral Resources to Ore Reserves. A Probable Ore Reserve has a lower level of confidence than a Proved Ore Reserve but is of sufficient quality to serve as the basis for a decision on the development of the deposit (JORC Code 2012).

Proved Ore Reserves
A Proved Ore Reserve represents the highest confidence category of reserve estimate and implies a high degree of confidence in geological and grade continuity, and the consideration of the Modifying Factors. The style of mineralisation or other factors could mean that Proved Ore Reserves are not achievable in some deposits (JORC Code 2012). Implies the highest degree of geological, technical and economic confidence in the estimate at the level of production increments used to support mine planning and production scheduling.

Pr.Sci.Nat.
Professional Natural Scientist of South African Council for Natural Scientific Professions.

Reserve Life
Current stated Ore Reserves estimate divided by the current approved nominated production rate as at the end of the financial year.

ROM (Run of Mine product)
Product mined in the course of regular mining activities.

SACNASP
South African Council for Natural Scientific Professions.

SAIMM
Southern African Institute of Mining and Metallurgy.

Sands
Tailings produced as a by-product during beneficiation of ore.

SP (Stockpile)
An accumulation of ore or mineral built up when demand slackens or when the treatment plant or beneficiation equipment is incomplete or temporarily unable to process the mine output; any heap of material formed to create a buffer for loading or other purposes, or material dug and piled for future use.

Tailings
Those portions of washed or milled ore that are too poor to be treated further or remain after the required metals and minerals have been extracted.

Total Coal Reserves
Run of mine reserves as outputs from the mining activities.

Total Ore Reserves
Proved Ore Reserves plus Probable Ore Reserves.

Total Mineral Resource
The sum of Inferred, Indicated and Measured Resources.

Yield
The proportion of metal contained in ore that can be extracted during processing.

FINANCE, MARKETING AND GENERAL TERMS

AASB
Australian Accounting Standards Board.

Adjusted ROIC (Adjusted Return On Invested Capital)
Calculated as Underlying EBIT, adjusted for uncontrollable and one-off impacts in the current financial year, divided by the sum of fixed assets (excluding any rehabilitation asset and impairments) and inventories. Underlying EBIT is adjusted by excluding the current period impacts of foreign currency on revenue and cost and commodity prices on revenue and associated price-linked costs, adding back depreciation from current period impairments in respect of fixed assets, less the discount on rehabilitation provisions included in net finance cost, and tax effected by the South32 Group's prior period Underlying effective tax rate.

ADR (American Depositary Receipt)
An American Depositary Receipt, being a receipt to ADSs.

ADS (American Depositary Share)
An American Depositary Share is a share issued under a deposit agreement that has been created to permit US resident investors to hold shares in non-US companies and trade them on stock exchanges in the US.

AGM
Annual General Meeting.

AllShare Plan
An annual gift to South32 employees of rights to receive South32 Limited shares or cash rights.

AO
Officer of the Order of Australia.

ASIC (Australian Securities and Investments Commission)
The Australian Government agency that enforces laws relating to companies, securities, financial services and credit in order to protect consumers, investors and creditors.

ASX
Australian Securities Exchange.

ASX Recommendations
The ASX Corporate Governance Council's Principles and Recommendations (3rd edition).

AUD/A$
Australian dollars being the currency of the Commonwealth of Australia.

BAML
Bank of America Merrill Lynch Australia.

B-BBEE
Broad-Based Black Economic Empowerment.

BRL
Brazilian Real being the currency of Brazil.

Board
The Board of Directors of South32 Limited.

BUSA
Business Unity South Africa.

C$
Canadian Dollars being the currency of Canada.

CEO
Chief Executive Officer.

CFaR
Cash Flow at Risk.

CFO
Chief Financial Officer.

CGU
Cash generating unit.

CLO
Chief Legal Officer.

CO_2-e
Carbon dioxide equivalent.

COO
Chief Operating Officer.

Community investment
Contributions made to support communities in which we operate or have an interest. Our contributions to community programmes comprise cash, in-kind support and administration costs.

Demerger
On 6 May 2015, shareholders of BHP Billiton approved the demerger of South32 to create a separate listed entity on the ASX, a standard listing on the London Stock Exchange and a secondary listing on the Johannesburg Stock Exchange.

DTR
UK Financial Conduct Authority's Disclosure and Transparency Rules. Where a reference to DTR is followed by a number, this means a specific rule under the DTR.

EBIT
Earnings before interest and taxation.

EBITDA
Earnings before interest, taxation, depreciation and amortisation.

EITI (Extractive Industries Transparency Initiative)
An international initiative dedicated to the enhancement of transparency regarding the payments of taxes and royalties derived from resource developments.

EPS
Earnings per share.

ESOP (Employee Share Ownership Plan)
An employee share ownership plan that entitles participants to shares in South32 Limited or group companies.

Executive
Management who are members of the Executive Committee.

Executive KMP
Executive Committee members who are classified as key management personnel.

FOB (Free On Board)
The seller delivers when the goods pass the ship's rail at the named port of shipment. This means that the buyer has to bear all costs and risks of loss of, or damage to the goods from that point. The FOB term requires the seller to clear the goods for export. This term can be used only for sea or inland waterway transport.

Free cash flow before interest and tax
Free cash flow before interest and tax represents operating cash flows from continuing operations including dividends received from equity accounted investments, before financing activities and tax, and after capital expenditure.

FY20XX
Refers to the financial year ending 30 June 20XX, where XX is the two-digit number for the year.

GAAP
Generally Accepted Accounting Principles.

Gearing
Gearing is defined as the ratio of net debt to net debt plus net assets.

GHG (Greenhouse Gas)
For South32 reporting purposes, these are the aggregate anthropogenic carbon dioxide equivalent (CO_2-e) emissions of carbon dioxide (CO_2), methane (CH4), nitrous oxide (N_2O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs) and sulphur hexafluoride (SF_6). Measured according to the World Resources Institute/World Business Council for Sustainable Development Greenhouse Gas Protocol.

GRI (Global Reporting Initiative)
The world's most widely used sustainability reporting framework, consisting of principles, guidelines and indicators to measure and report on an organisation's economic, environmental and social performance. The G4 Guidelines is the fourth and current generation of this framework. The GRI Navigator and Sustainability data tables are available on the South32 website at *www.south32.net*

Group
Refers to South32 Limited and its controlled entities.

HIN
Holder Identification Number.

HSE
Health, safety and environment.

IASB
International Accounting Standards Board.

ICMM (International Council on Metals and Mining)
A membership organisation led by the Chief Executive Officers of 23 mining and metals companies, along with national and regional mining associations and global commodity associations. ICMM is an international organisation dedicated to improving the social and environmental performance of the mining and metals industry.

IFRS (International Financial Reporting Standards)
Accounting standards as issued by the International Accounting Standards Board.

Implementation Deed
The Implementation Deed entered into on 17 March 2015 between BHP Billiton Limited, BHP Billiton Plc and South32 Limited.

IMSBC
International Maritime Solid Bulk Cargoes code.

Internal Restructure
Prior to the Demerger, the South32 Group and BHP Billiton Group were required to undertake a number of internal share and asset transfers in connection with the corporate restructure.

IPCC
Intergovernmental Panel on Climate Change.

JSE
Johannesburg Stock Exchange.

KMP
Key management personnel.

KPIs
Key performance indicators.

LBMA
London Bullion Market Association.

LME
London Metal Exchange.

LSE
London Stock Exchange.

LTI
Long-term incentive.

Margin on third party products
Comprises Underlying EBIT on third party products, divided by third party product revenue.

MRN
Mineração Rio do Norte.

MSR
Minimum shareholding requirement.

Net cash
Comprises cash and cash equivalents less interest bearing liabilities, including finance leases.

Net debt
Comprises interest bearing liabilities, including finance leases, less cash and cash equivalents.

Net operating assets
Represents operating assets net of operating liabilities which predominantly excludes, the carrying value of equity accounted investments and cash, interest bearing liabilities and tax balances.

NYSE
New York Stock Exchange.

Occupational illness
An illness that occurs as a consequence of work-related activities or exposure. It includes acute or chronic illnesses or diseases, which may be caused by inhalation, absorption, ingestion or direct contact.

OEL (Occupational Exposure Limit)
The concentration of a substance or agent, exposure to which, according to current knowledge, should not cause adverse health effects nor cause undue discomfort to nearly all workers.

OSHA
The Occupational Safety and Health Administration (OSHA) of the United States Department of Labor. We adopt these guidelines for the recording and reporting of occupational injuries and illnesses to ensure that classifications are applied uniformly across our workforce.

PDMRs
Persons discharging managerial responsibilities.

Post-demerger
The period from 25 May 2015 when South32 began as an independent entity.

Pre-demerger
The period from 1 July 2014 to 24 May 2015 when South32 Limited was a subsidiary of BHP Billiton Ltd.

Rand/ZAR
South African rand being the currency of South Africa.

ROIC (Return On Invested Capital)
Calculated as Underlying EBIT less the discount on rehabilitation provisions included in net finance costs, tax effected by the South32 Group's Underlying effective tax rate, divided by the sum of fixed assets (excluding any rehabilitation asset and impairments) and inventories.

Shared value
The identification of opportunities that create economic value while also advancing the environmental and social outcomes of the communities and regions in which South32 operates.

SRN
Shareholder Reference Number.

STI
Short-term incentive.

Stewardship
The responsible management of entrusted resources.

Supervised worker/contractor
An individual who performs regular work on-site for, or on behalf of, the organisation but is not recognised as an employee under national law or practice.

Transformation
A national strategy in South Africa aimed at attaining national unity, promoting reconciliation through negotiated settlement and non-racism.

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

TSR (Total Shareholder Return)
TSR measures the return delivered to shareholders over a certain period through the change in share price and any dividends paid. It is the measure used to compare South32's performance to that of relevant peer groups under the LTI.

TSX
Toronto Stock Exchange.

Underlying earnings
Underlying earnings is profit after taxation and earnings adjustment items. Earnings adjustments represent items that do not reflect the underlying operations of South32. We believe that Underlying earnings provides useful information, but should not be considered as an indication of, or an alternative to, attributable profit as an indicator of operating performance.

Underlying EBIT
Underlying EBIT is profit from continuing operations before net finance costs, taxation and any earnings adjustment items, including impairments, impacting profit from continuing operations. Underlying EBIT is reported inclusive of South32's share of net finance costs and taxation of equity accounted investments. Underlying EBIT is not an IFRS measure of profitability, financial performance or liquidity and may be defined and used in differing ways by different entities. We believe that Underlying EBIT provides useful information, but should not be considered as an indication of, or alternative to, profit from continuing operations or attributable profit as an indicator of operating performance.

Underlying EBIT margin
Comprises Underlying EBIT excluding third party product EBIT, divided by revenue excluding third party product revenue.

Underlying EBITDA
Underlying EBIT before depreciation and amortisation.

Underlying EBITDA margin
Comprises Underlying EBITDA excluding third party product EBITDA, divided by revenue excluding third party product revenue.

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

USD/US$
The Group's reporting currency and the functional currency of the majority of operations is the US dollar, as this is assessed to be the principal currency of the economic environments in which they operate. US dollar also being the currency of the United States of America.

VWAP
Volume weighted average share price.

TERMS USED IN RESOURCES AND RESERVES

A.Al_2O_3
available alumina

Ag
silver

Al_2O_3
alumina

CV
calorific value

Fe
iron

HCFeMn
high-carbon ferromanganese

Met
metallurgical coal

Mn
manganese

Ni
nickel

Pb
lead

R.SiO_2
reactive silica

S
sulphur

SiO_2
silica

SiMn
silica manganese

Th
thermal coal

VM
Volatile Matter

Zn
zinc

UNITS OF MEASURE

%
percentage or per cent

dmt
dry metric tonne

dmtu
dry metric tonne unit

g/t
grams per tonne

ha
hectare

KCal/Kg
Kilo calories per kilogram

kL
kilolitre

km
kilometre

koz
thousand ounces

kt
kilotonnes

ktpa
kilotonnes per annum

kV
kilovolt

kW
kilowatt

kwmt
thousand wet metric tonnes

m
metre

ML
megalitre

Moz
million ounces

MW
megawatt

Mt
million tonnes

Mtpa
million tonnes per annum

mwmt
million wet metric tonnes

oz
ounce

t
tonnes

TJ
terajoule

ktCO_2-e
kilotonnes of carbon dioxide equivalent

tpa
tonnes per annum

tpd
tonnes per day

tph
tonnes per hour

US$/oz
US dollars per ounce

US$/t
US dollars per tonne

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CORPORATE DIRECTORY

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South Korea: 00798 852 10017

COMPANY SECRETARIES

Nicole Duncan - Chief Legal Officer and Company Secretary

Melanie Williams - Head of Legal (Corporate) and Company Secretariat

OUR NAME - SOUTH32

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

OUR SYMBOL - THE WEAVE

The weave is a traditional technique for creating materials by binding together individual threads to create a stronger fabric. The use of this theme in our brand mark reflects our belief that working together, we can make a difference.

SOUTH32.NET

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